Natural Resource Governance Institute
Oil, gas and mining for development

Fiscal Rules in Resource Rich Countries

David Mihalyi
Senior Economist, NRGI & Visiting Fellow, CEU
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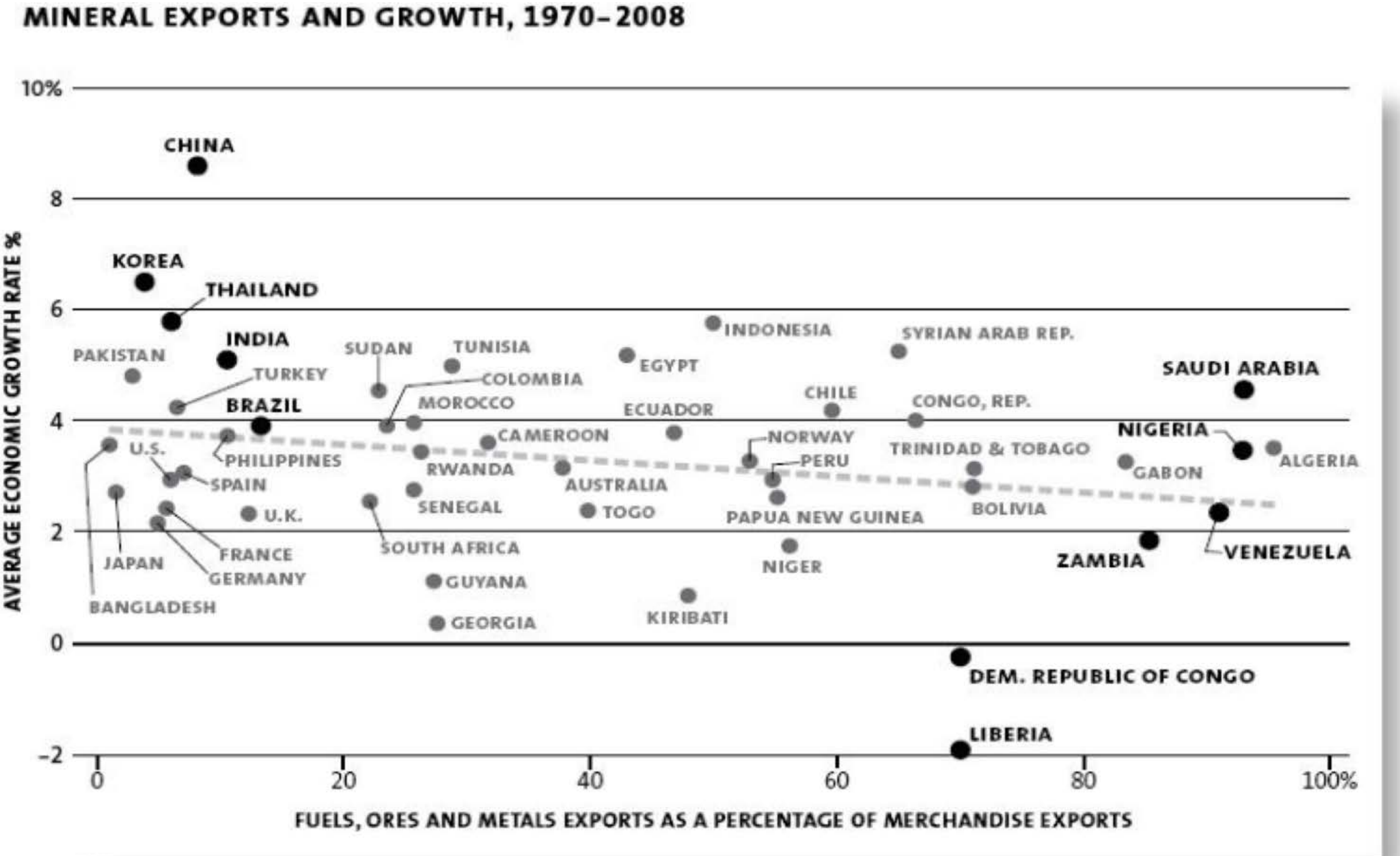
Our research

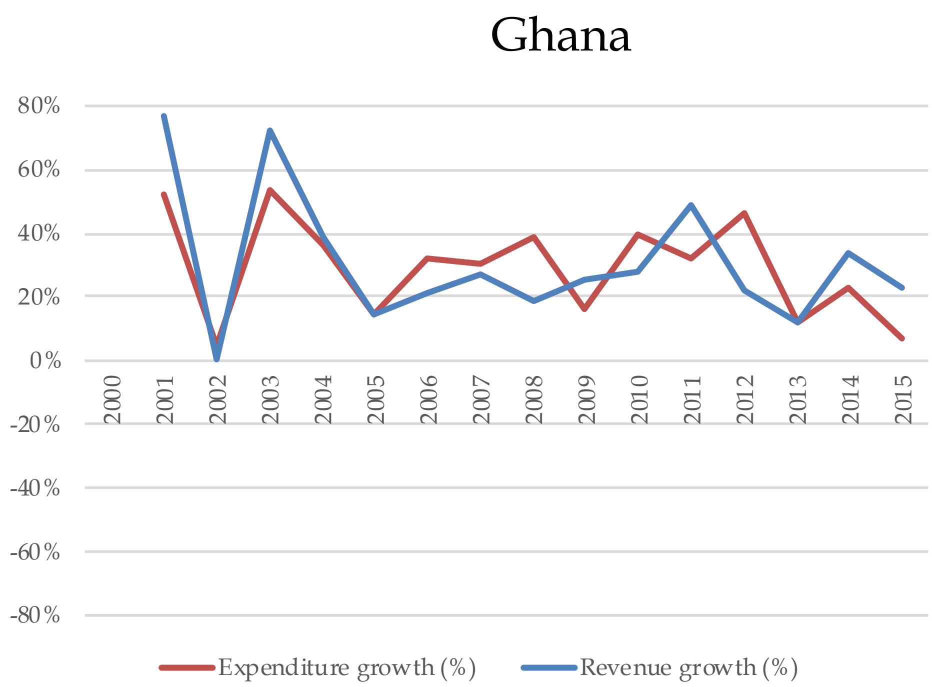
- Review of fiscal rules in resource rich countries (Resource Governance Index)
- 34 countries reviewed incl. 14 in Sub-Saharan Africa.
  - Characteristics of rule
  - Compliance with rule
  - Oversight of rule

