FISCAL AFFAIRS

How to Develop and Implement Medium Term Fiscal Frameworks (MTFF)

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Amanda Sayegh

Fiscal Affairs Department

Outline

❑ **Overview of Medium-Term Fiscal Frameworks**

❑ **Design Considerations for MTFFs**

❑ **Institutional Arrangements to Support MTFFs**

❑ **Integrating MTFFs with Budget Preparation**

❑ **Common Features of Successful Frameworks**

❑ **Challenges and Lessons**

What is a Medium-term Fiscal Framework?

What is a Medium-term Fiscal Framework

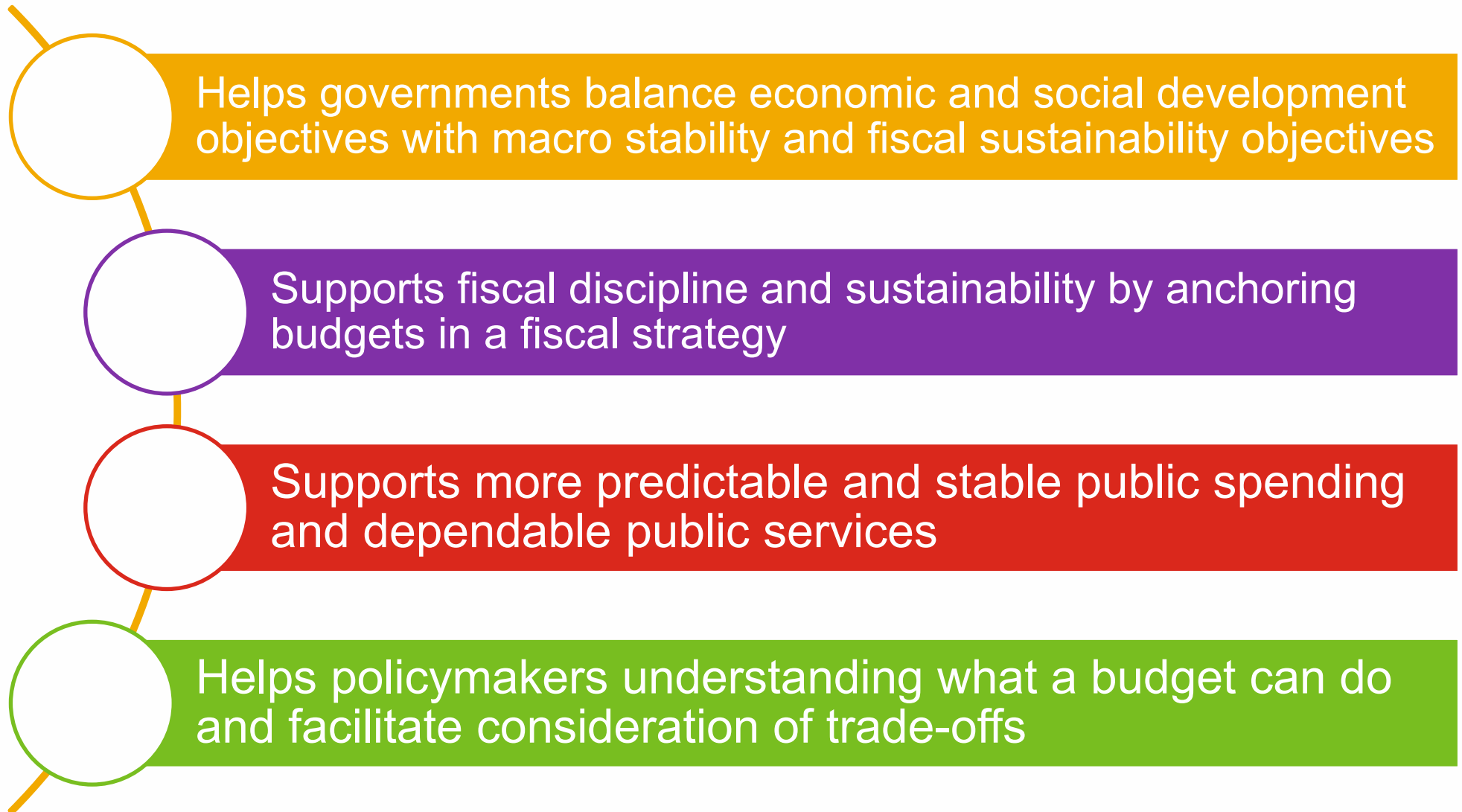**Instrument to link fiscal policy, planning, and budgeting over a multi-year horizon**

- Medium-term projections of macro variables and fiscal aggregates (usually 3-5 years)
- Multi-year fiscal targets consistent with fiscal objectives
- Top-down aggregate expenditure ceiling (resource envelop) to guide budget preparation
- Understanding of fiscal risks and their potential to impact fiscal aggregates

Why are MTFFs needed?

