Strengthening public finances as a pillar of prosperity in the Slovak Republic

Category: Slovakia,Uncategorized
written by oecdecoscope | July 21, 2026



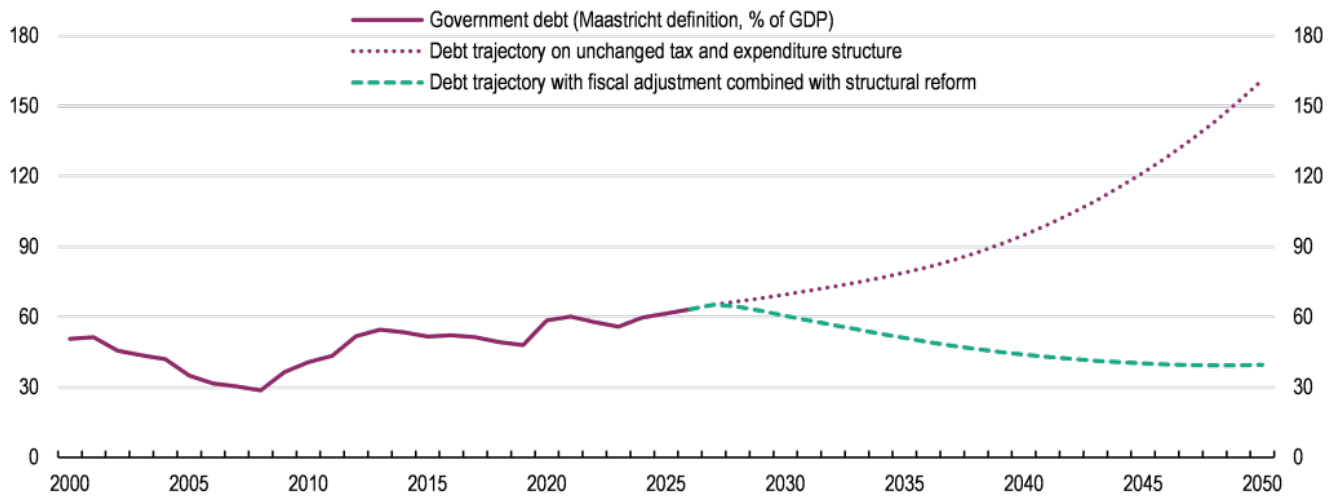
The Slovak Republic's public debt is on track to rise from 61% of GDP in 2025 to over 100% of GDP by 2040 without further action. Consolidation should rely mainly on expenditure control and a strengthened fiscal framework. Crucially, fiscal adjustment should be combined with structural reforms that raise employment: doing so halves the fiscal consolidation required to reduce debt while boosting growth.

by Boris Cournède, OECD Economics Department

Fiscal adjustment is required to put public debt on a stable trajectory in the Slovak Republic, as noted in the **2026 OECD Economic Survey of the Slovak Republic** (OECD, 2026a). From a recorded 4.5% of GDP in 2025 and an anticipated 4.3% in 2026, the general government deficit needs to narrow substantially to curb public debt. Rapid ageing implies increases in public expenditure on pensions, health and long-term care. Defence commitments are adding to spending needs. On unchanged tax and spending structures and without new structural reforms, public debt is set to rise from 61% of GDP at the end of 2025 to above 100% of GDP in 2040 (Figure 1).

Figure 1. Combining fiscal consolidation with structural reforms can stabilise public debt

General government debt, ratio to GDP, %



Notes: In the scenario with an unchanged tax and expenditure structure, the primary balance evolves because of changes in (1) spending on public pensions, and health and long-term care, taken from the EU Ageing Report 2024, and (2) the employment-to-population ratio. GDP follows the central scenario of the OECD Economic Outlook long-term baseline. The scenario combining fiscal adjustment with structural reform includes a 2.4 percentage points of GDP improvement in the primary balance and the illustrative reform estimates presented in Box 1.1 of the Survey. Interest rates are derived endogenously in each scenario.

Source: 2026 OECD Economic Survey of the Slovak Republic.

The greater part of fiscal adjustment in 2024-2026 has relied on collecting more revenue. Between 2024 and 2026, the ratio of government revenue to GDP rose by 1.6 percentage points while spending excluding interest rose by 0.4 percentage points according to OECD Economic Outlook estimates (OECD, 2026b). The small increase in the ratio of government spending to GDP does not however imply an absence of spending-side restraint. It means that the trend increase in spending has been larger than the impact of measures to curb expenditure.

With taxes and social security contributions that are already

above the OECD average as a ratio to GDP, the Slovak Republic needs to rely more on expenditure control. A starting point is to end natural gas subsidies: in addition to budgetary gains of at least 0.3% of GDP, their removal would sharpen incentives to save energy and reduce carbon dioxide emissions. Savings could also come from strengthening the evaluation of reimbursed drugs and promoting the use of generic and biosimilar drugs. Furthermore, means-testing the thirteenth pension would also help reduce spending. The OECD Economic Survey of the Slovak Republic 2026 lays out additional avenues for expenditure control.

Looking beyond medium-term adjustment, strengthening the fiscal framework is a way of entrenching sound fiscal policy for the long term. The Slovak Republic has a record of establishing ambitious budgetary institutions with its constitutional debt brake introduced in 2011 and its Council for Budget Responsibility (CBR) established in 2012. The CBR is widely regarded as independent, non-partisan and with strong analytical skills. The fiscal framework can be enhanced by:

- Designing multi-year fiscal consolidation plans based on a well delineated baseline with adjustment measures to be deployed if outturns deviate from the baseline. This would improve on current consolidation packages, which are vulnerable to implementation and economic risk.
- Reforming the debt brake by giving it a longer horizon and reducing exemption periods and clauses. In its current design, the debt brake is calling for unrealistic trajectories when the deficit is large: it would have implied aiming at a balanced budget in 2026 from a 4.5% deficit in 2025. Simultaneously giving it a long horizon while reducing exemptions would make it more credible.

Sound public finances rest on more than pure fiscal adjustment: they also gain a lot from structural reforms that address the effects of demographic change. The population aged 15-64 is set to shrink by 30% over 2025-2065, implying a sharp rise in the ratio of older to working-age people (Figure 2).

Long-term debt simulations underline the worth of debt stabilisation strategies that combine fiscal consolidation with reforms that boost employment. If fiscal adjustment were to be implemented alone, the primary balance would need to improve by as much as 5.1 percentage points of GDP from its projected 2027 level to bring the debt-GDP ratio to 40% by 2040. The required adjustment to reduce debt to 40% of GDP by 2040 can narrow to 2.4 percentage points of GDP with progress in the employment of women, older workers and Roma people:

- The employment gap between men and women is non-negligible at 8 percentage points, even if below the OECD average. Parental leave for mothers is among the longest in the OECD, and the supply of early childcare is relatively limited. In this environment, most mothers take care of their young children at home. The length of parental leave entitlement should be reduced, and on-going efforts to expand childcare should intensify.
- Many OECD countries have achieved much greater employment of women and men above 55 than is currently the case in Slovakia. A 2024 reform tightened conditions and increased penalties for early retirement but early retirement pathways should be curtailed.
- Employment in the Roma community is well below the rest of society. An important factor is high dropout rates throughout the education system. Efforts should be continued to expand early childhood education for students from socially disadvantaged backgrounds and to expand the network of second-chance education.

Fiscal sustainability is about prosperity rather than austerity. While some budgetary adjustments are necessary, the foundation of sound public finances lies in combining a flexible but ambitious fiscal framework with long-term growth-oriented policies.

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Strengthening Romania's competitiveness

Category: Romania
written by oecdecoscope | July 21, 2026



Romania has made remarkable progress in converging toward OECD income levels over the past two decades, supported by deeper integration into global markets, substantial capital inflows, and wide-ranging economic reforms.

by Katja Schmidt, OECD Economics Department

Romania has made remarkable progress in converging toward OECD income levels over the past two decades, supported by deeper integration into global markets, substantial capital inflows, and wide-ranging economic reforms.

These forces have driven strong productivity gains (Figure 1), bringing labour productivity close to the OECD average. Yet significant untapped potential remains. Further boosting the productivity of domestic firms and integrating them more deeply into global markets would raise the domestic value-added content of production and help the country move up the value chain. At the same time, realigning wage dynamics more closely with productivity growth – which wages have outpaced in recent years – will be essential to safeguard competitiveness and support sustained improvements in living standards.

The new 2026 OECD Economic Survey of Romania highlights four key priorities to increase the integration of domestic firms into global markets while supporting broader productivity gains:

- Strengthening innovation capacities and digital intensity among domestic firms
- Promoting human capital development and skills
- Improving the business environment and market efficiency
- Fostering infrastructure development.