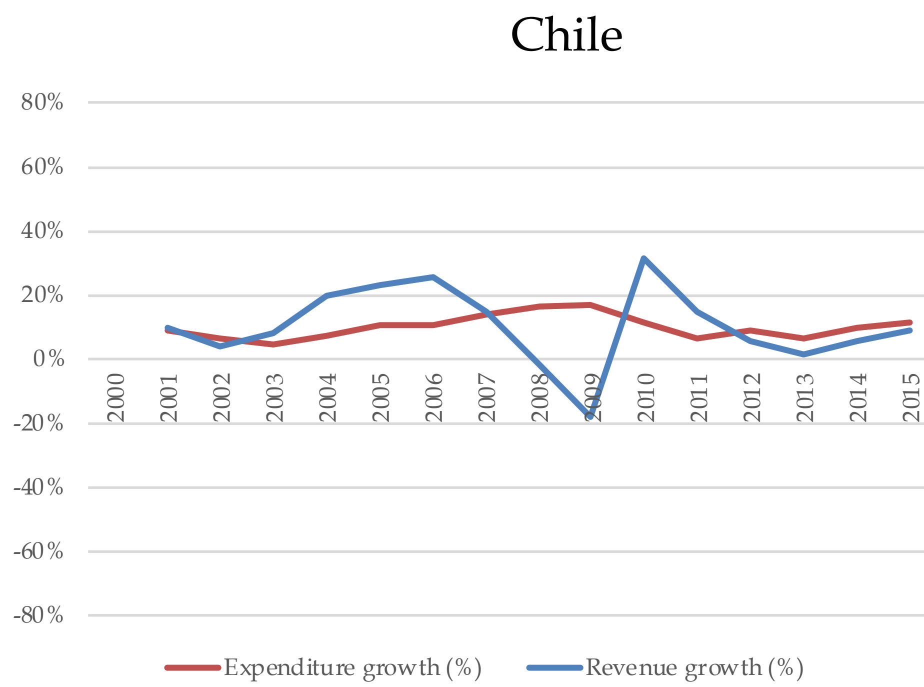
Challenge 1: Growth



SOURCE: World Development Indicators, World Bank

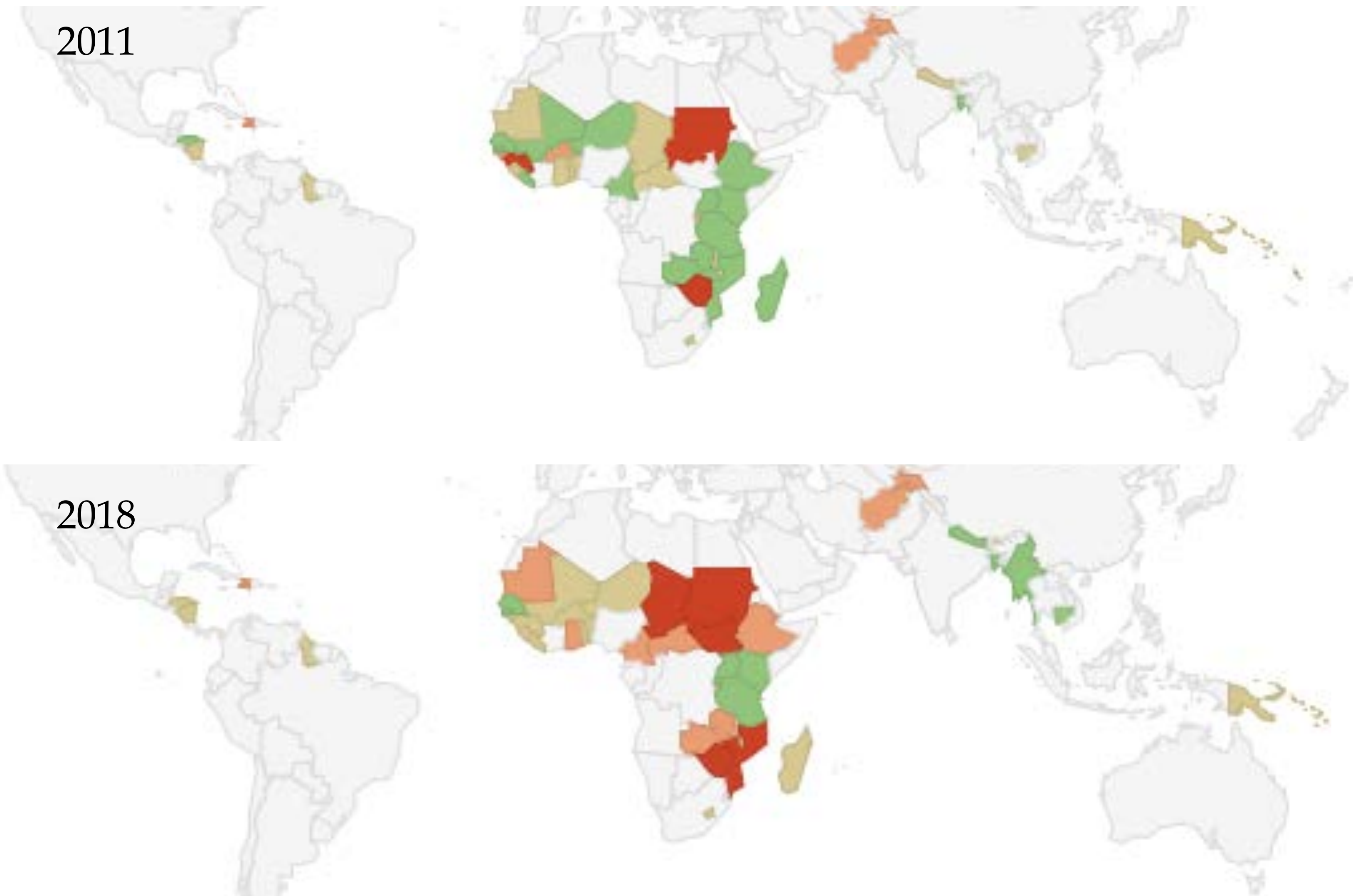
Challenge 2: Volatility





Data: IMF WEO . % change in expenditure & revenue measured in domestic currency

Challenge 3: Debt sustainability



Risk of debt distress in LDCs according to IMF / WB Debt Sustainability Analysis

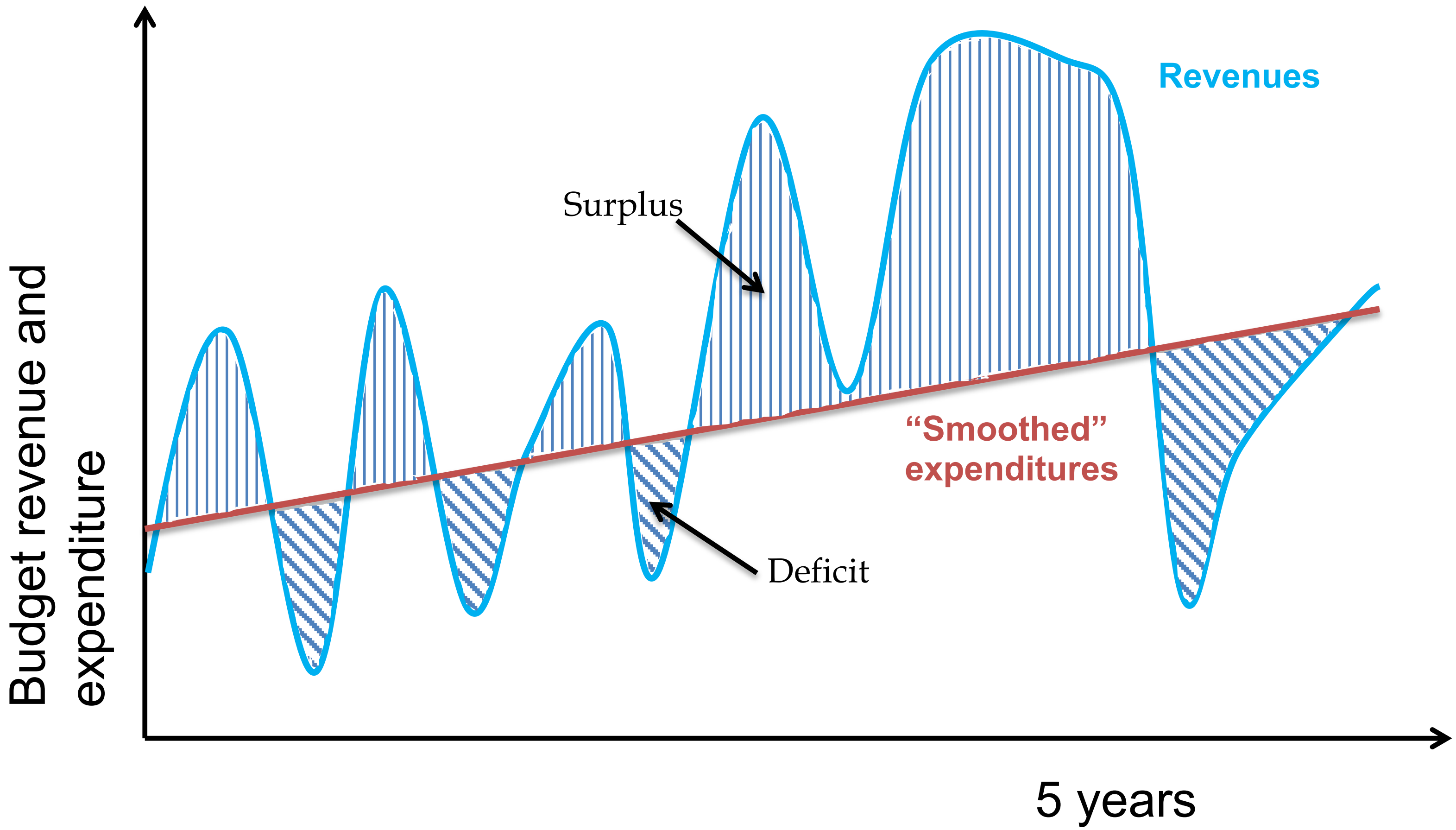
Solution: Fiscal rules

Definition: A permanent quantitative constraint on government finances

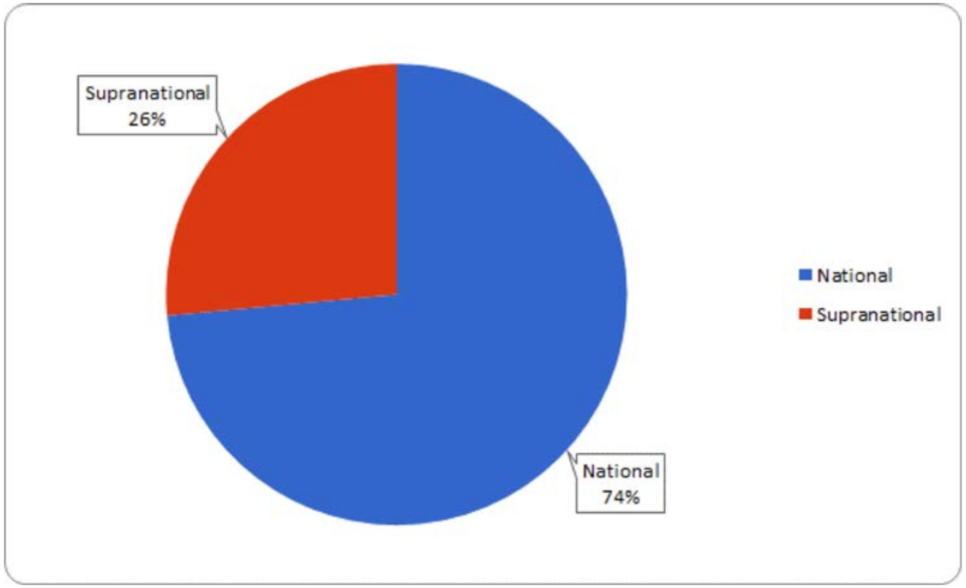
How do they work?

