

One of the main objectives of governments should be the sustainability of public finances. Policies and specific programmes have implications that transcend the budget year. When these aspects are not taken into account, public finances and the success of policies can be negatively affected (programmes are started but their long-term financing needs may not be secured). Additionally, societies are confronted with long term socio-economic challenges that could affect economic conditions in the future. Fiscal projections can help identify the probable future expenses in light of forecasted demographic and economic developments, and can contribute to the political discussion of a broader reform agenda.

Most OECD countries are confronted with a growing elderly population, higher longevity and increased demand for health services. The outlook is somewhat different in the LAC region where in most countries the population is still relatively young. However, different challenges exist in the LAC context, for example the increasing size of the middle class is expected to step up demand for social services in the upcoming years. According to the survey responses, long-term fiscal projections are uncommon in the LAC region. Over 75% of LAC countries produce estimates reaching a maximum of five years. Barbados, Colombia and Ecuador produce estimates between 6 and 10 years while Chile is the only LAC country that publishes estimates between 11 and 30 years. In contrast, eight OECD member countries produce estimates spanning between 31 and 50 years while Denmark prepares estimates covering more than 50 years. Such long-term projections encompass all assets and liabilities in full-accrual basis and also assets and liabilities associated with the government's projected future spending and revenue.

Entitlements and expenditure on social programmes constitute an important share of public expenditures. Most OECD countries (72%) and slightly more than a third of LAC countries, including Brazil, Costa Rica, Jamaica and Panama, reported taking into account in the budget the potential fiscal risks associated with entitlement spending (fiscal effects if entitlements expenditure were higher than projected in the budget). Colombia estimates the potential fiscal risks only for programmes above a certain threshold of spending.

Most fiscal projections in OECD and LAC countries include similar elements (e.g. expected growth rate, exchange rates and interest rates). However, the incidence of some components considered in the projections varies across groups. While 97% of OECD countries consider the trends in unemployment, the figure is lower for LAC countries, at 31%. Similarly, a higher share of OECD countries

consider demographic changes (88%) and migration flows (58%) compared to 44% and 38% respectively in the LAC region. A similar share of OECD (73%) and LAC (75%) countries include civil servants' pension obligations in their projections.

Methodology and definitions

Data refer to 2013, drawing on country responses to the 2013 OECD Survey of Budget Practices and Procedures. Respondents were senior budget officials in LAC countries and OECD member countries. Responses represent the countries' self-assessments of current practices and procedures. Data refers to central/federal governments and exclude practices at state/local levels. OECD totals are based on responses by 33 OECD member countries.

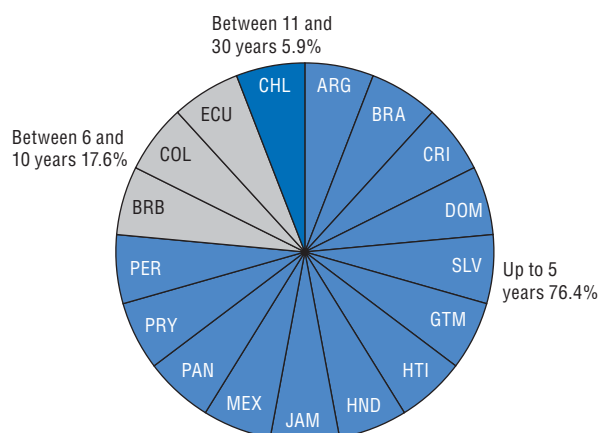
An entitlement is a provision by law that establishes a legal right to public funds, sometimes considered as a privilege for a specific group that causes budget rigidity. The right might be accorded to an individual, a household, or other designated beneficiary or group of beneficiaries. The law usually sets forth eligibility requirements and a schedule of payments or a formula by which the payments are calculated. The law usually does not specify the total expenditure for the entitlement; the total of the spending could be for a specific sector or objective. For example, social security, unemployment compensation, education sector, family allowances and disability payments, in some cases, are entitlements as they accord particular classes of the population rights to money from the public treasury.

Accrual basis refers to transactions that are budgeted or recognised in the financial reports at the time at which the underlying economic event occurs, regardless of when the related cash is received or paid.