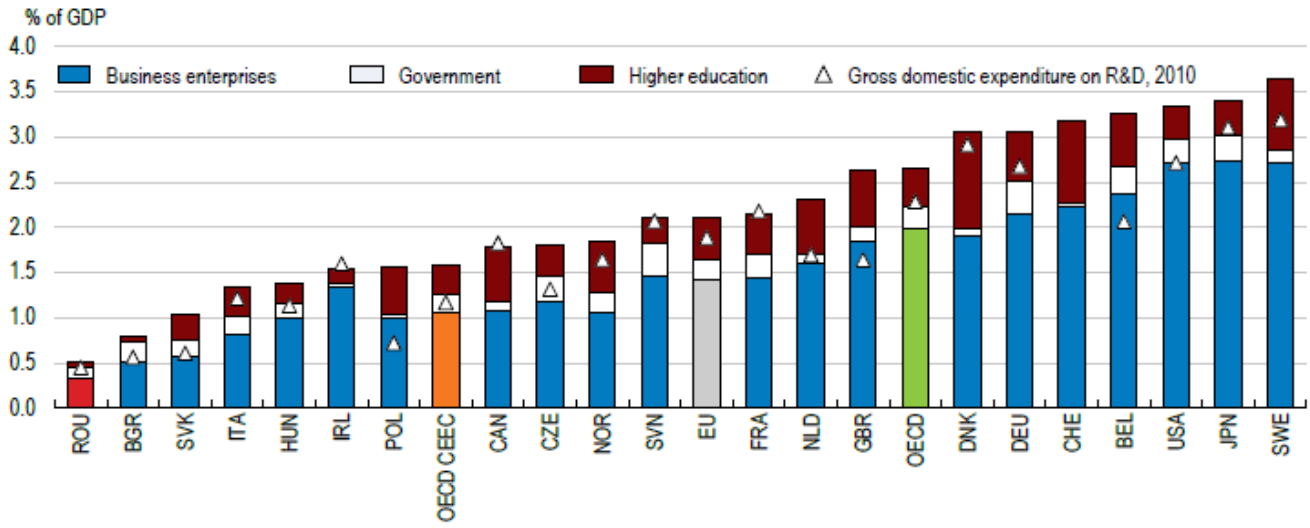
The innovation gap remains wide compared with both OECD and regional peers. Domestic firms continue to exhibit low rates of product, service, and process innovation, as well as limited R&D investment (Figure 2). Closing this gap requires measures to strengthen firms' innovation capacities – for example, by simplifying access to R&D tax incentives and raising awareness of their availability. Innovation among SMEs could be further supported by making R&D tax incentives more effective, including through refundability so that any credit

exceeding the tax liability is paid out in cash, and by establishing well-defined public-private project opportunities that encourage SME participation in R&D. In parallel, improving firms' access to finance and advancing financial deepening – including through more developed capital markets – will be essential to enable productivity-enhancing investment, foster innovation, and support firm growth and scaling.

Romania's digital infrastructure has improved significantly: access to high-speed broadband is now approaching levels seen in the best-performing OECD countries. However, digital intensity and the use of digital technologies by firms remain low. This reflects relatively low digital skills in the wider population, which should be strengthened as a priority. Awareness of and access to digital advisory and support schemes could also be improved. Ireland's Grow Digital portal provides a useful example of good practice, consolidating support programmes, training and funding information, and a self-assessment tool to help firms identify their digital needs.

Figure 2. Romania's R&D spending is very low

Gross domestic expenditure on R&D, 2024 or latest available



Note: OECD CEEC is the non-weighted average of Czechia, Hungary, Poland, Slovak Republic, and Slovenia.
Source: OECD Main Science and Technology Indicators database.

The economy’s productive capacity depends critically on the availability of advanced skills. As Romania moves up the value chain, demand for technical, digital, and managerial competencies is set to rise. Yet the country starts from a challenging position, with a high share of adults with low educational attainment, persistently elevated early-school-leaving rates, and comparatively weak learning outcomes. Addressing these gaps requires broad-based reforms, as recognised in the 2023 education reform. Romania should focus resources on key priorities and ensure effective delivery – modernising curricula, strengthening teacher capacity, and investing in school infrastructure, particularly in disadvantaged areas. These efforts must be supported by sustainable and adequate financing, alongside a stronger focus on lifelong learning and continuous skills upgrading.

Fostering a dynamic, growth-oriented business environment requires a regulatory framework that supports entrepreneurship, competition, and firm expansion. While Romania has made progress in improving the regulatory environment and market efficiency, further steps are needed. Starting and operating a business remains more burdensome than in top-performing OECD countries, despite ongoing simplification efforts. Priority should be given to accelerating the implementation of the streamlined single industrial licensing procedure and strengthening the insolvency framework – including by improving the efficiency of court procedures and expanding the use of digital tools in insolvency cases. Further improvements in the efficiency and accessibility of public procurement processes are also required

Finally, the Survey highlights opportunities to further strengthen transport infrastructure, including by improving network connections, ensuring more efficient transport pricing, and enhancing road maintenance. Promoting alternative low-emission transport modes and improving governance in the

transport sector will also be essential to support sustainable mobility and improve overall system performance.

Visit the OECD's Romania Economic Snapshot page for further information.

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The fiscal impact of population ageing: How can we afford getting older?

Category: Ageing,Uncategorized
written by oecdecoscope | July 21, 2026



By Vassiliki Koutsogeorgopoulou and Hermes Morgavi, OECD.

Populations are ageing in most countries, including emerging economies. The share of population aged 65 years and over has more than doubled between 1960 and 2022 across OECD countries on average, to around 18%, and is projected to reach 30% by 2060. To illustrate the magnitude of the demographic transition, the share of population aged 80 and over will rise even more dramatically, by almost two and half times between

2022 and 2060 (Figure 1).

Note: OECD refers to the simple average among the OECD countries, G20 emerging economies include Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia, and South Africa. Other OECD partner countries include Bulgaria, Croatia, Romania, Peru, Morocco, Tunisia, and Egypt. The highlighted area refers to the projection period, starting in 2024. Projections are based on the "medium variant" population projections from the United Nations.
Source: United Nations World Population Prospects: The 2024 Revision.

Living longer and ageing in better health are major accomplishments, boosting people's potential to remain active and work at a later age, participate in society and live independently for longer (Scott, 2021). However, life expectancy has increased in OECD countries in tandem with steadily declining fertility rates – currently well below replacement levels in most OECD economies (OECD, 2023). The old-age dependency ratio (defined as the number of people aged 65+ per 100 people of working age, 20-64 years old) in the OECD area has more than doubled between 1960 and 2022, as the population aged 65 and over grew at an annualised rate of 2.2% during the period, while the working-age population by merely 0.9% (United Nations World Population Prospects: The 2024 Revision).

From a fiscal perspective, population ageing can have profound consequences for the public finances, according to a recent OECD paper (Koutsogeorgopoulou and Morgavi, 2025). This is because, as previous studies have also shown (Rouzet et al., 2019; Guillemette and Turner, 2021; Guillemette and Château, 2023), age-related government spending, notably on pensions, healthcare and long-term care, exerts substantial pressure on public finances. Defined-benefit, pay-as-you-go pension systems are particularly vulnerable, as contribution rates struggle to keep up with growing retirement cohorts and longer benefit durations. While public spending on long-term care as share of GDP is generally low, it has been rising more rapidly than pension and health care expenditure over the past decades

and will continue to do so, especially as the share of population 80 years and over is increasing rapidly (OECD Health database). According to OECD Long-Term Model, in the absence of corrective policy action, fiscal pressure would increase in the average OECD country by nearly 6¼ percentage points of GDP between 2024 and 2060, with ageing accounting for more than 40% (Figure 2).

Policies can help economies to adapt to population ageing, harnessing the benefits of longevity, and address the mounting fiscal pressures stemming from ageing, thereby safeguarding public finance sustainability. While the scope of demographic change varies across countries, a comprehensive policy approach is indispensable. The strategy needs to encompass measures to promote healthy ageing, including through disease prevention policies, fiscal reforms to manage the rise in age-related spending, and structural reforms to boost labour force participation of older workers and other under-represented groups.

Indicative of the large fiscal gains of comprehensive reforms, changes in retirement policies that reduce early exit pathways and link retirement ages to two-thirds of projected increases in life expectancy, in combination with labour market reforms, would lower the fiscal pressure in 2060 by around 4 percentage points of GDP for the average country, compared to a baseline no-policy change scenario, based on OECD Long-Term Model (Source: Update of (Guillemette and Château, 2023) based on OECD Economic Outlook No. 115 May 2024 database).

Policy efforts to address the fiscal implications of ageing can be complemented by measures to boost fertility and immigration. While today’s fertility rates would only raise the share of workers in the population in around two decades, ensuring continuity of support over the child’s early life

course by avoiding “spending dips” is essential (OECD, 2024). Immigration can help ageing countries to address labour shortages in the short- or medium-term, though is unlikely to fully offset population ageing (André, Gal and Schief, 2024). Addressing integration challenges and enabling immigrants to reach their potential are essential.

** This blog is based on the paper by Koutsogeorgopoulou, V. and H. Morgavi (2025), “Ageing populations, their fiscal implications and policy responses”, OECD Economics Department Working Papers, No. 1844. The paper was prepared as part the work programme of the OECD Crete Centre on Population Dynamics. The Centre, established in 2023 in partnership with the Greek Government, is dedicated to advancing policy-oriented research and advisory work on demographic issues and their impact on economic prosperity: https://www.oecd.org/en/about/programmes/oecd-crete-centre-on-population-dynamics.html.*

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Reducing public debt: When growth meets sound fiscal policy

Category: Uncategorized
written by oecdecoscope | July 21, 2026



By Álvaro Pina, Mauricio Hitschfeld and Takashi Miyahara, OECD.

Across the OECD, public debt reached 112% of GDP at the end of 2024, almost 40 percentage points higher than in 2007, before the global financial crisis (OECD, 2025). In the absence of offsetting fiscal policy adjustment, mounting spending pressures from ageing, defence and climate change will make debt ratios rise further. To help address these challenges, countries can draw on the lessons from past episodes of large and sustained reductions in debt-to-GDP.

In a recent paper (Pina, Hitschfeld and Miyahara, 2025), we have analysed 34 such episodes since the late 1970s, with 25 different OECD countries having experienced at least one episode. Favourable cyclical conditions have been the main driver of declining debt-to-GDP ratios, both through denominator effects and through their positive impact on

budget balances. Discretionary fiscal consolidation efforts, mostly on the expenditure side, have been a more modest driver during debt reduction episodes, but have often helped to prepare the ground in the run-up to episodes. Overall expenditure restraint appears to have been accompanied by growth-friendly shifts in the composition of public spending.

Growth has helped to achieve and sustain primary surpluses

Debt reduction episodes are defined as ones that persist for a minimum of five years and bring down the gross debt-to-GDP ratio by at least 10 percentage points. All episodes start immediately after a debt ratio peak and end when the debt ratio bottoms out. The analysis considered 33 OECD advanced economies over 1976-2019, though data availability is limited for some countries.