- Constrain spending in good years so the government can spend more in bad years
- Stronger monitoring of government budgeting since there is a benchmark to measure against

Fiscal rule illustration

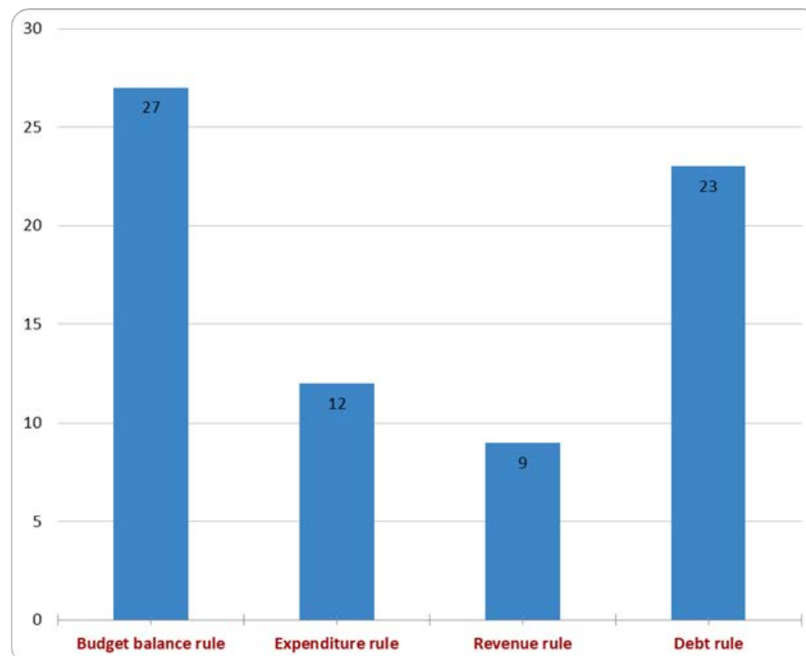


Fiscal rule - Types



Overall 26% supra-national but 65 % in SSA. CEMAC, WAEMU treaties and now EAC. Domestic only Botswana, Liberia, Ug, Tz.

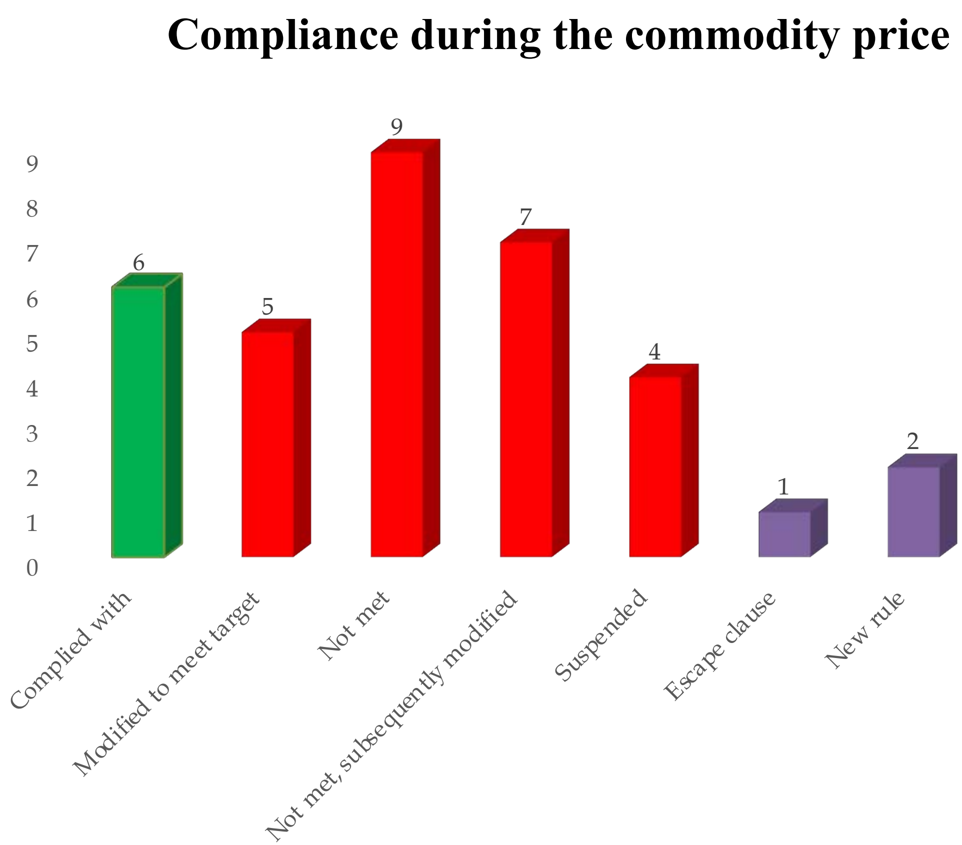
Mostly combination of budget balance rules, and debt rules. But details matter, many adopted more complex metrics. (e.g. non-oil balance)



Example - Tanzania's fiscal rules

- **Balanced budget rule:** Non-gas deficit cannot exceed 3% of GDP
- **Debt ceiling:** Public debt cannot exceed 50% of GDP
- **Expenditure rule 1:** Recurrent expenditure growth limited to GDP growth rate
- **Expenditure rule 2:** Total expenditure has to remain below 40% GDP.
- **Fund deposit and withdrawal rules:** Excess gas revenues are saved in fund, which can be withdrawn during shortfall.

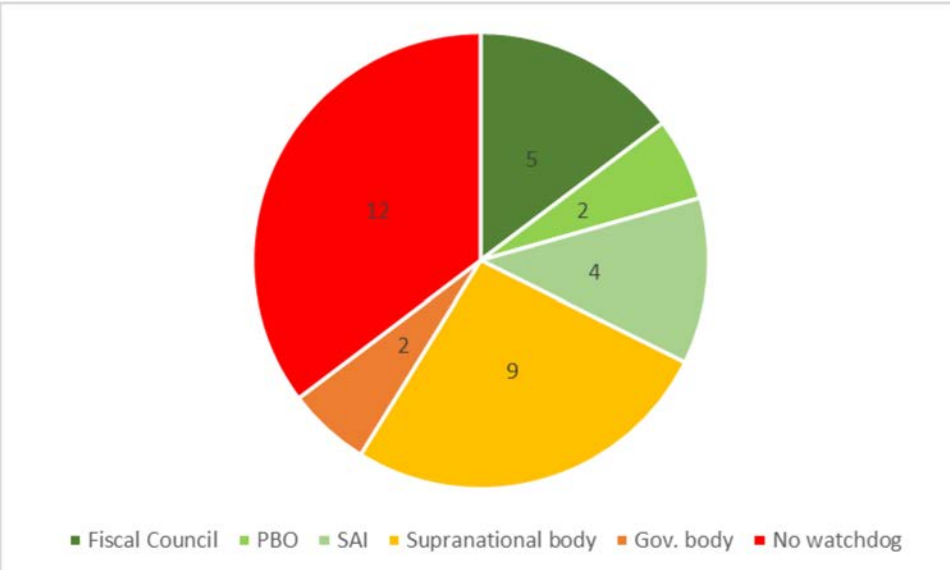
Fiscal rule compliance



Out of 34 countries studied
Only 6 complied with their Fiscal Rules in both years 2015-16: **Botswana, Colombia, Indonesia, Liberia, Malaysia and Norway.**

