

Maintaining economic and fiscal stability is a constant challenge for all countries in LAC, which requires strengthening the fiscal framework and budget institutions. Medium Term Expenditure Frameworks (MTEFs) are a tool for linking the budgetary process to broad fiscal policy goals beyond the annual budgetary cycle. MTEFs allow authorities to establish multi-year budget estimates or ceilings, and/or detailed expenditure plans, which could typically have a span of three to five years. Such framework supports governments in making good macroeconomic projections, setting spending limits -taking into account indebtedness and future income-, and in general, understanding the consequences of fiscal decisions.

A well designed MTEF would result in credible and predictable annual budgets, provide relatively accurate medium-term macroeconomic projections and allow understanding the source and size of fiscal challenges, the multi-year impact of new income and expenditure policy proposals before being adopted and provide early warnings about the sustainability of ongoing policies.

A major challenge for the implementation of MTEFs is ensuring that expenditure estimates and ceilings are based on high-quality projections. There must also be active coordination with line ministries and subnational governments, both of which account for large levels of government expenditure.

Eight out of 13 surveyed LAC countries have some form of multi-year budgetary framework. Only Paraguay and Peru have a law which stipulates both the existence of an MTEF and budget ceilings. Guatemala has a law stipulating that spending thresholds should not exceed medium term estimates; Brazil, Chile, Panama and Uruguay have a law stipulating that spending thresholds should not exceed medium term estimates, and the Bahamas has a strategy/policy stipulating the MTEF and/or budget ceilings. From 2013 to 2018, the Bahamas, Brazil, Panama and Peru have established MTEFs. By contrast, the majority of OECD countries have an MTEF in place.

The length of expenditure ceilings usually ranges from three to five years, except for Brazil, which is the only country in LAC that has a ceiling of six years or more; and the Bahamas, which has the shortest ceiling of only two years, covering different expenditure levels. Out of these countries, the Bahamas, Panama, Peru and Uruguay have targets of expenditure ceilings. Brazil, Paraguay and Uruguay have specific programme expenditures; and Guatemala and Uruguay have organizational expenditure purposes.

In LAC countries, having medium-term perspective in the budget process is becoming more and more widespread. For this reason, the average score increased from 0.50 in 2013 to 0.63 in 2019 (on a scale from 0 to 1, where 1 is the highest score). This change is attributed to the recognition that medium-term planning contributes to foresee the general direction of policy and increase the predictability of financial flows. Still, the mean is below the OECD average (0.75).

In 2017, Brazil, the country with the highest score in LAC (0.74), established a solid fiscal rule that limits the growth of government expenditures to the rate of inflation in order to restore fiscal balance after the recession. Since 2013, Panama and Paraguay have established medium-term rules.

### Methodology and definitions

Data come from the 2018 OECD/IDB Survey of Budget Practices and Procedures to which 11 LAC countries responded and the 2018 OECD Survey of Budget Practices and Procedures, which collected data for Chile and Mexico. Data for the OECD refer to 34 respondent countries. Respondents were predominantly senior budget officials in LAC countries and OECD member countries. Responses represent the countries' self-assessments of current practices and procedures. Data refer only to central/federal governments and exclude the sub-national level.

An MTEF is defined as a framework for integrating fiscal policy and budgeting over the medium-term (typically over a three to five-year period). In general terms, this involves systematic linkages between (a) aggregate fiscal forecasting, (b) maintaining detailed medium-term budget estimates reflecting existing government policies, and (c) maintaining compliance with a normative fiscal framework. A key objective of an MTEF is to establish multi-year expenditure ceilings which are effective for the purposes of planning and prioritization.

The composite index contains ten variables that cover information on the existence of a medium-term perspective in the budget process, the number of years the estimate covers, the types of expenditures included in the frameworks, the possibility of carrying over unused funds from one year to the next year and how those funds are monitored. Annex A describes the methodology used to construct this index, including the specific weights assigned to each variable.

### Further reading

IDB (2018), *Better spending for better lives*, Inter-American Development Bank, Washington, DC <http://dx.doi.org/10.18235/0001217-en>

### Figure notes

Data for the Bahamas and for Uruguay for 2013 are not available.

5.8 Bahamas approved a fiscal responsibility bill in 2018 by which it created a medium-term fiscal framework. In Panama the fiscal law was sanctioned in 2008, but the MTEF was put into practice in 2014. A score of 0 means that the country does not have an MTEF.