Average GDP growth was 3.7% in years belonging to debt reduction episodes, against only 2.3% in the rest of the sample. Stronger economic growth has thus been a potent driver of debt-to-GDP ratio reduction by making the denominator grow faster, but also by enhancing tax revenues and reducing outlays on certain social transfers, such as unemployment benefits. In about 80% of the episodes the primary balance (excluding net debt interest payments) has improved relative to the year when the debt ratio peaks. Figure 1 decomposes this improvement into three parts, respectively due to:

- changes in cyclical conditions
- changes in budget one-offs (large and non-recurrent fiscal operations)
- deliberate fiscal policy action (measured by changes in the underlying primary balance – the primary balance adjusted for cyclical conditions and for one-offs – as a share of potential GDP)

Better cyclical conditions clearly outweigh the other two

components, featuring in 29 of the 30 episodes shown and making the largest contribution to the primary balance improvement (1.4 percentage points on average).

In good times, policy has rebuilt fiscal buffers and reformed the composition of the public finances

The contribution from improved underlying primary balances has been more modest, at only 0.4% of potential GDP on average (Figure 1). Nonetheless, fiscal consolidation efforts have often prepared the ground in the run-up to debt reduction episodes. When comparing average underlying primary balances during episodes with those in the preceding years (up to five years instead of just the previous year as in Figure 1), the improvement reaches 1.8% of potential GDP.

Debt reduction episodes have also seen important changes in the composition of spending and revenue. Consolidation has been expenditure-based, but spending items generally regarded as growth-friendly, such as health, education or investment (Cournède et al., 2014; Fournier and Johansson, 2016), have been relatively spared (Figure 2, bars). This no longer holds for investment if consolidation efforts in run-up years are included (Figure 2, dots), but nonetheless investment cuts in episodes and their run-ups have been, on average, considerably smaller than in other consolidation years that failed to deliver sustained debt reduction. Other spending categories have been more heavily constrained, including pensions, with the upward trend observed in recent decades halted during debt reduction episodes. Total underlying primary revenues as a share of potential GDP have on average declined slightly, with a sizeable shift from labour taxation to corporate income taxes.

Future reductions in the debt-to-GDP ratio may be harder to achieve, as governments face multiple spending pressures and growth is now more subdued than in many earlier episodes. New circumstances call for new approaches to fiscal adjustment,

where a larger contribution from revenue increases will likely be required. Nonetheless, governments can draw lessons from past episodes in which countries have achieved large and sustained reductions in their debt ratios and changed the composition of public expenditure. A key policy insight is that governments should take advantage of good times to rebuild fiscal buffers and bring down debt ratios. It has also been possible to make significant savings in particular spending items such as subsidies and certain transfers, including pensions. Such savings need to be accompanied by improvements to the overall targeting and design of spending programmes to maintain support for those who need it most.

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Higher defence spending brings forward hard fiscal policy choices and has an uncertain economic impact

Category: Uncategorized
written by oecdecoscope | July 21, 2026



By Ben Conigrave, OECD.

After falling relative to overall public expenditure and GDP in the three decades after the Cold War ended, military spending is rising again in many OECD countries. Among those that are also NATO members, a large step up in defence outlays has recently occurred in Central and Eastern European countries (Figure 1). A broader pick-up in defence spending has seen expenditures also increase in Japan, the Nordic countries and Israel.

Poland and the Baltic states (Estonia, Latvia and Lithuania) were among those quickest to increase defence spending following Russia's invasion of Ukraine in 2022. All plan to keep military spending at high levels in the coming years, or even increase it. Earlier this year, all four countries pledged to lift their defence budgets to 5% of GDP. Spending on this scale could absorb up to 15% of their tax revenues based on outcomes for recent years (OECD 2024). In recent months, Czechia, Denmark, Finland, Norway and Sweden have also signalled ambitious goals for defence spending, as have larger

European economies including France, Germany and the United Kingdom (Figure 2 panel A). In a NATO summit this week, members are expected to agree to a new, higher defence spending target.

Many countries plan to borrow more, at least in the near term, to finance higher military expenditure. Sweden and Germany have loosened their fiscal rules – changing the Constitution in Germany's case – to make more room for higher future defence outlays. A larger group of countries (16 by the end of April) hope to make use of national escape clauses in EU fiscal rules (Council of the EU, 2025). If cleared by the Council, this would allow these member states to deviate from approved budget plans by spending an extra 1.5% of GDP on defence up to 2028 (compared with levels in 2021).

Financial market pressure may make it difficult to meet defence spending ambitions in high debt countries. While Germany and Sweden have fiscal space to let debt rise for a period of time, higher-debt OECD economies could face increased borrowing costs if they fail to cut non-defence spending or raise taxes. Tax increases have often accompanied past military build-ups after a temporary period of higher borrowing (Marzian and Trebesch, 2025). But in many of the OECD countries now promising to raise defence spending, tax burdens are already high (Figure 2 panel B). Postponing to the "long run" tough fiscal policy choices – already unavoidable for countries grappling with heavy costs from changing demographics and climate (OECD 2025) – may not be an option.

The broader economic effects of higher defence spending are uncertain and will vary from country to country. Near-term growth payoffs from increased defence expenditure are likely to be larger in economies with spare capacity and established local defence industries, particularly if monetary policy accommodates a fiscal expansion. But many countries could expect the positive gains from higher defence spending to be offset by some combination of higher imports and reduced

private sector activity due to increases in inflation or interest rates.

The impact of higher spending may also vary by type of spending. Defence infrastructure projects or spending on equipment could generate relatively high multipliers by boosting public sector investment directly, and if they generate domestic private sector activity and jobs, and rely mainly on locally-sourced materials. Raising the number of military personnel also contributes to domestic output – directly through public final consumption and indirectly via household consumption – and is likely to have larger net effects in economies below full employment.

To the extent that European countries are able to source defence equipment, inputs or services from each other, and stretched availability of supplies does not raise costs, regional multipliers from increased defence spending could exceed those in individual European countries. Recent analyses suggest that a collective 1.5% of GDP lift in military spending could boost Europe-wide GDP by between 0.5% and 1.5% (Ilzetzki, 2025; European Commission, 2025). Across all but the very top of this range, a combination of higher imports and some crowding out of private sector activity would mean a less than one-for-one translation of increased government spending to GDP.

Longer-run benefits might still come from defence investments that boost the economy's productive capacity, for instance through better infrastructure or innovation to respond to the shifting technological demands of modern warfare. These benefits are hard to quantify, though there is good reason to expect defence R&D to eventually benefit other industries (Steinwender, Van Reenen and Moretti, 2019). Gains from innovation and higher productivity might be more likely to spill over national borders if allied countries coordinate strategic investments and military procurement. Such coordination could be a powerful lever for more efficient

defence spending if it reduces the cost of achieving intended improvements in military capability.

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Belgium: Reforms to put

public finances on a sustainable path

Category: Belgium
written by oecdecoscope | July 21, 2026



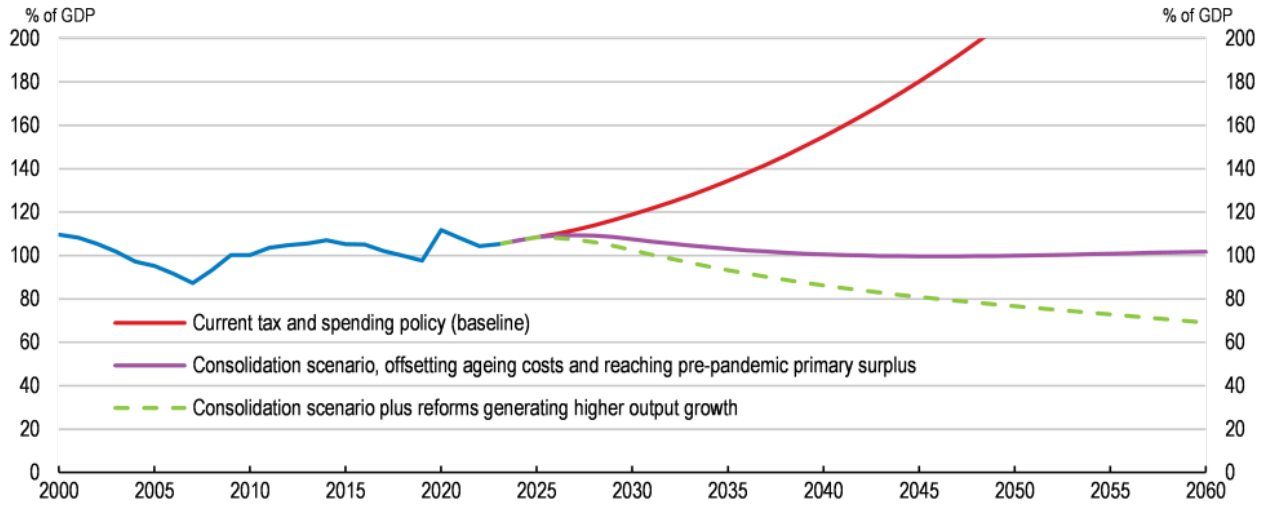
By Jonathan Smith, Caroline Klein, OECD Economics Department

Belgium coped well with the pandemic and energy crisis, but fiscal support to mitigate their impact has brought higher fiscal deficits and further increases in public debt. The ratio of public debt to GDP is among the highest in the EU; it stood at 105% in 2023. Absent of fiscal consolidation, the sustainability of public finances is at risk. Demographic change is exacerbating the challenge of ensuring fiscal sustainability. Costs related to ageing, particularly spending on pensions and long-term care, are projected to increase by 3.7 percentage points of GDP by 2060, much larger than the average EU country (European Commission, 2024). Furthermore, the digital and green transitions require substantial public investment, accentuating the fiscal challenge.

The 2024 Economic Survey of Belgium discusses the key elements needed to put public debt onto a sustainable path. Long-run fiscal projections currently suggest that without such measures the debt-to-GDP ratio could exceed 200% by 2050 (Figure 1).