Rule not yet put to test in Ug, Tz

Fiscal rule oversight



ETAT DE LA CONVERGENCE EN 2015

		ETAT DE REALISATION DES CRITERES EN 2015 PAR ETAT ET RAPPEL DES PERFORMANCES EN 2013 ET 2014								Nombre de pays ayant respecté le critère		
		Bénin	Burkina Faso	Côte d'Ivoire	Guinée Bissau	Mali	Niger	Sénégal	Togo	2015	2014	2013
1	Solde budgétaire global, dons compris, sur PIB nominal (norme >=-3%)	-7,9	-2,0	-2,9	-3,2	-2,3	-9,1	-4,8	-6,3	3	3	4
2	Taux d'inflation annuel moyen (norme <=3%)	0,3	0,9	1,2	1,4	1,5	1,0	0,1	1,8	8	8	8
3	Encours de la dette publique totale rapporté au PIB nominal (norme <=70%)	41,5	32,3	45,1	68,2	31,3	36,2	57,1	57,3	8	8	8
4	Masse salariale sur recettes fiscales (norme <= 35%)	48,2	50,4	45,1	50,1	33,1	36,5	32,9	33,2	3	3	3
5	Taux de pression fiscale (norme >=20%)	14,2	14,2	15,6	10,2	14,0	16,1	19,8	21,4	1	1	1
	2015	2	3	3	2	4	2	3	4			
	2014	3	3	3	2	2	3	3	4			
	2013	3	2	3	2	3	4	3	4			

9 countries have supranational oversight, but shows limited effectiveness. (See WAEMU report)

13 countries have domestic oversight body. These vary in effectiveness. In Africa, only Nigeria has one (FRC), but last report from 2013.

What mechanisms promote fiscal compliance?

Robust organizational structure

- Economic development ministry or agency
- Compliance or audit within the bureaucracy
- Clear operational guidance

External oversight

- Independent gov. bodies
- Cooperation with government agencies
- Yearly reports on compliance
- Reports by CSOs, think tanks

Consensus building

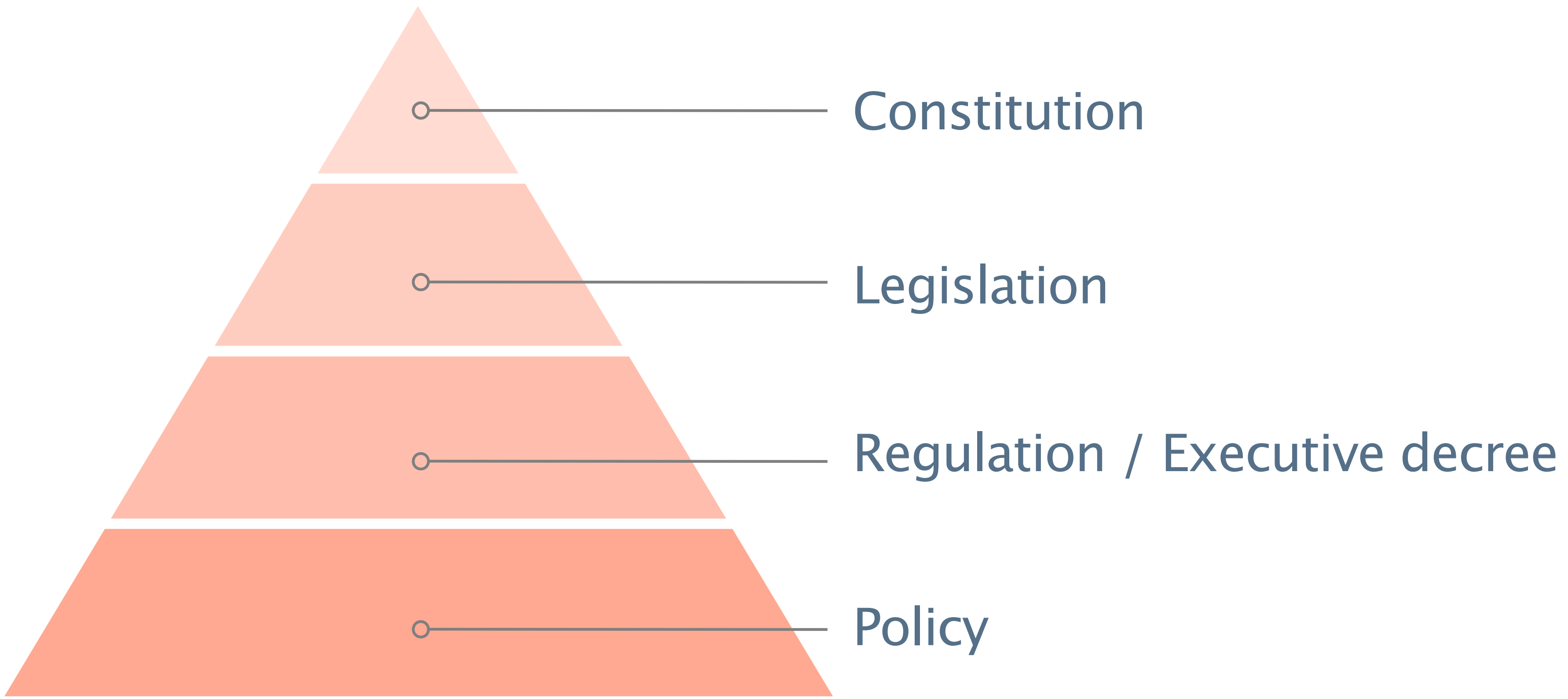
- Political commitment

Punishment ?

Thank You!

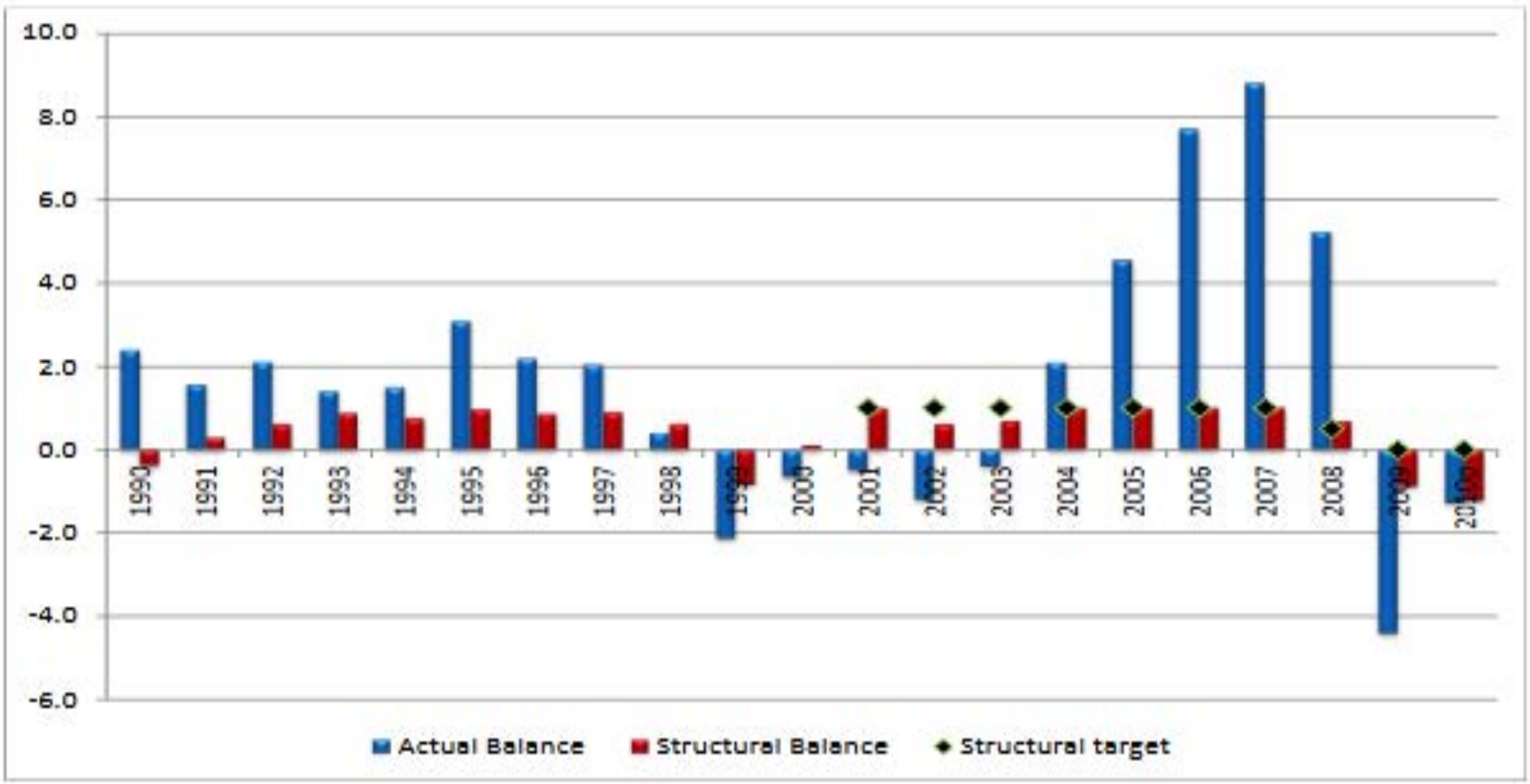
Contact: dmihalyi@resourcegovernance.org;