Helps governments balance economic and social development objectives with macro stability and fiscal sustainability objectives

Supports fiscal discipline and sustainability by anchoring budgets in a fiscal strategy

Supports more predictable and stable public spending and dependable public services

Helps policymakers understanding what a budget can do and facilitate consideration of trade-offs

What is a Medium-term Fiscal Framework

Broader definition:

An MTFF is a set of institutional arrangements for prioritizing, presenting, reporting and managing fiscal aggregates (revenue, expenditure, balance and debt), generally over a three-to-five-year period with the objective of promoting fiscal discipline and sustainability

MTFF presents:

- Medium-term projections of key macroeconomic variables and fiscal aggregates

- Fiscal strategy, clearly stating the government's fiscal objectives and multiyear targets for the main fiscal aggregates consistent with fiscal rules.

- Establishes a top-down ceiling on total expenditure, which guides the preparation of the government's annual budget.
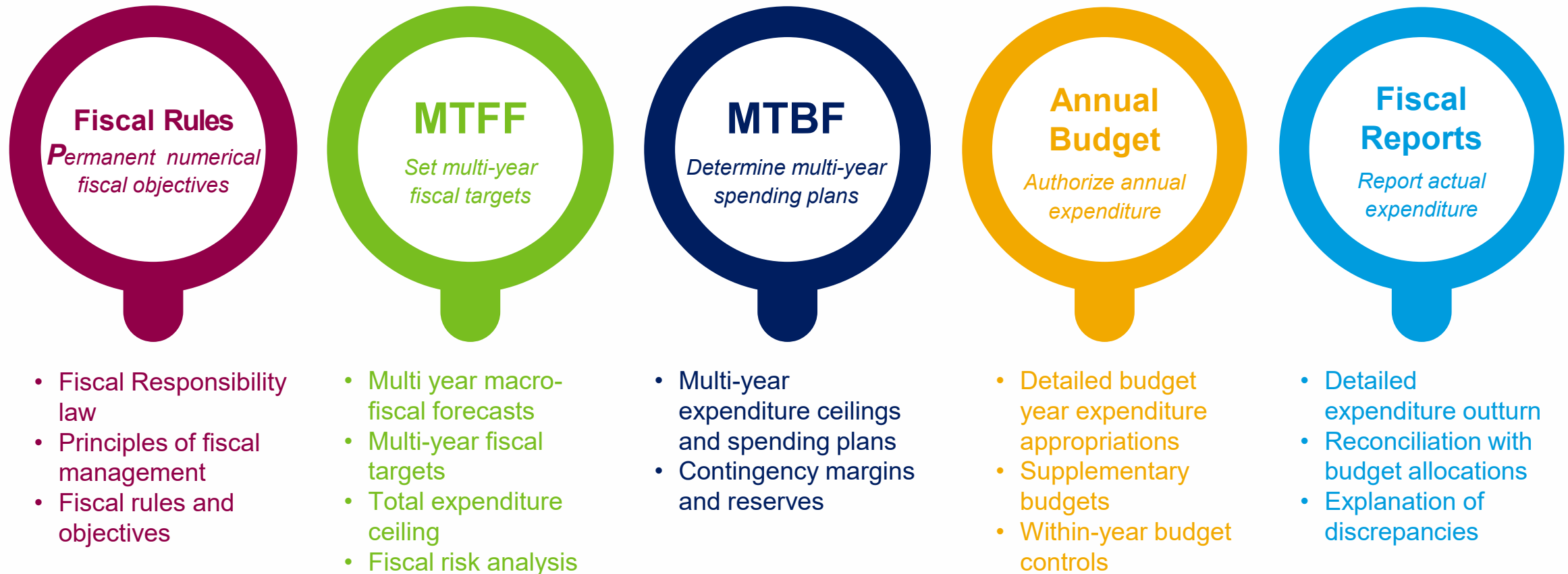
➔ **To be effective, the MTFF needs to be an integral part of fiscal and budgetary decision making and not just presented as a set of forecasts.**

Why Do Countries Introduce MTFFs

➢ **Contributing to fiscal sustainability** by providing a strategic and structured approach to fiscal planning over the medium-term horizon

➢ **Promoting fiscal discipline** by establishing specific fiscal targets or ceilings over a medium-term horizon.