Figure 1: Bringing public debt on a sustainable path requires substantial fiscal efforts

Gross government debt as a share of GDP



Note: The "Current tax and spending policy" scenario is based on the OECD Economic Outlook 115 projections until 2025, the OECD long-term model thereafter. The scenario assumes a continuation of the policy stance with the primary fiscal balance remaining constant at its 2025 level (-2.5%) before accounting for net ageing-related costs. Net ageing costs are defined as changes in expenditure on old-age pensions, health, and long-term care minus changes in expenditure on education, which will add on average an additional 3.7 percentage points of GDP to annual government spending from 2025 to 2060 assuming no-policy change. The "Consolidation" scenario assumes that the primary budget surplus reaches 0.6% of GDP by 2030 and is maintained until 2060, which requires tax and spending measures after 2025, including to offset rising net ageing costs. The "Consolidation scenario plus reforms generating higher output growth" scenario additionally assumes higher GDP growth from the implementation of the ambitious package of structural reforms reported the Economic Survey.
Source: OECD (2024).

First, addressing the fiscal challenge requires a credible consolidation strategy involving all of Belgium's regions and communities. The new EU fiscal rules should help strengthen Belgium's budgetary discipline. Nevertheless, more needs to be done to improve coordination across governments. Regions and communities account for an increasing share of Belgium's gross debt, but the current system of Cooperative Agreements across

governments is not working. Despite finalisation in 2013, the Cooperative Agreements have never been implemented; this suggests a need for reform. Binding multiannual spending rules should be introduced for all governments to support fiscal discipline and improve clarity for policymakers, businesses and households on the consolidation path.

Second, raising public spending efficiency should be the cornerstone of fiscal consolidation. Public expenditure in Belgium is among the highest in the OECD and has increased sharply since 2019 from 51.9% to 54.6% of GDP in 2023. Spending reviews can help identify efficiency gains and can support consolidation when carried out with clear savings objectives and followed by concrete actions. Belgium has progressed on this front, but there is scope for more. It should build on experiences from pilot spending reviews and move to comprehensive reviews to cover a larger share of government spending. Spending reviews should be systemically integrated into the budgetary planning cycles as already done in some regions.

Reforms are needed to ensure the sustainability of the pension system, which makes up a substantial share of the costs related to population aging. Belgium is projected to have one of the highest public pension expenditures in the European Union by 2045. While two sets of pension reforms have been carried out since 2020, they have focused on improving pension adequacy for pensioners rather than limiting increases in long-term costs for the public at large. Part of the problem is the gap between the effective and the legal retirement age, which is the highest in the OECD (OECD, 2023). In light of this, Belgium should place greater emphasis on incentivising and enabling older workers to stay in employment. This should be achieved both via financial incentives such as penalties for early retirement, but also through complementary non-pecuniary reforms to extend working lives, such as developing the prevention of work-related health risks and upskilling

programmes.

Lastly, Belgium must improve the efficiency and fairness of its tax system. The extensive use of special tax provisions narrows the tax base and weighs on revenue, often with little or no evidence of concrete socio-economic benefits. Furthermore, the tax mix is unduly skewed toward labour income taxes. Belgium has one of the highest tax burdens on labour income in the OECD – which, *inter alia*, disincentivises work. Targeted cuts in effective labour income taxation are needed to strengthen incentives to remain in employment, expand working hours, or return to work if unemployed. Attention to the incentives for low-wage workers is particularly important. The taxation of capital income is relatively flat and low but mainly because of the absence of a capital gains tax, which Belgium should consider introducing. Finally, indicators point to a relatively high level of tax revenue losses from non-compliance vis-a-vis other EU countries. Efforts for a comprehensive tax reform that would advance on a number of these issues have been put on hold. Major tax reform should be resumed to support economic growth, employment, and fiscal sustainability.

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Debt Dilemma: Addressing America's mounting fiscal pressures

Category: United States
written by oecdecoscope | July 21, 2026

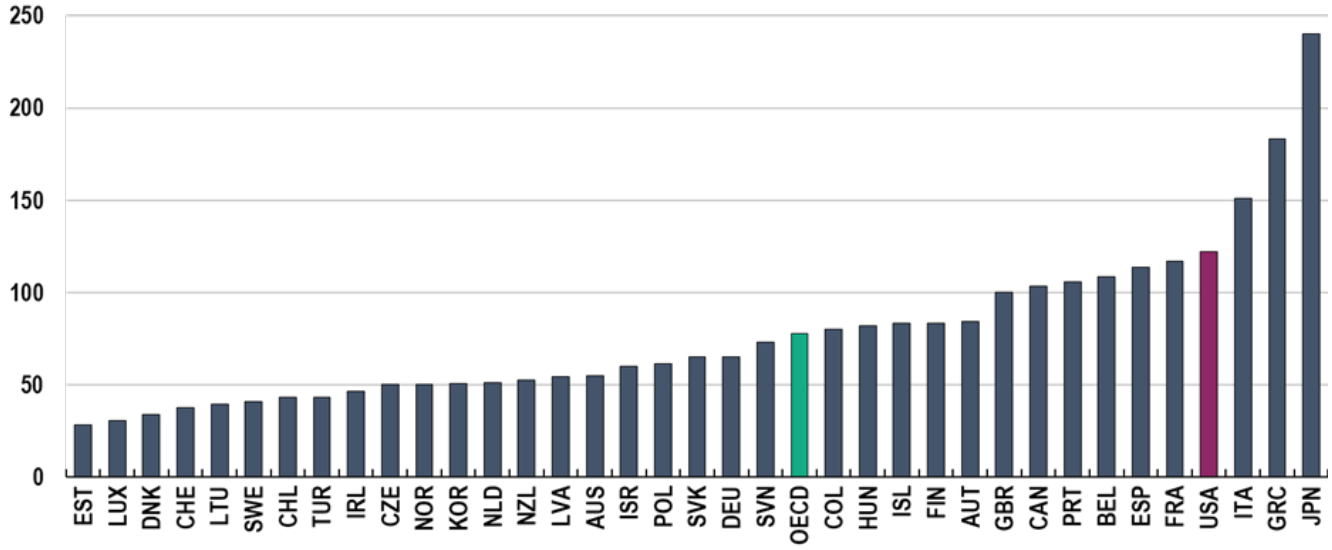


Fiscal pressures are mounting in the United States as past debt accumulation is being compounded by higher interest rates and a large deficit reflecting a fundamental mismatch between government spending and revenues, as described in the latest OECD Economic Survey of the United States.

The general government fiscal deficit was 8% in 2023. The debt to GDP ratio is one of the highest in the OECD, after doubling over the past two decades (Figure 1) and reaching the highest level since the aftermath of World War 2.

Figure 1: The government debt to GDP ratio is high compared with other OECD countries

Gross public debt, % of GDP, 2023 or latest year available

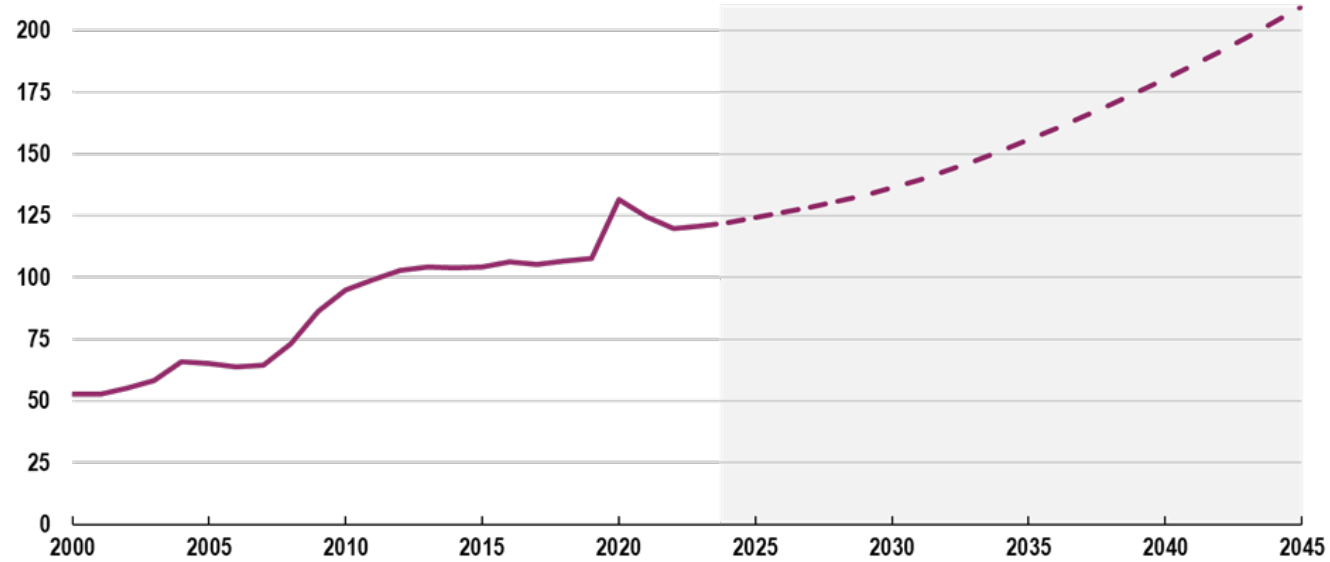


Source: OECD Analytical Database.

Under current tax and spending policy, the debt ratio will continue to rise sharply to around 150% of GDP in the mid-2030s as spending continues to run ahead of revenues and with rising pension and healthcare costs. At the same time, the government is facing public spending pressures arising from the climate transition, public investment needs and geopolitical tensions (Figure 2).