Operationalizing fiscal rules



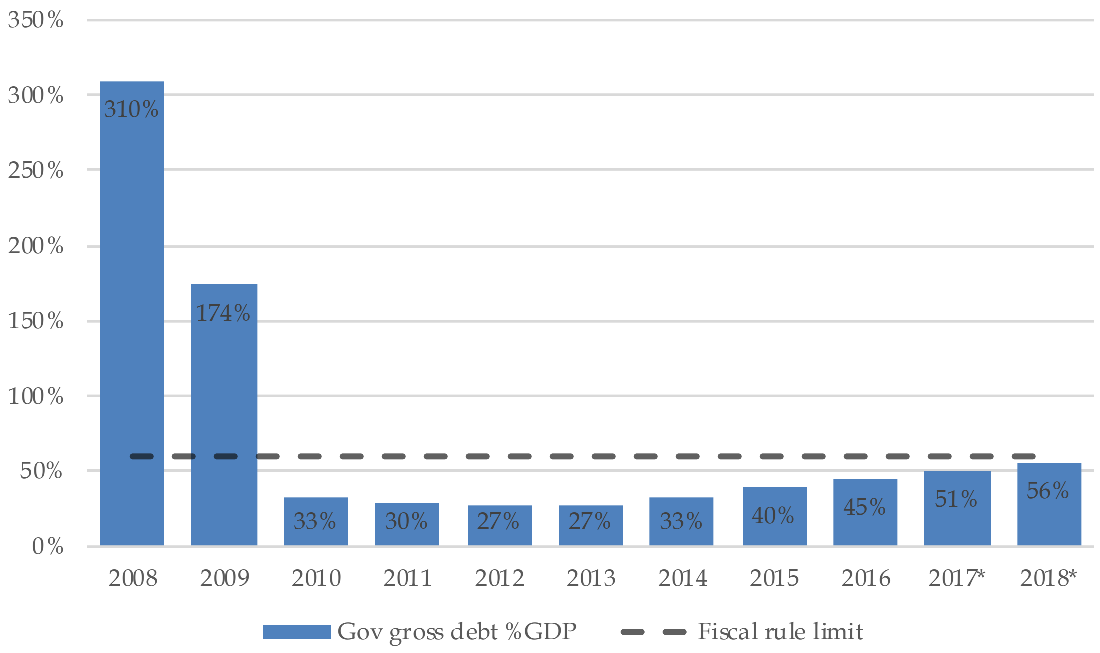
The good – flexible and counter-cyclical