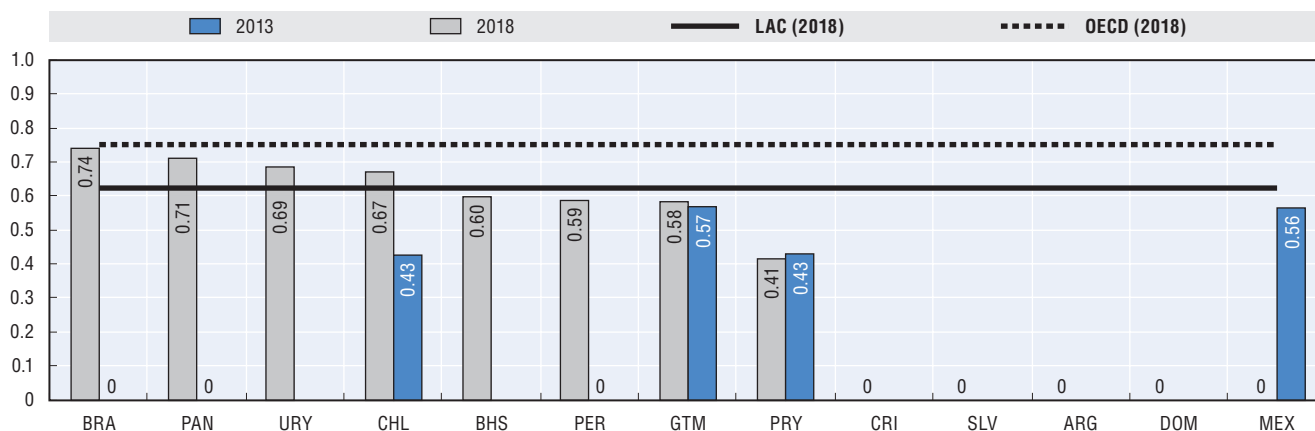
## 5.7. Medium Term perspective in the budget process at the central level of government, 2013 and 2018

Country	Existence and legal basis of MTEF		Length of ceilings (including upcoming fiscal year)		Targets of expenditure ceilings		Programme or sector expenditures		Organizational expenditures	
	2018	2013	2018	2013	2018	2013	2018	2013	2018	2013
Argentina	⊗	⊗	x	x		x		x		x
Bahamas	○		2 years		✓					
Brazil	⊙	⊗	6 years or more	x		x	✓	x		x
Chile	⊙	○	4 years	3 years	✓					
Costa Rica	⊗	⊗	x	x	x		x		x	
Dominican Republic	⊗	⊗	x	x	x		x		x	
El Salvador	⊗	⊗	x	x	x		x		x	
Guatemala	●	●	5 years	3 years					✓	✓
Mexico	⊗	●	x	5 years	✓					
Panama	⊙	⊗	5 years	x	✓	x		x		x
Paraguay	●	○	3 years	2 years			✓			✓
Peru	●	⊗	4 years	x	✓	x		x	x	x
Uruguay	⊙		5 years		✓		✓		✓	
<b>LAC total</b>										
● Yes, in a law which stipulates both the existence of a MTEF and budget ceilings										
⊙ Yes, in a law stipulating the creation of a MTEF which should be based on budget ceilings										
⊙ Yes, in a law stipulating that spending thresholds should not exceed medium term estimates										
○ Yes, in a strategy/policy stipulating the MTEF and/or budget ceilings										
⊗ No										
x Not applicable (e.g. No MTEF in place)										
<b>OECD total</b>										
● Yes, in a law which stipulates both the existence of a MTEF and budget ceilings										
⊙ Yes, in a law stipulating the creation of a MTEF which should be based on budget ceilings										
⊙ Yes, in a law stipulating that spending thresholds should not exceed medium term estimates										
○ Yes, in a strategy/policy stipulating the MTEF and/or budget ceilings										
⊗ No										
x Not applicable (e.g. No MTEF in place)										

Source: OECD/IDB (2013, 2018) Survey of Budget Practices and Procedures, OECD (2018) Survey of Budget Practices and Procedures.

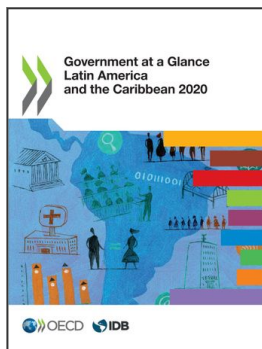
StatLink  <https://doi.org/10.1787/888934091923>

## 5.8. Use of a medium-term perspective in the budget process, 2013 and 2018



Source: OECD/IDB (2013, 2018) Survey of Budget Practices and Procedures, OECD (2018) Survey of Budget Practices and Procedures.

StatLink  <https://doi.org/10.1787/888934091942>



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