Figure 2: If current tax and spending policies persist, the United States debt ratio is projected to increase rapidly over coming decades

Projected gross public debt, % of GDP



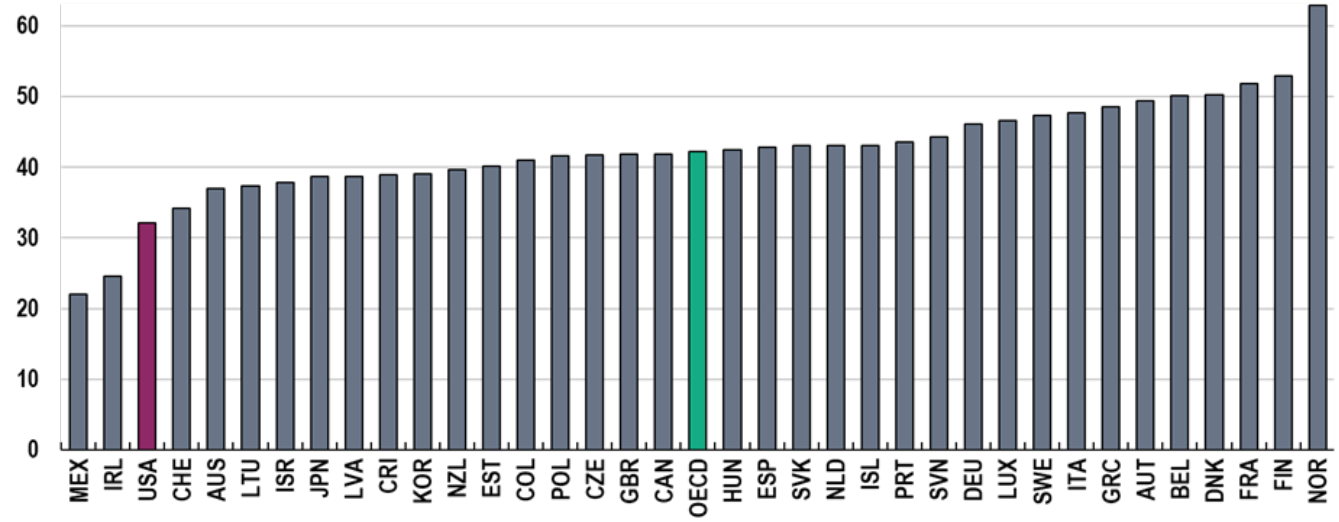
Note: Projections assume that current tax and spending policies persist, including the policies enacted in the Tax Cuts and Jobs Act (TCJA). The projections begin with an initial primary deficit of 3% of GDP and include additional future fiscal costs due to ageing and higher interest costs. GDP growth evolves according to projections from the OECD Long Term Model.
Source: OECD calculations

Why is rising public debt in the United States a problem? High debt and deficits can slow economic growth and increase risks to the US economy. Debt issuance puts upward pressure on interest rates and may in turn crowd out private investment. A larger debt and deficit may make it harder to finance urgent spending, impacting the ability of the authorities to respond to future crises. Upward pressure in interest rates in the United States often exerts similar pressure elsewhere, potentially slowing growth across the globe.

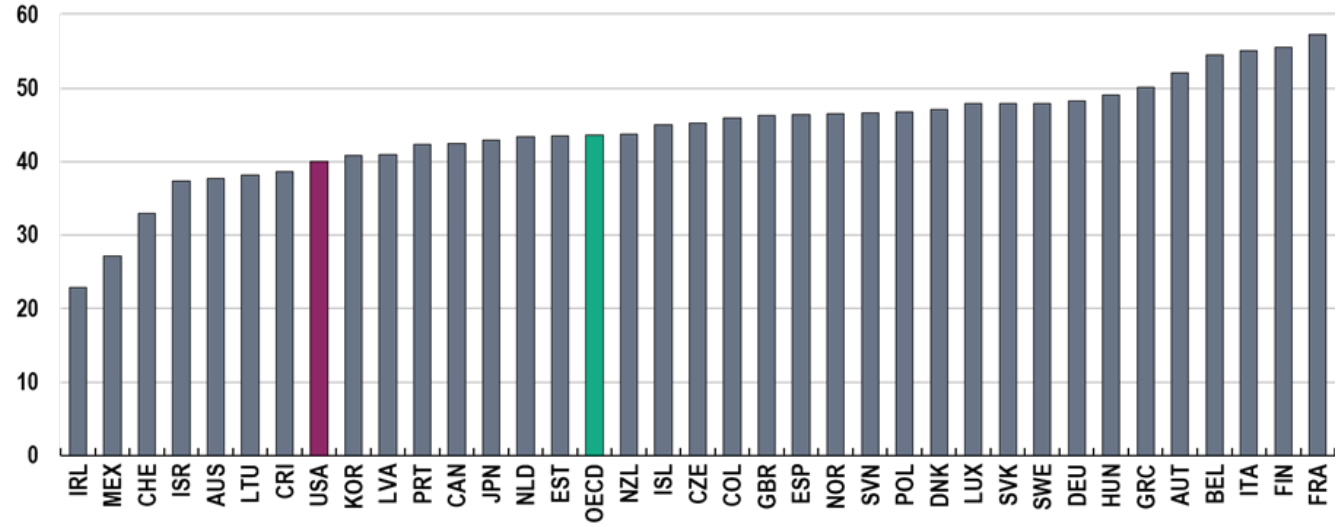
A more prudent path for United States public finances will involve better aligning revenues and expenditures. Tax revenues are low in the United States compared with other OECD countries, while there is limited room for cuts to federal spending given that most is dedicated to important social programs such as the provision of retirement and health services, as well as net interest payments (Figure 3).

Figure 3. Government revenues and expenditures are low relative to other OECD countries

General government total revenue, % of GDP, 2023



General government total expenditure, % of GDP, 2023



Source: OECD Analytical Database

A multi-year fiscal adjustment that includes increases in taxation, particularly on capital incomes, and spending adjustments focused on savings on pensions and healthcare can put debt on a more prudent path.

Changes to corporate tax, personal tax, and estate tax are key instruments and could be phased in earlier in the adjustment. The scheduled expiration of many tax code changes under the

Tax Cuts and Jobs Act (TCJA) at the end of the 2025 calendar year provides an opportunity to revisit the tax code prior to that date. Post-tax income inequality in the United States is high by OECD standards, and the proposed tax reforms would make the system less regressive, as well as raise revenues. On the expenditure side, spending restraint should be the immediate priority, while longer term reforms are put in place to lower health care costs while maintaining care.

Improving the federal budgeting process would support putting the public finances on a more prudent path. Currently, the US Congress sets a federal debt ceiling that caps the amount of debt on issuance. However, this debt ceiling is divorced from the budgetary process and has led to brinksmanship, creating unnecessary risks. It should be replaced with a simple debt ratio target focused on the medium term proposed by the President and approved by Congress to improve communication and accountability.

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Fiscal policy, quality and quantity

Category: Uncategorized
written by oecdecoscope | July 21, 2026



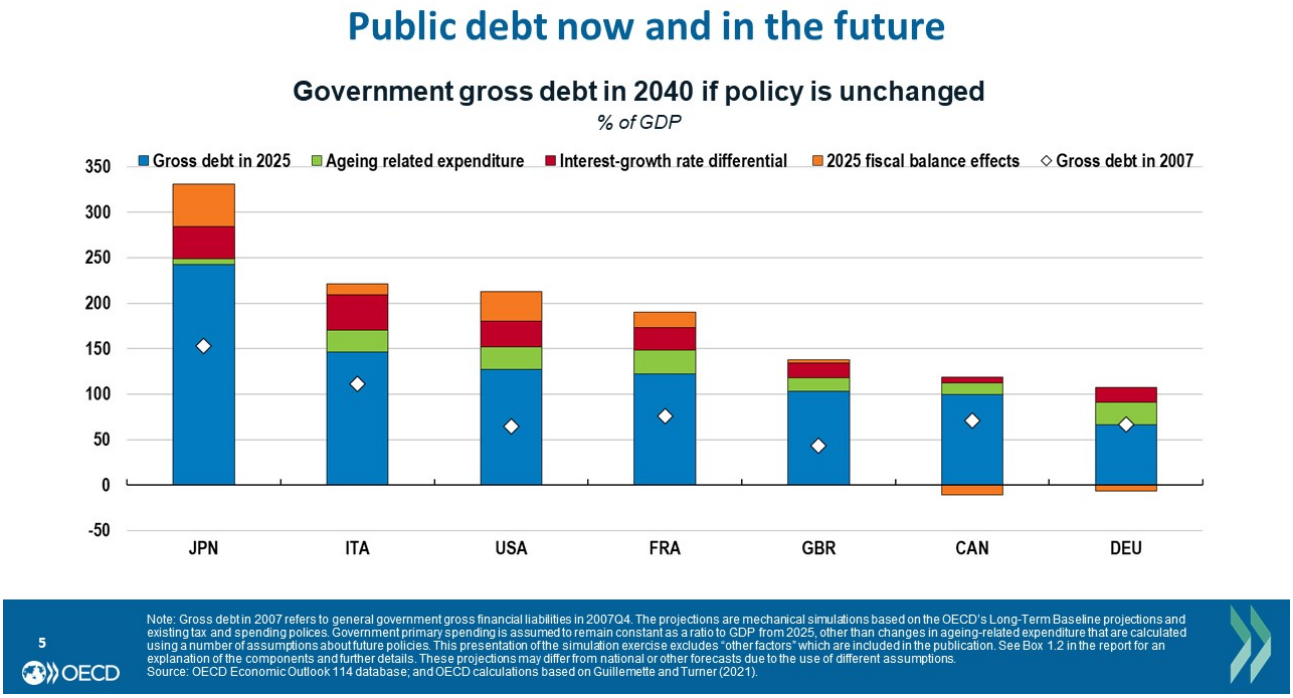
By Clare Lombardelli, OECD Chief Economist[i] and Max Glanville

Fiscal policy faces a challenging outlook in most advanced economies. Using OECD long term analysis and cross country experience of fiscal consolidation I discuss the difficult choices lying ahead.

The starting point: A legacy of high public debt

After three major crises where fiscal support was used to support economies, public debt ratios stand at historically high levels in most advanced economies. In 2007, before the Global Financial Crisis, COVID-19 pandemic, and energy crises, debt levels were substantially lower than today, shown by the white diamonds in Figure 1. The average public debt to GDP ratio across G7 countries was 84%. Fast forward to 2025, and we're looking at a spectrum ranging from Germany, with public debt relative to GDP at around 70%, to Japan, where it stands at around 240%. We have also observed a shift in expectations around fiscal policy's role in responding to economic shocks.

