

MTFF/MTBF

Presentation to ARTF donors

Fiscal Policy Unit, Ministry of Finance

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Agenda

- What is MTFF/MTBF
- Objectives of MTFF/MTBF
- Why we do/need MTFF
- How is it done in Afghanistan
- Messages to the donors
- Q&As

What is a Medium Term Fiscal/Budget Framework

- *MTFF is the projection of broad fiscal aggregates (i.e. revenue and expenditure) consistent with macroeconomic aggregates (i.e. inflation and growth) donors' pledges and commitments, and policy measures for the medium-term (usually 4 years in Afghanistan)*
- It provides the basis for multiyear budgeting and guide the policy makers on the direction of the fiscal policy of the Government
- Brings together past, present and future information on
 - Revenues
 - Expenditures
 - Grants
 - Borrowing
- Then it translates these resources to the strategic objectives and priorities (ANDS) in the form of budget ceilings for line ministries (so called MTBF)
- The MTFF/MTBF gives some degree of predictability of spending to line ministries while ensuring overall fiscal discipline

Objectives of MTFF/MTBF

- **Strategic priorities** - Afghanistan National Development Strategy - Using the budget as one of the principal vehicles for the achievement of the goals and objectives set out in the ANDS
- **Fiscal objectives**
 - Predictability of the budget
 - Fiscal transparency
 - Achieve a balanced operating budget
 - Only borrow on concessional terms
 - Government maintains adequate reserves in the Treasury Single Account
 - Domestic revenues cover the operating budget in medium term (achieving fiscal sustainability)


Why we do/need MTFE/MTBF

- Is a legal condition
 - Article 27 of the Public Expenditure and Financial Management Law stipulates that “the budget will be accompanied revenue and expenditure forecasts for at least two outer years”
- Helps to evaluate if policy decisions are affordable in the medium term
 - Expanding the army
 - Recruiting new teachers
 - Subsidizing DABS structure
 - Borrowing from commercial banks
 - Building new roads
 - Reforming pensions
 - Changes in the tariff
 - Issuing treasury bills
- Should help to make the budget hearings less chaotic
 - Budget ceilings help to reduce unrealistic ‘wish list’ budget submissions by line ministries/agencies

Why we do/need MTFE/MTBF (Cont'd)

- Several donor agreements are dependent on the MTFE/MTBF being submitted to Cabinet and published with the Budget (including the IMF PRGF program, the Asian Development Bank FMPAR grant, and the World Bank PSIB loan)
- Should be the basis for negotiations with donors on future aid flows

How is it done in Afghanistan

- In Microsoft Excel  Excel 2007
- Work with budget department, debt unit, aid coordination unit, revenue & customs, CSO, IMF and DAB for numbers and data
- Revenues are projected based on broad macroeconomic assumptions and agreed with the IMF
- Expenditures are projected based on domestic revenues, donors' grants, projected rate economic growth and inflation, new policy measures of the government and the deficit target agreed with the IMF
- Work with Ministries/Agencies to realistically cost new policies (i.e. expansion of ANA, P&G)
- Historical data based largely on AFMIS (fiscal) and Central Statistics Office and IMF (Macroeconomic)

Messages to the donors

- MTFE/MTBF should be considered as a policy document which drives the annual budget process
- The support to budget should be aligned with MTFE/MTBF which in turn is aligned with ANDS
- Aligning budget to ANDS is a key objective of the MTFE/MTBF
- Sounds repetitive but in order to do this alignment we need commitments on future resources flows which in turn we can assign to ANDS pillars and identify the gaps
- MTFE /MTBF allows us to have a better understanding of future resources flows where the gaps are and where we should direct the resources
- Information on the future aid flows well before the budget negotiations can help the MoF making the budget process less chaotic

Thank You

Questions