➢ **Enhancing medium- and long-term planning and resource allocation** by extending the planning horizon beyond the annual budget cycle.

➢ **Contributing to transparency, accountability, and credibility** by effectively communicating the government's fiscal policies.

➢ **Governments have taken different approaches to adopting an MTFF shaped by their country contexts and circumstances.**

The link of the MTFF with fiscal planning and budgeting

Medium Term Fiscal Planning
Instrument, Objective, and Contents

Fiscal Rules
Permanent numerical fiscal objectives

MTFF
Set multi-year fiscal targets

MTBF
Determine multi-year spending plans

Annual Budget
Authorize annual expenditure

Fiscal Reports
Report actual expenditure

- Fiscal Responsibility law
- Principles of fiscal management
- Fiscal rules and objectives

- Multi year macro-fiscal forecasts
- Multi-year fiscal targets
- Total expenditure ceiling
- Fiscal risk analysis

- Multi-year expenditure ceilings and spending plans
- Contingency margins and reserves

- Detailed budget year expenditure appropriations
- Supplementary budgets
- Within-year budget controls

- Detailed expenditure outturn
- Reconciliation with budget allocations
- Explanation of discrepancies

Design Considerations

Key Considerations

Coverage — **Entities/level of government (central, general, other…)**

- Consistent with fiscal objectives
- Consistent with broader fiscal planning farmwork

Time horizon — **Typically 3-5 years**

- Influenced by forecasting capacity and data provision
- In some countries degree of volatility or political cycles

Nature — **Fixed or rolling framework, rolling more common**

- Fixed frameworks maintain same time-period; offers predictability
- Rolling plans adds a new year annually, provide flexibility to respond to developments

Frequency — **Many countries formally update twice a year**

- Prepared at start of budget process to inform expenditure envelop and, if needed, updated before budget submitted to parliament
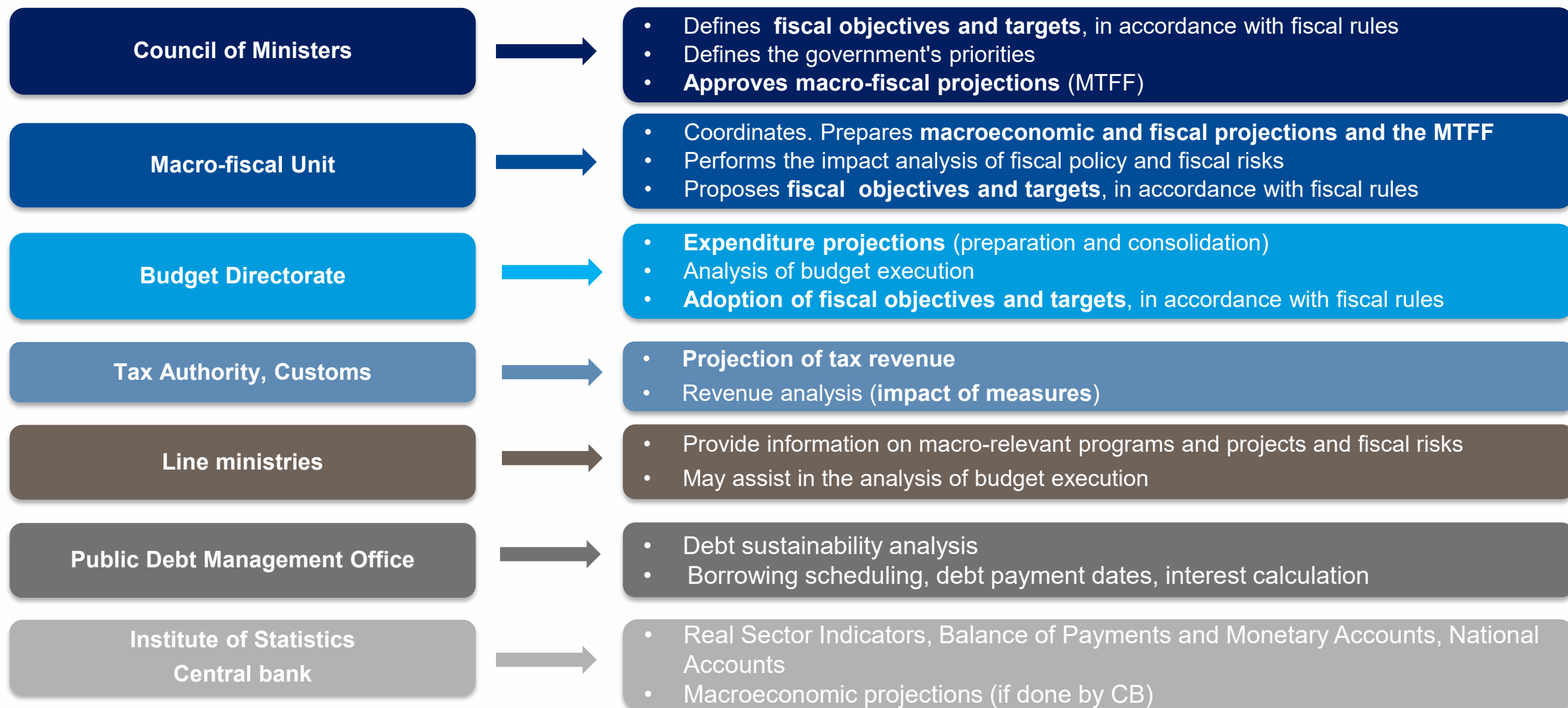
Nominal or real — **Most countries set expenditure ceilings at nominal level**