Figure 1: Public debt now and in the future



Future fiscal pressures and demographic challenges (Figure 1, green bars)

Assuming unchanged policies, by 2040, the fiscal outlook worsens significantly as additional pressures emerge, notably from demographic changes. Ageing populations will significantly impact economies, not just fiscally but also in terms of economic growth. For instance, if policy is unchanged, U.S. age-related pensions and health expenses, are set to add a whopping 25 percentage points to gross debt by 2040. This demographic shift, driven by increased longevity and declining fertility rates, poses a substantial challenge.

Interest Rate-Growth Differential (Figure 1, red bars)

Adding to the demographic pressures are the dynamics of interest rate-growth differentials (our earlier friend, r-g). r-g has direct implications for debt sustainability. If the interest rate on government debt is higher than the growth rate of the economy, the real burden of public debt increases over time. With the past favourable r-g dynamics unlikely to continue, there will be additional fiscal pressures. As they are very sensitive to assumptions, to give a sense of size, in the U.S., for example, changing r-g dynamics could add an

additional 30 percentage points to gross debt by 2040.

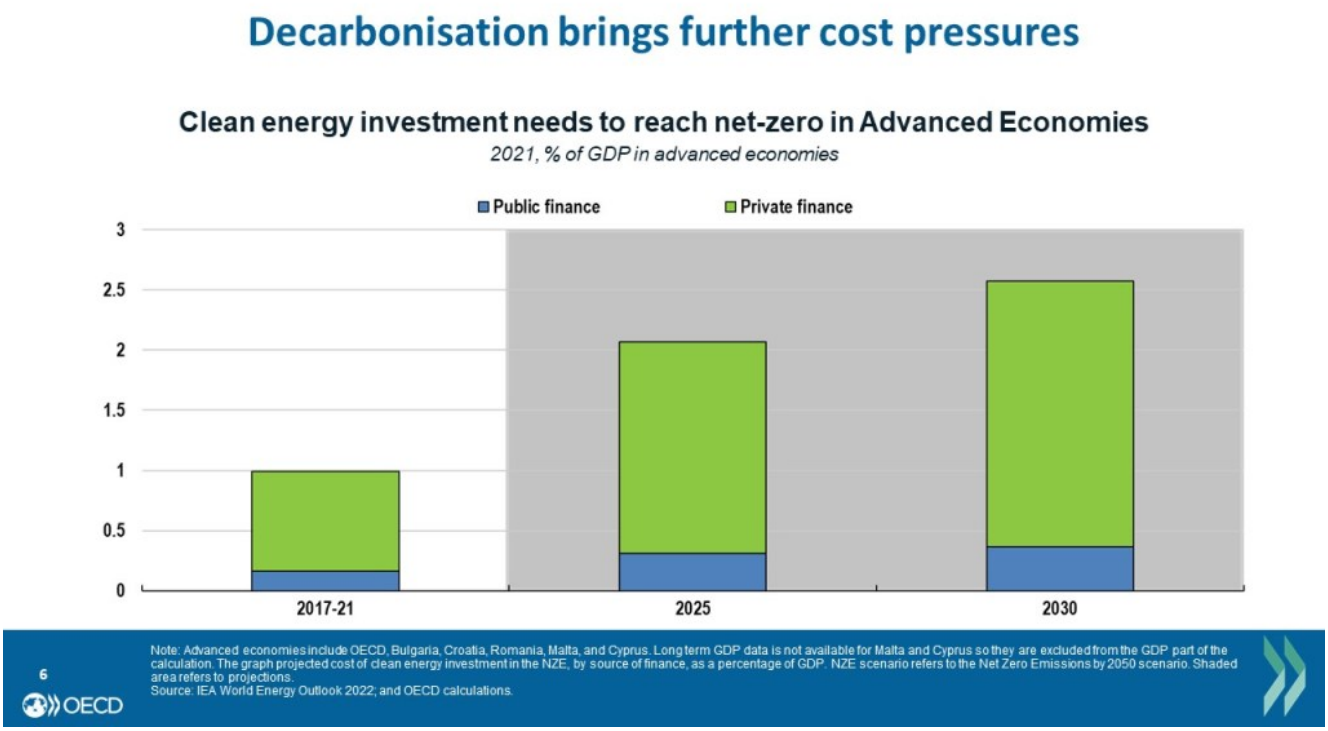
The impact of future expected deficits (Figure 1, orange bars)

Future expected deficits, based on the assumption of continued fiscal policies from 2025, indicate even more significant increases in debt levels. This should be interpreted with caution – the underlying primary balance can change year to year as governments borrow during downturns and rebuild fiscal buffers during recovery periods. What is shown in the orange bars here is what the impact would be if current deficit levels were to continue into the future.

Additional future fiscal costs

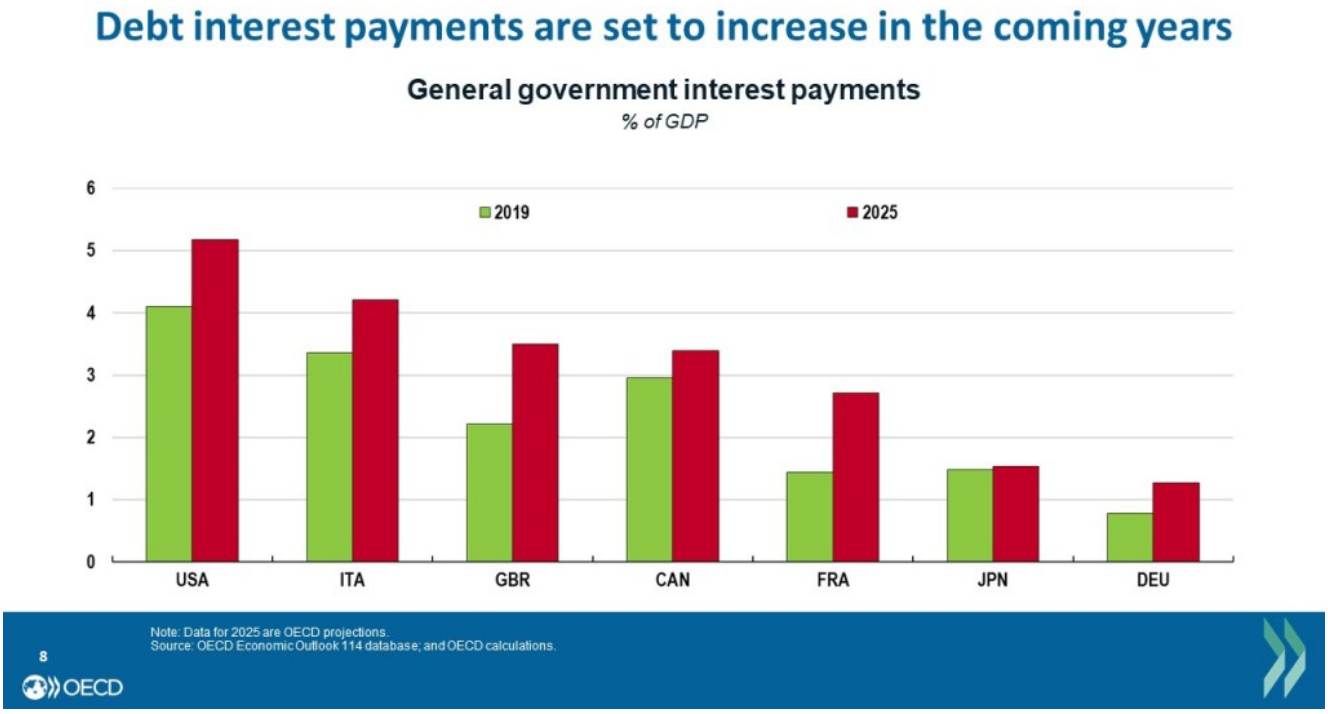
The fiscal costs of decarbonization (Figure 2), as outlined by the International Energy Agency, highlight the substantial investments required for advanced economies to reach net zero by 2050. How big these will be, depends on a whole range of factors, many driven by policy choices – including how costs will be shared across consumers, businesses and governments From 2017-2021, governments in advanced economies invested 0.16% of GDP on average in clean energy. By 2025 and 2030, that number needs to more than double.

Figure 2: Decarbonisation costs to 2030



Combined with current levels of defence spending and the increased cost of debt servicing at higher interest rates, this paints a challenging long-term picture for public finances.

Figure 3: Debt interest payments to 2025

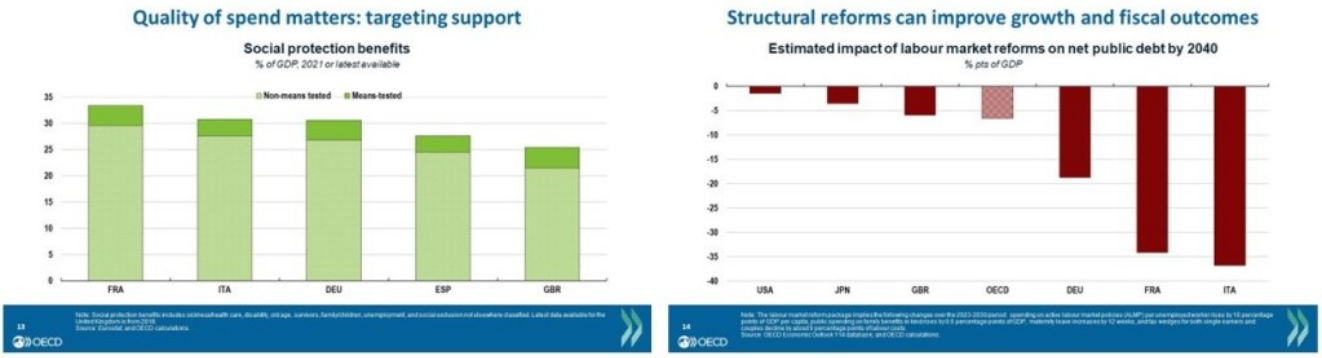


So what should governments do?