Chile's structural balance rule

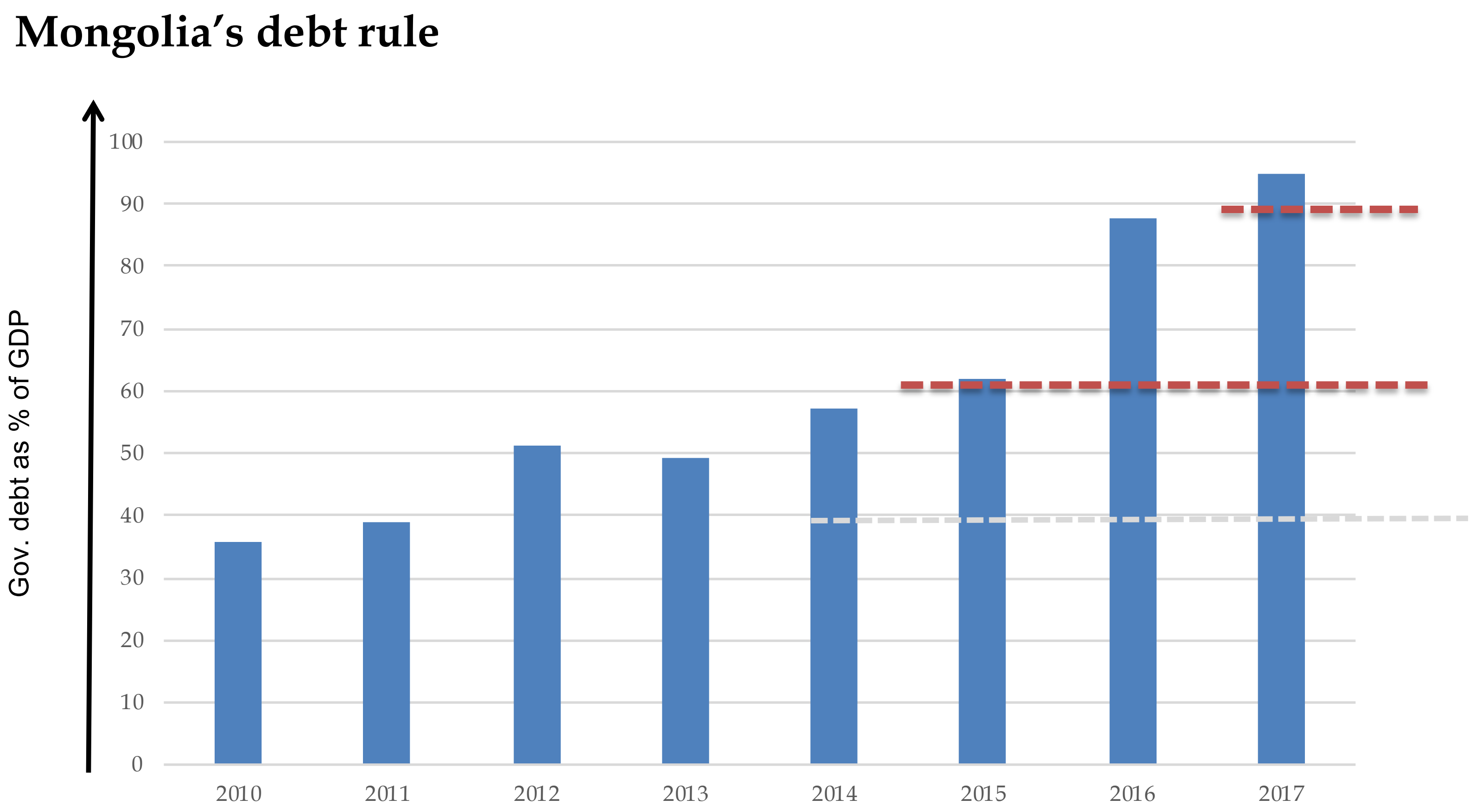


The bad – Ineffective and pro-cyclical

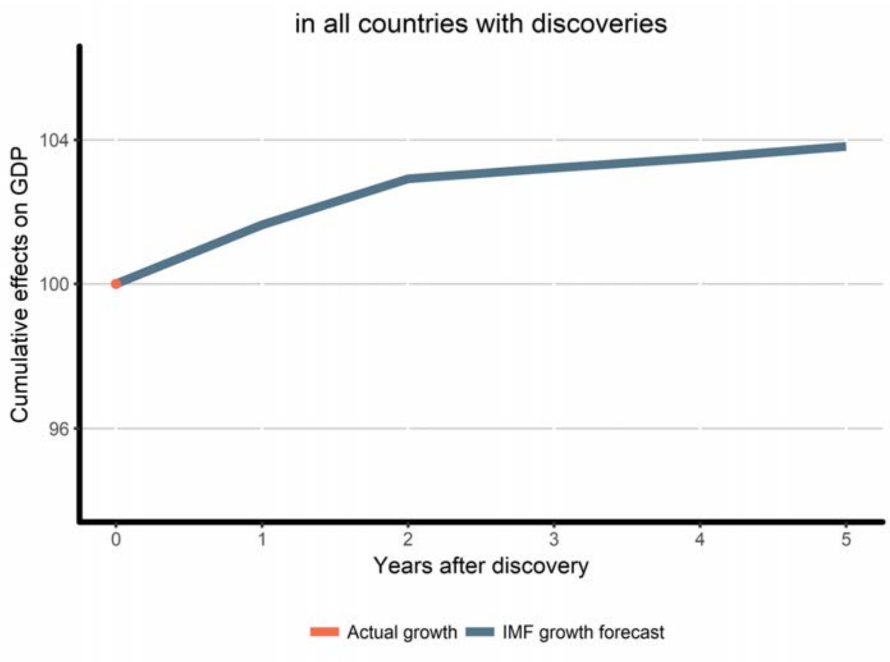
Liberia's debt rule

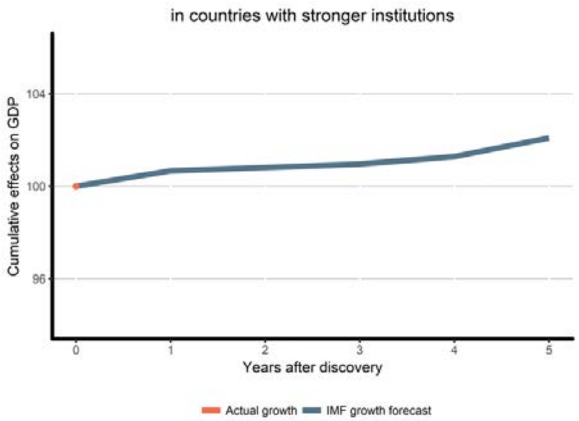


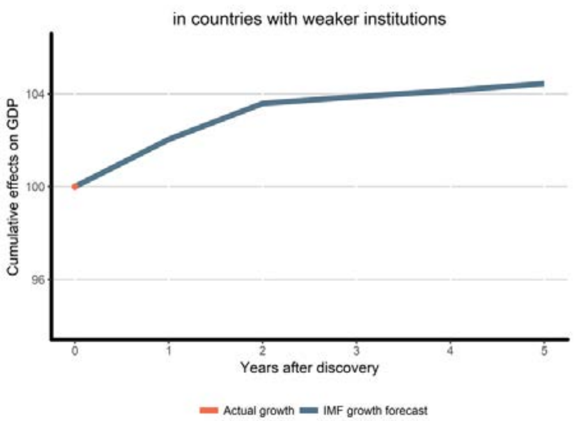
The ugly – modified all the time



Short-term growth impact of giant oil and gas discoveries

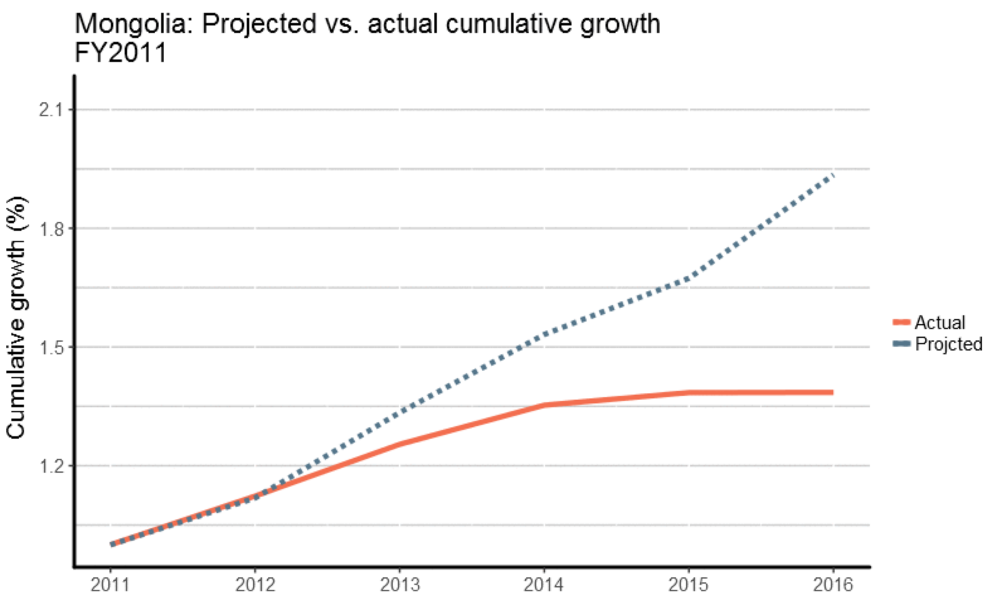


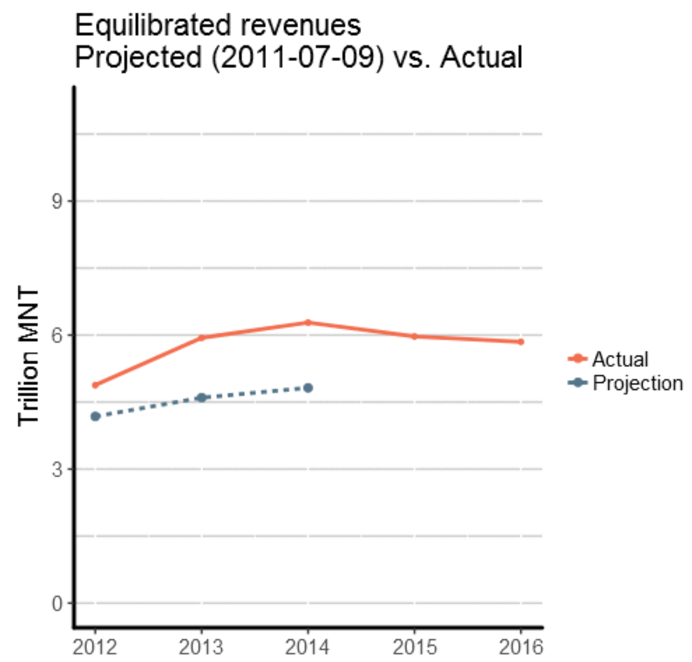




Cust & Mihalyi (2017): Evidence of a presource curse?

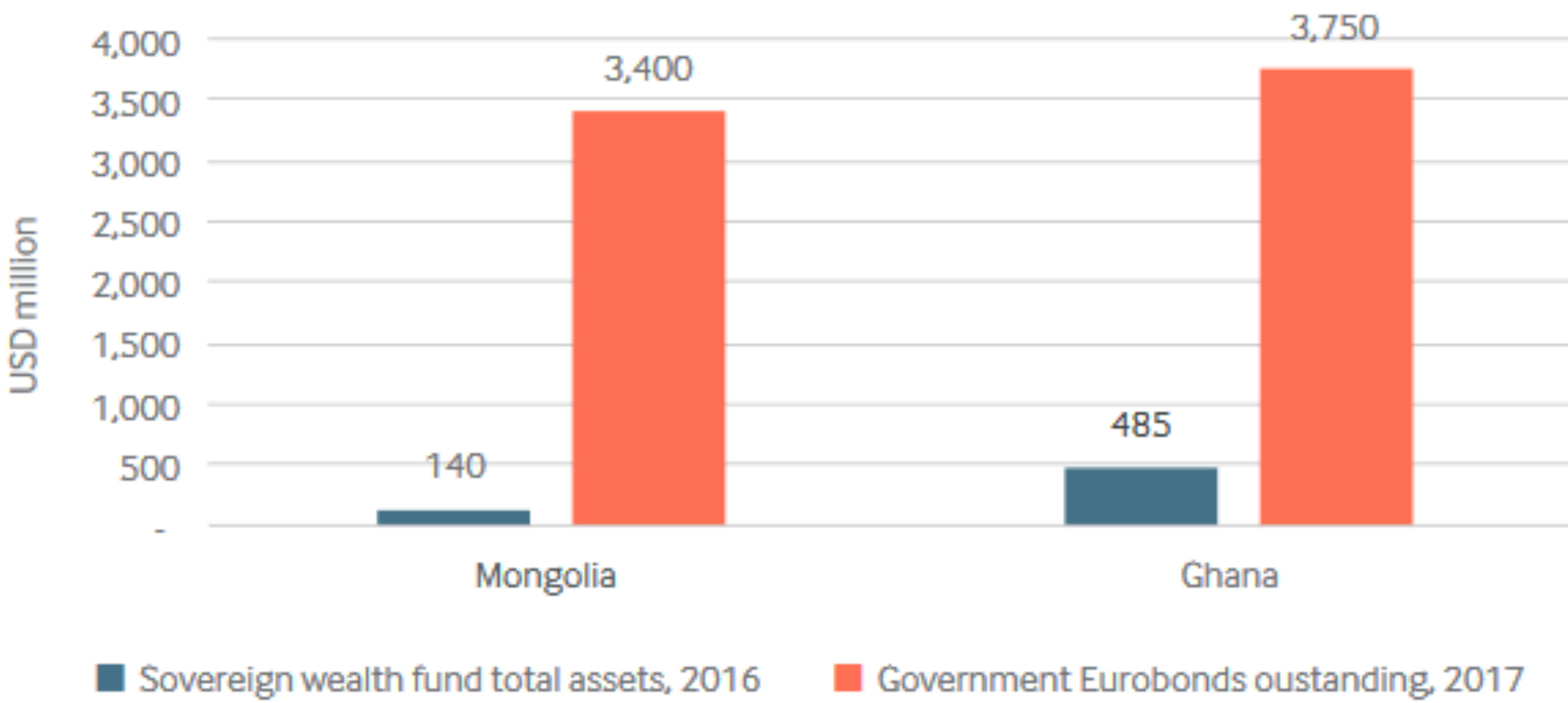
Optimistic projections - Mongolia





What you should avoid: Premature Funds

8% vs 14% (MNT)   1 % vs 9 % (USD)