- Nominal ceiling easier to communicate and monitor
- Real more complex, but provides predictability
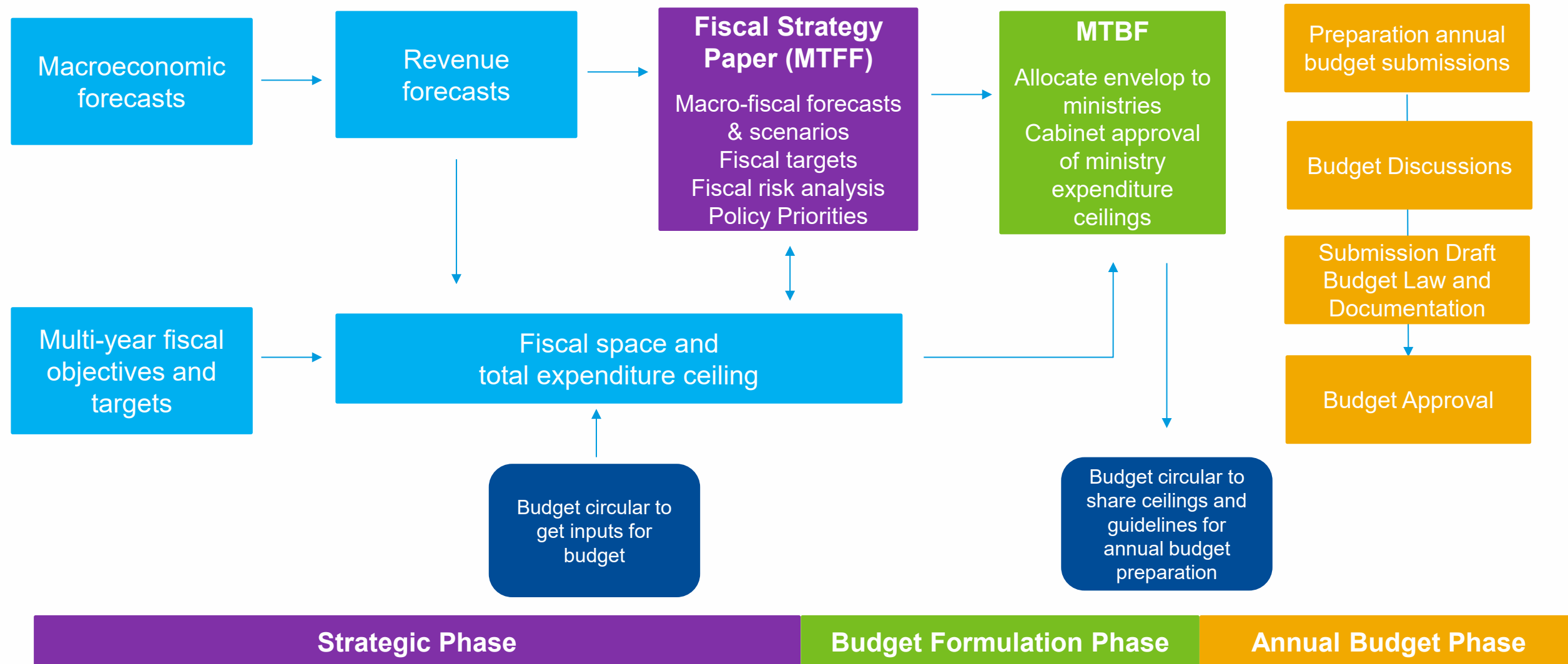
Institutional Arrangements

