

Public financial management in times of emergency and implications for the credibility of budgets

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Public financial management in times of emergency

- Public financial management in times of emergency should ensure that countries **continue to make progress towards achieving the Sustainable Development Goals** and should guarantee that the **core principles of public financial management**, in particular fiscal discipline, legitimacy, predictability, credibility, participation, transparency and accountability, **are respected as much as possible.**

Public financial management in times of emergency

- The strengthening of public financial management and budgetary decision-making in times of crisis is challenging not only because of crisis, but also for several other reasons, including a lack of data, institutional flexibility, policy coherence and multilevel governance; a reliance on non-evidence-based budgetary policymaking; and challenges related to digital governance and to development aid.

Budget credibility (budget reliability)

- Budget credibility, represents a critical principle of good public financial management and refers to a government's ability to meet its revenue and expenditure targets as planned.
- It is reflected by the indicator 16.6.1 of the Goals: the primary government expenditures as a proportion of original approved budget

Budget credibility in times of emergency

- In times of emergency, budget credibility becomes a more complex issue, especially as acute crises normally have unpredictable and significant impacts on planned government revenues and spending. Changes in budgets are inevitable but should be realized through evidence-based and transparent processes.
- The paper recommends possible ways how to improve budget credibility and the overall quality of budget management in times of crisis.

Fiscal pressures today

- The slower-than-expected recovery from the COVID-19 pandemic
- Steeply rising inflation
- Efforts to embrace the green and digital transitions
- The global energy crisis
- The war in Ukraine

All these factors are frequently „treated“ by public spending and fiscal incentives.

Crisis and budget credibility

- Deviations are visible in the forms of underspending and overspending (which occurs especially in North America and Europe, with some countries deviating by as much as 41 per cent).
- The COVID-19 pandemic has not worsened budget credibility patterns in all countries, but countries which managed to „sustain“ it, have often shifted funding away from key sectors, such as education, and water and sanitation.
- The core problem is the fact that Governments often fail to provide the reasons that explain budget deviations, or the information provided in that regard is insufficient.

What to do?

- In the times of crises, unplanned spending, whether in the form of underspending or overspending, is a necessity, as the benefits far outweigh the costs of budget deviations and countries would be worse off without them.
- However, it is important to offer relevant explanations, both to legislative bodies and to citizens, as to the reasons for the deviations and to elaborate on planned future measures necessary to return to spending in accordance with budgets and make up for previous under- or overspending.
- Moreover, it is necessary to transparently publish such explanations, engage the public when discussing problems of budget reliability and, whenever possible, engage civil society organizations in raising awareness of and identifying possible solutions for such problems.