Further reading

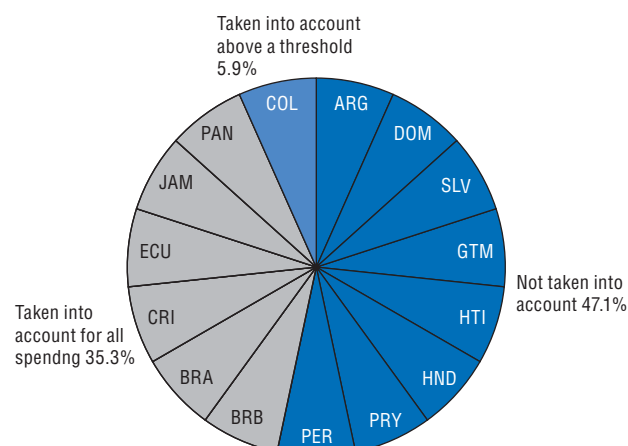
- Irwin, T. (2016), "The whole elephant", *OECD Journal on Budgeting*, Vol. 14, No. 3, OECD, Paris, <http://dx.doi.org/10.1787/budget-14-5jrw6591hns1>.
- Filc, G. and C. Scartascini (2010), "Is Latin America on the Right Track? An Analysis of Medium-Term Frameworks and the Budget Process", Inter-American Development Bank, Washington, DC.

5.10. Time span of long-term fiscal projections, 2013



Source: OECD (2013), Survey of Budget Practices and Procedures.
 StatLink <http://dx.doi.org/10.1787/888933431222>

5.11. Extent to which the budget includes entitlement risks, 2013



Source: OECD (2013), Survey of Budget Practices and Procedures.
 StatLink <http://dx.doi.org/10.1787/888933431231>

5.12. Link between long-term projections and the annual budget, 2013

Country	Is it required that the budget be based on long-term fiscal projections?	Elements considered in the long term fiscal projections								
		Economic growth rate	Unemployment trends	long-term interest rates on government debt	Exchange rate	Migration flows	Demographic changes (excluding migration) ageing, population growth	Health care costs	Inter-generational accounting	Civil servants' pension obligations
Argentina	●	●	●	●	●	○	○	○	○	●
Barbados	●	●	○	●	○	○	○	●	○	●
Brazil	●	●	●	●	●	●	●	●	●	●
Chile	●	●	●	●	●	○	●	●	●	●
Colombia	●	●	○	●	●	●	●	●	●	●
Costa Rica	●	●	○	●	○	○	○	●	○	●
Dominican Republic	●	●	○	●	●	●	●	●	●	●
Ecuador	●	●	○	●	○	○	○	●	○	○
El Salvador	●	●	○	●	●	●	●	●	●	●
Guatemala	●	●	○	○	○	○	○	○	○	●
Haiti	○	●	○	○	●	○	○	○	○	○
Honduras	○	●	○	●	○	○	○	●	○	●
Jamaica	●	●	●	●	●	●	●	●	●	●
Mexico	●	●	●	●	●	●	●	●	●	●
Panama	○	●	○	○	○	○	○	●	○	○
Paraguay	○
Peru	○	●	○	○	●	○	○	○	○	○
LAC total										
●	12	16	5	12	10	6	7	12	7	12
○	5	0	11	4	6	10	9	4	9	4
..	0	1	1	1	1	1	1	1	1	1
OECD total										
●	12	33	32	29	19	19	29	28	7	24
○	17	0	1	4	14	14	4	5	26	9

Key:

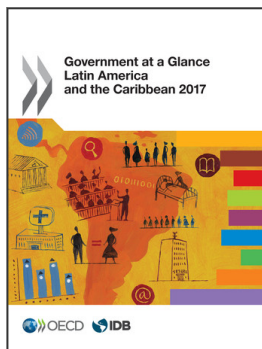
● Yes

○ No

.. Not available.

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

StatLink <http://dx.doi.org/10.1787/888933431708>



From:

Government at a Glance: Latin America and the Caribbean 2017

Access the complete publication at:

<https://doi.org/10.1787/9789264265554-en>

Please cite this chapter as:

OECD (2016), "Long-term fiscal projections", in *Government at a Glance: Latin America and the Caribbean 2017*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264265554-26-en>

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