Roles and Responsibilities

Council of Ministers
- Defines **fiscal objectives and targets**, in accordance with fiscal rules
- Defines the government's priorities
- **Approves macro-fiscal projections** (MTFF)

Macro-fiscal Unit
- Coordinates. Prepares **macroeconomic and fiscal projections and the MTFF**
- Performs the impact analysis of fiscal policy and fiscal risks
- Proposes **fiscal objectives and targets**, in accordance with fiscal rules

Budget Directorate
- **Expenditure projections** (preparation and consolidation)
- Analysis of budget execution
- **Adoption of fiscal objectives and targets**, in accordance with fiscal rules

Tax Authority, Customs
- **Projection of tax revenue**
- Revenue analysis (**impact of measures**)

Line ministries
- Provide information on macro-relevant programs and projects and fiscal risks
- May assist in the analysis of budget execution

Public Debt Management Office
- Debt sustainability analysis
- Borrowing scheduling, debt payment dates, interest calculation

Institute of Statistics Central bank
- Real Sector Indicators, Balance of Payments and Monetary Accounts, National Accounts
- Macroeconomic projections (if done by CB)

Integrating MTFF with the Budget

Coordinating MTFF and Budget Process

➢ The **calendar** of MTFF preparation **needs to be aligned** with the overall **budget** preparation process

➢ Importantly, the **aggregate ceiling on expenditure**, once established and approved, needs to be **respected** throughout the budget process

➢ **Information on expenditure ceiling** must be provided **early enough** to enable top-down budgeting—several months before the budget proposal

➢ **Updates to the MTFF may be needed** during the later phases of the budget preparation process, but updates during the budget year are tricky

Aligning the MTFF with the budget cycle

Macroeconomic forecasts → **Revenue forecasts** → **Fiscal Strategy Paper (MTFF)**
Macro-fiscal forecasts & scenarios
Fiscal targets
Fiscal risk analysis
Policy Priorities
→ **MTBF**
Allocate envelop to ministries
Cabinet approval of ministry expenditure ceilings

Preparation annual budget submissions

Budget Discussions

Submission Draft Budget Law and Documentation

Budget Approval

Multi-year fiscal objectives and targets → **Fiscal space and total expenditure ceiling**

Budget circular to get inputs for budget

Budget circular to share ceilings and guidelines for annual budget preparation

Strategic Phase | **Budget Formulation Phase** | **Annual Budget Phase**

Common features of Successful Forecasting Frameworks

Common features of successful frameworks

Strong institutional grounding

- **Grounded in legal framework** that requires MTFF, its publication and regulates the process at a high-level

- Procedures in place to govern the **preparation of the MTFF**, roles and responsibilities, data provision, and detailed timetable

- **Coordination mechanisms** to ensure its robustness (e.g., Macro-Fiscal Forecasting Group)

- Forecasts prepared in time to **inform fiscal policy making** and budget preparation

Tailored, well-maintained forecasting tools

- Tools **match to current capabilities** of staff and institutional set up that supports it

- Spreadsheets follow an **"inputs – calculations – output" approach** helping to organize the file so that new users and a wider audience can understand how the forecasts are made

- Tools are **tailored** to fit the economic and fiscal context

- Fiscal projections **linked with the budget reporting classifications** or fiscal statistics using a format well understood by technical staff and senior management

- Spreadsheets **well-managed and maintained –** housed on a shared platform, updated for latest actuals, vintages documented, consistency in data sets, no hard coding!