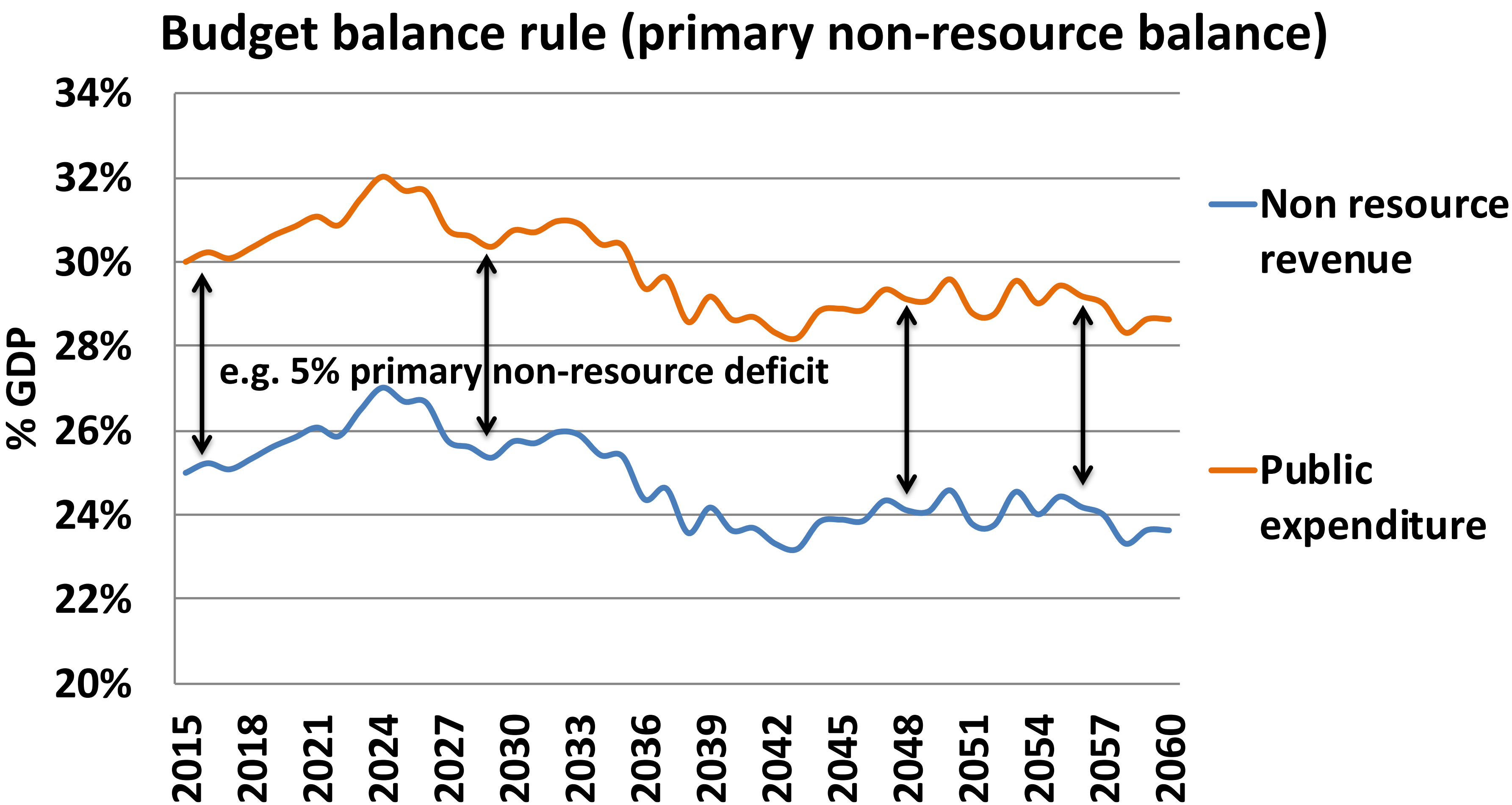
Fiscal rules – Balanced (non-resource) budget rule

Primary or recurrent balance rule: Maximum x% (primary or recurrent) deficit allowed

Examples: CEMAC (non-grant), EU, Indonesia, Peru, Nigeria, New Zealand, Pakistan, WAEMU

Non-resource balance rule: Maximum x% deficit allowed after subtracting resource revenues

Examples: CEMAC



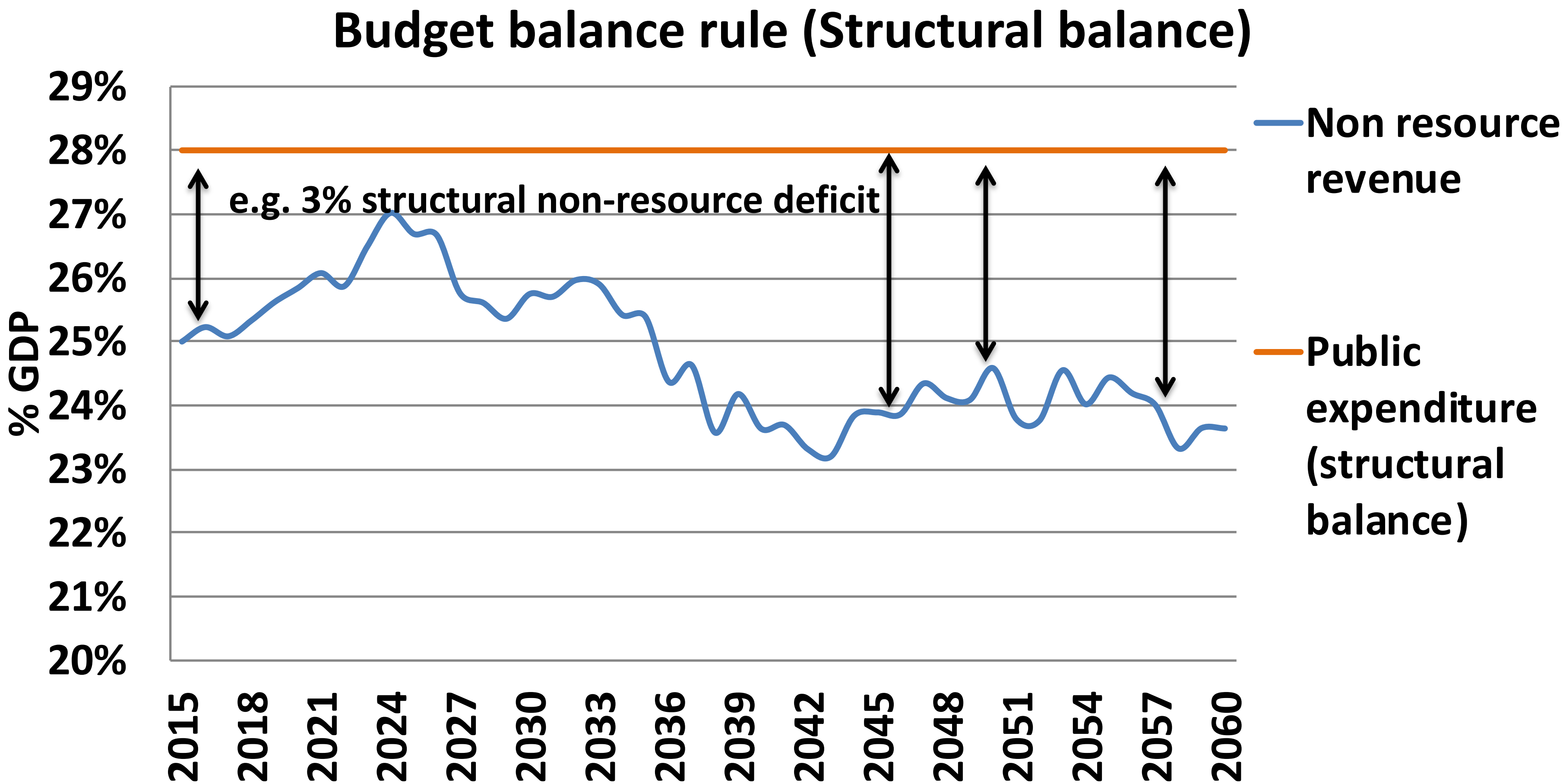
Fiscal rules – Structural (non-resource) budget balance rules