Strategic Responses and Structural Reforms

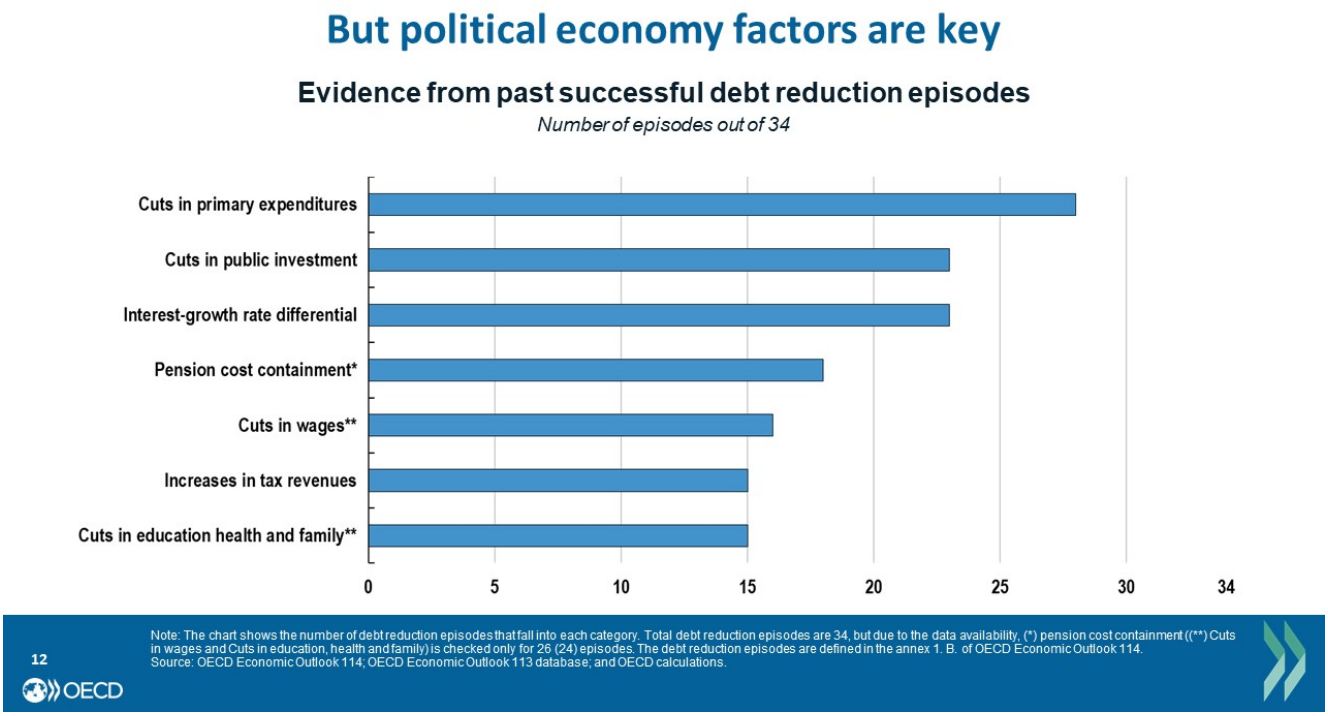
In response to these challenges, governments have a toolkit which includes tax reform and spending choices, but also growth-enhancing structural reforms. Successful strategies from the past indicate that cuts in critical areas like education and healthcare come with economic and socials costs and should be avoided. And means-tested social protections need to be preserved. These matter hugely for well-being, inclusion and prosperity of economies. But the left hand panel in figure 3 shows just how small a proportion of social protection is targeted on the poorest people.

Figure 4: Quality of Spend and Structural reforms



Reforming taxes, broadening tax bases, and targeting transfers more effectively can offer sustainable solutions. Additionally, ambitious labour market reforms can significantly relieve fiscal pressures by boosting economic output and reducing public debt ratios, for example, by containing the cost of pensions. Ageing could reduce income per capita across the OECD by 8%. However, achieving higher old-age participation and employment rates can reduce this effect to 3%. Looking back at past episodes of successful debt reductions, as in figure 5, can show us how to bring public debt down.

Figure 5: Past episodes of successful debt reduction



Conclusion

The fiscal landscape for advanced economies is fraught with challenges, from high deficits and public debt to the pressures of ageing populations, decarbonisation, and the need for strategic defence spending. The path forward requires a nuanced approach that balances fiscal responsibility with growth-friendly policies and structural reforms. By learning from past successes and adapting to the unique challenges of the present, governments can navigate these difficult choices and set the course for a sustainable fiscal future.

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[i] Based on the intervention by OECD Chief Economist, Clare Lombardelli, at the 40th Annual NABE Economic Policy Conference on 14-15 February 2024.

Enhancing independent fiscal institutions in Latin America: a roadmap based on practical lessons from OECD countries

Category: Latin America,Uncategorized
written by oecdecoscope | July 21, 2026



by **Aida Caldera, Paula Garda, Alberto Gonzalez-Pandiella,** Alessandro Maravalle and Elena Vidal, OECD Economics Department

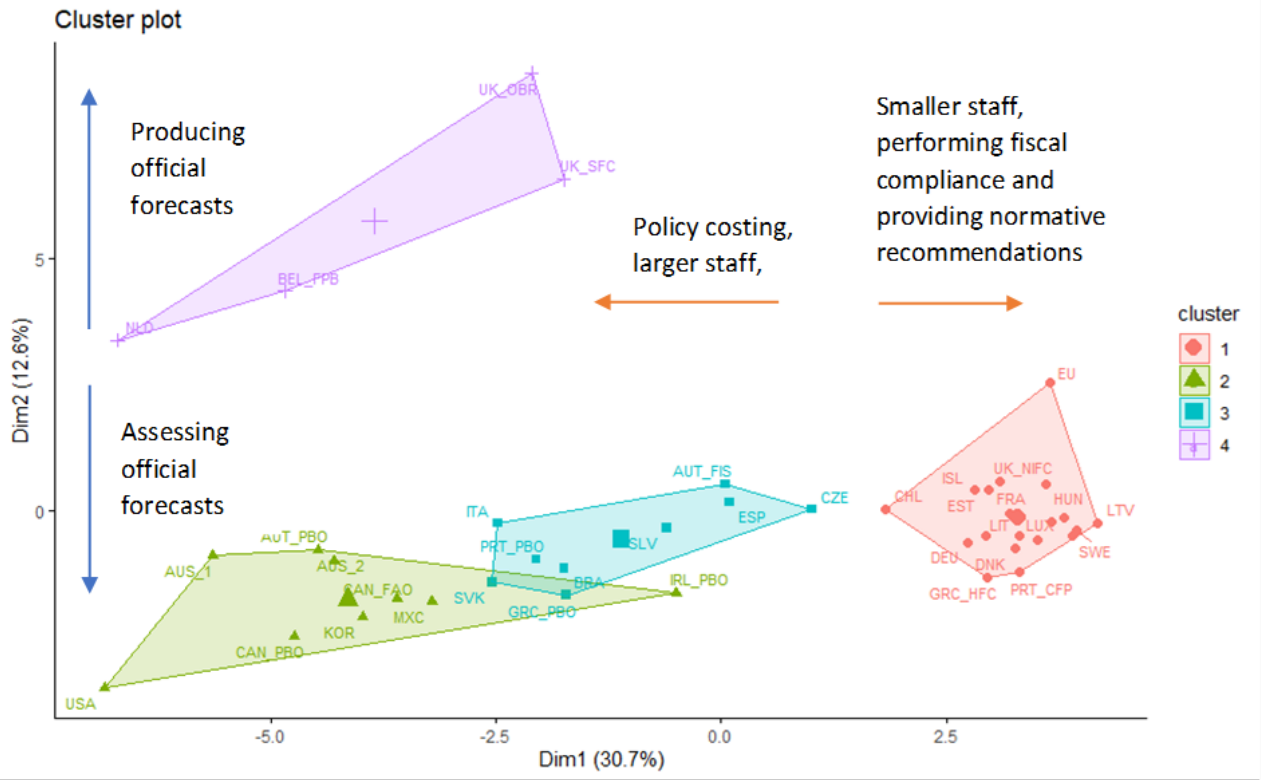
The number of independent fiscal institutions (IFIs) across OECD countries has significantly grown in the last decade, following the global financial crisis. The experience of Latin America countries is more recent and mixed. While some countries, such as Peru or Chile, have well-functioning IFIs, others have less developed institutions and are actively

exploring ways to reinforce or establish IFIs.

Strengthening IFIs in Latin American economies could be very beneficial at the current juncture. In most cases, these economies emerged from the COVID-19 crisis with higher government debt as a percentage of GDP and limited fiscal space (Arnold et al. 2023). Strong IFIs can play a pivotal role by fostering fiscal sustainability and enhancing credibility of fiscal policies and support the effective implementation of medium-term fiscal frameworks (Caldera et al. 2024). Evidence from OECD and EU countries suggests that well-functioning IFIs are associated with higher forecasting accuracy, better compliance with fiscal rules and reductions of fiscal deficits. Ultimately, this can facilitate countries access to international financial markets at lower borrowing costs, a valuable prospect in a higher-for-longer interest rate environment.

Our recent paper reviews the diverse experience of OECD countries in establishing and running independent fiscal institutions with the aim of drawing practical insights and establishing a roadmap for Latin American countries. There is a large heterogeneity among OECD countries in the way IFIs are designed and establishing a set of stylised facts about alternative IFIs designs can help to identify good examples and best practices. With that aim, the paper identifies, through cluster analysis, different types of independent fiscal institutions based on their functions and resources (Figure 1). The paper supplements the cluster-analysis with cases studies from Chile, Spain and Korea and with the OECD Principles for Independent Fiscal Institutions to guide the set-up and strengthening of IFIs in the region.