Effective communication

- Communicated in a way that is easy to understand

- Changes across different vintages of forecasts can be explained

Guiding Principles for Developing Macro-Fiscal Forecasting Tools

Useful
- Timely
- Informs the budget process
- Provides analysis and advice useful to the Minister and senior staff
- Responsive to ministry needs

Useable
- Straightforward to learn
- Can follow and understand results

Accurate
- Accuracy improves budget credibility
- Builds trust in the framework
- But manage expectations

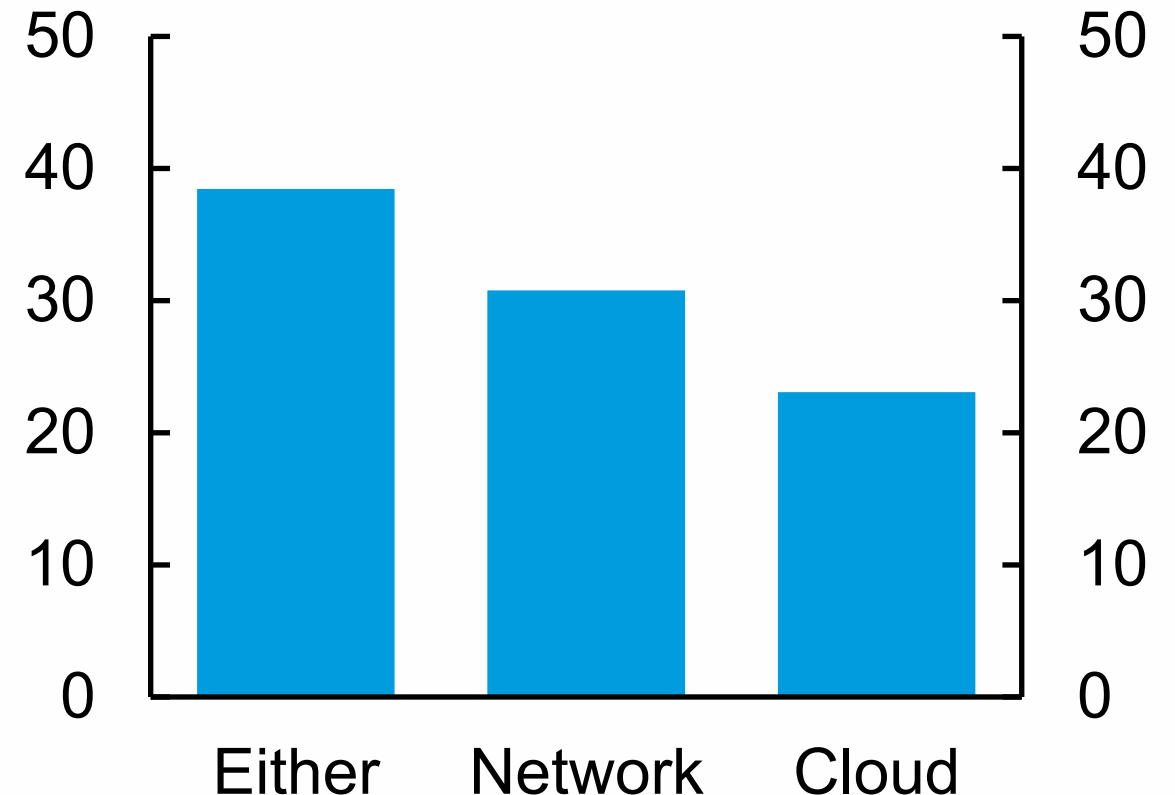## Sustainable
- Doesn't require support to:
  - Use
  - Fix
  - Update
  - Enhance

Source: Lienert and Fainboim (2018) and Battersby and Lienert (2021)