Structural budget balance rule: Maximum x% deficit "over the cycle"

Examples: CEMAC, Chile, Colombia, EU, Germany, Mongolia

Non-resource structural balance rule: Maximum x% deficit allowed "over the cycle" after subtracting resource revenues

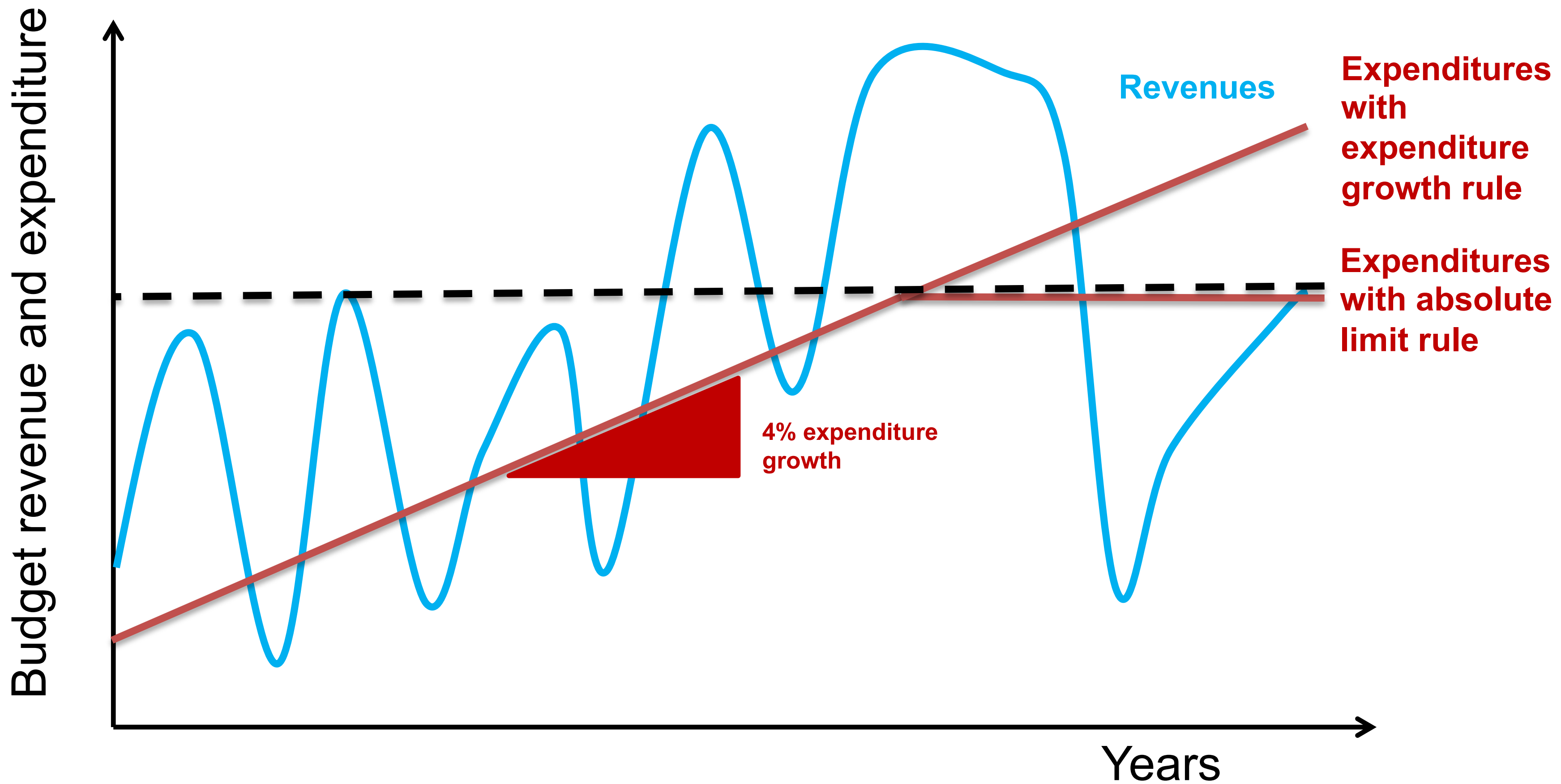
Example: Norway, Russia



Fiscal rules – Expenditure rules

Expenditure growth rule: Limit on total or recurrent expenditure in absolute terms, in terms of expenditure growth, or as a percent of GDP

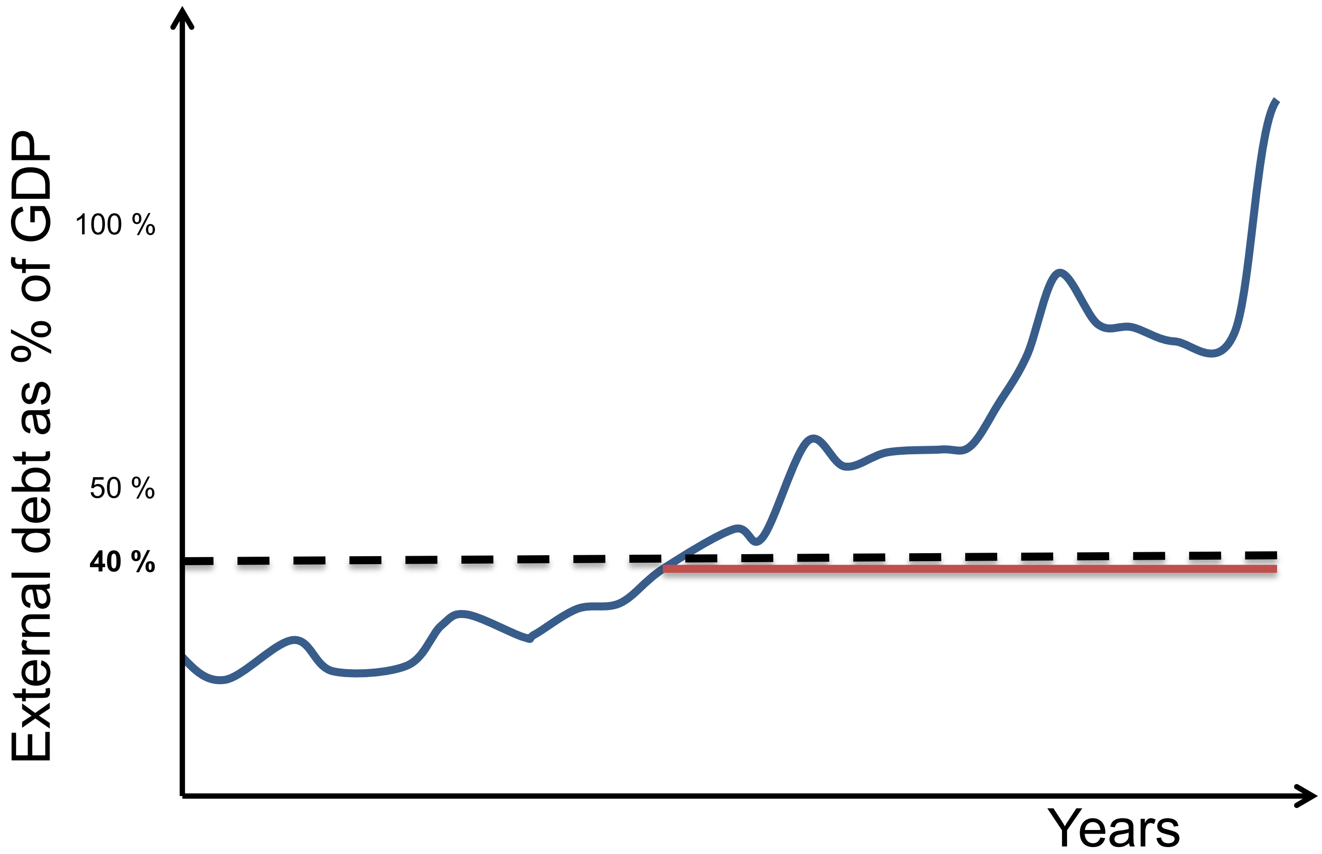
Examples: Australia, Botswana, Brazil, Mongolia, Namibia, Peru, Poland



Fiscal rules – Debt rules

Debt rule: Limit on public debt as a percent of GDP.

Examples: CEMAC, EU, WAEMU, Mongolia



Fiscal rules – Revenue rules

Revenue rule: Constraint on the amount of (natural resource) revenue entering the budget

Examples: Ghana, Kazakhstan, North Dakota (USA), Timor-Leste, Wyoming (USA)