Figure 1. OECD IFIs can be categorized into four groups according to their functions and staff size



Note: The cluster plot reports the projections of original data over the two largest eigenvectors, respectively the x-axis and the y-axis, which explain most of the total variance of the data.
Source: Authors' calculation.

The analysis in the paper suggests that a road map towards independent fiscal institutions in Latin America could have the following key features:

1. Prioritize Legal and Financial Independence. They are crucial to ensure the IFI resilience in the face of policy uncertainty. Defining IFIs in national legislation with clearly specified tasks and functional autonomy is vital, but IFIs can still find difficulties in ensuring funding and recruiting staff. A clear definition of the IFI's mandate in higher-level legislation, establishing their tasks and degree of functional autonomy, namely in terms of funding and recruitment policy, can provide IFIs with the necessary financial and statutory independence. An example of best practice is the Fiscal responsibility Act in Ireland, which sets in legislation the budget of the Fiscal Advisory Council

and grants it full recruiting powers.

2. Bolster Leadership Selection and Expertise. Legislation should also specify leadership expertise and include clear guidelines for appointment, including technical requirements and term length for the president of the fiscal council, which would help to guarantee leadership independence. Making the president position a full-time position and making its appointment conditional on a qualified majority in Parliament (such as in the Slovak Republic or Portugal) also helps to strengthen independence.

3. Tailor IFIs' Mandates to Local Needs and Resources. An IFI should be established with a legal broad mandate and sufficient resources that would make it possible to fulfil its functions. Initially an IFI could be small and perform a limited set of functions, those requiring fewer resources according to its budget (e.g., monitoring of fiscal rules, assessment of government economic and/or fiscal forecasts, undertaking long term sustainability analysis). Over time and after gaining a solid reputation, the IFI could assume gradually more functions as it grows in financial and human resources, such as policy costing and producing macroeconomic and fiscal forecasts. This approach was successfully adopted in the Netherlands.

4. Ensure Timely Access to Information. This is often quoted as a key barrier for IFIs to perform its duties in the case studies in the paper. A good practice is to specify in legislation that the IFI should have access to information to fulfil its function. Reinforcing this requirement with the signature of memorandums of understanding with relevant institutions has been found to be very effective (e.g. in Luxembourg and the Netherlands).

5. Emphasize Communication Efforts. Public visibility and effective communication are essential for IFIs' operational independence and effectiveness. Proactive engagement with the

media, independent of government intermediation, can enhance an IFI's reputation and credibility. IFIs could also formally commit to participating in parliamentary hearings, cultivating strong ties with Parliament, and proactively engaging with different parliamentary groups. OECD IFIs practical experiences reveal that planning and resourcing since the set-up of an IFIs the appropriate tools to communicate in an easy and understandable way to non-experts, the Parliament and the broad public is key to influence the public debate and promote sound fiscal policies, build a strong reputation and gain de-facto independence.

6. Invest in Technical Capacities. High-quality and independent technical capacities are essential to build reputation and ensure accurate and transparent fiscal analysis. Staff training, recruitment of experts, and cooperation with international organisations are effective ways to enhance these capacities. When IFIs are young and have few resources, they can build institutional cooperation with non-political bodies recognized for high-quality analysis, such as Central Banks or academic and research institutions.

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How can Latin American countries improve their

medium-term fiscal frameworks for better public finances?

Category: Latin America
written by oecdecoscope | July 21, 2026



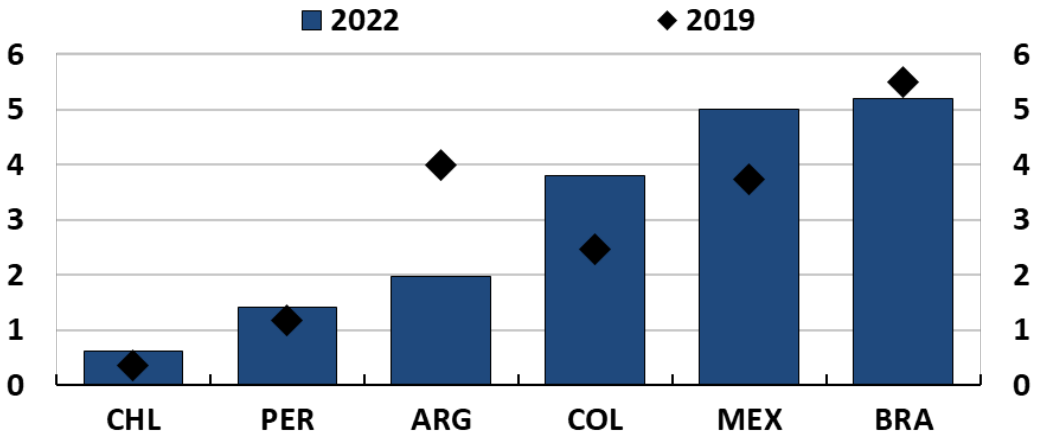
by **Aida Caldera, Paula Garda and Alberto Gonzalez-Pandiella, OECD Economics Department**

Fiscal authorities in Latin America face the challenge of continuing to reduce high public debt levels which increased significantly during the pandemic. This challenge is further compounded by higher interest rates for longer and coupled with other fiscal challenges that the region was facing already before the pandemic (Arnold et al 2023). This includes a need to improve the efficiency of public spending efficiency and to mitigate fiscal policy procyclicality (Cardenas et al. 2021; World Bank, 2020). Despite relatively favorable sovereign debt amortization profiles in many countries in the region, a higher debt service (Figure 1), will mean that countries must increasingly mobilize public resources to ensure debt sustainability. This will need to be achieved without compromising spending in key social programs, health, education and infrastructure, all essential to promote potential growth that is low in the region and to meet increasing social demands.

These fiscal challenges make redoubling efforts to strengthen medium-term fiscal frameworks (MTFFs) particularly timely. A MTFF is a strategic plan where governments outline their fiscal policies and budgetary goals over a medium-term

horizon, which is usually a period of 3 to 5 years. Hence, the framework serves as a roadmap for managing government finances and achieving various economic objectives. Most OECD advanced economies have these frameworks in place and existing evidence suggests that successful implementation of MTFFs has many potential benefits (IMF, 2013; OECD, 2019). First, they contribute to maintain a sustainable fiscal stance by generating a credible and predictable annual budget, underpinned by accurate medium-term macroeconomic projections. By incorporating a medium-term perspective into the fiscal framework, it aids in mitigating short-term bias when executing economic policies. They also enable understanding the origin and size of fiscal challenges as well as the impact of revenue and spending policy proposals before they are adopted giving early warnings about the fiscal sustainability of policies. Beyond their fiscal sustainability benefits, MTFFs also improve the efficiency of spending by promoting more effective allocation of expenditure between sectors and priorities and facilitating the planning and resourcing of multi-year policies that need extended time horizons for implementation, such as large capital projects. Lastly, these frameworks play a crucial role in mitigating the pro-cyclicality of fiscal policies, a key problem in Latin American economies. By providing a structured and medium-term approach to fiscal planning, they facilitate that fiscal policy can play a more significant role in smoothing the economic cycle. This implies providing support during downturns and gaining fiscal space when the economy is experiencing robust growth.

Figure 1. Net interest payments, % GDP



Note: Data for Chile refers to 2021 instead of 2022

Source: IMF, Fiscal Monitor, October 2023.

Latin American and Caribbean countries have experienced a surge in MFMP adoption (OECD, 2020 here). However, the level of development is heterogeneous and there is scope for improvement.

What areas for improvement?

- **Establish expenditure ceilings**. Multi-year aggregate expenditure ceilings, that is estimates of the total amount the government can spend in the years to come, are key elements during the preparation of the budget. This "top-down" approach to budgeting is an effective way of achieving the central objective of medium-term budgeting, which is to ensure that all expenditure and revenue decisions are consistent with aggregate fiscal policy objectives. By putting in place multi-year ceilings, they also help to avoid resorting to sharp budget cuts to achieve fiscal targets.
- **Increase transparency and improve communication including with the parliament**. An open and transparent budget process helps build citizen trust and can boost tax morale by reinforcing society's perception that public money is being used correctly. In several OECD countries (such as Canada, France, Germany, New Zealand,

Portugal, Sweden, or Switzerland), governments present their multi-year bill to their parliaments, detailing the budget for the current year and the subsequent ones. This prevents election cycle impacts on spending and avoids annual negotiations over incremental resources, making it easier to plan multiyear expenditures. Another good practice is that governments give regular updates to Congress on revenue and expenditure projections and targets, to positively engage Congress.

- **Improve coordination across different levels of government**. Establishing coincident medium-term frameworks for the different levels of government and mechanisms that facilitate the flow of information and allow joint planning and coordination of the execution of policies among different levels of government helps to improve the coordination between ministries and subnational governments.
- **Reduce biases in projections and improve technical capacities**: Only with quality information this framework can serve the purpose of guiding policies and investment forward. Reducing optimism biases in GDP and revenue forecasts is a pending and common challenge in many countries in the region. In this context, strong institutions are needed to forecast fiscal paths and risks, monitor the implementation of MTFFs, and enforce compliance with anchors.
- **Measure contingent liabilities:** Experience in several OECD countries (e.g. Portugal or Spain) show that monitoring and limiting contingent liabilities is particularly important, as they can be conducive to sharp deteriorations of the fiscal accounts and lead to fiscal stress episodes. Extra budgetary funds and contingent liabilities should not be left out but should be integrated into the MTTF.
- **Include risk analysis, including climate change**. A MTTF can bolster risk analysis, including climate change, by incorporating long-term fiscal projections that consider

the potential financial implications of climate-related risks and policy responses. This would enable governments in the region to proactively assess and mitigate fiscal vulnerabilities stemming from climate change, and to devise the necessary policy responses to climate change and to integrate its budget implications in medium-term planning.

Improving medium fiscal frameworks in the region will allow governments to better navigate the economic cycles and signal that fiscal policies are sustainable, ensuring that medium-term expenditure strategies are geared towards strategic and equitable development while maximizing the effective and efficient utilization of resources.

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