Platform for Preparing and Managing Forecasts

Percent of MFDs using listed software for macro-fiscal forecasting
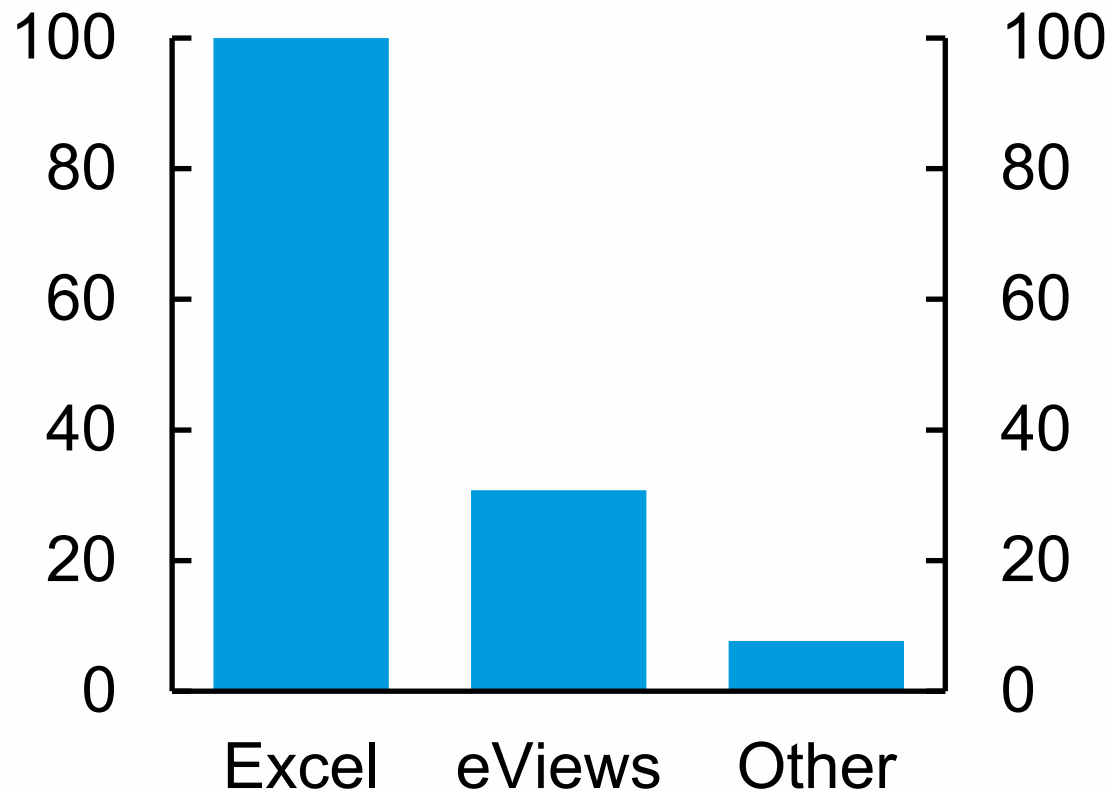
Percent of MFDs using Network Sharing of Macro-Fiscal Data and Forecasts

Source: Authors database constructed from official budget or budget framework documents in each country

A Rule of Thumb for Building Macro-Fiscal Forecasting Tools

	High turnover	**Low turnover**
Small team	Simple system, few parts	Complex system, few parts
Large team	Simple system, many parts	Complex system, many parts

Communicating MTFF

- Encourages more informed discussions about the medium-term outlook, policy choices and trade-offs

- Help parliament and public understand the context in which the budget was framed

- Builds confidence in the quality and foundations of fiscal policy decisions

- Demonstrates sustainability or otherwise of public finances over time

Communicating MTFF

- Good practice is to publish the MTFF (e.g., Fiscal Strategy Report or Pre-Budget Statement)

- A fiscal strategy paper would typically present:

  ► Macroeconomic conditions and projections, including the main components, drivers and assumptions

  ► Medium-term projections of the main fiscal aggregates on a basis consistent with the annual budget

  ► Fiscal policy objectives and medium-term targets

  ► Policy Priorities

  ► Fiscal risks, including alternative scenarios and sensitivity analysis

- Deviations against previous set of forecasts should be reconciled and explained

Example: Saudi Arabia Pre-Budget Statement

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BTM-Bud-E 2025 F.pdf

Example: Saudi Arabia Pre-Budget Statement

Medium-term Macroeconomic Projections

(Percentage, unless otherwise stated)

Economic Indicators	Actual* 2023	Estimates 2024	Projections 2025	2026	2027
Real GDP Growth**	-0.8%	0.8%	4.6%	3.5%	4.7%
Nominal GDP** (SAR Billion)	4,003	4,091	4,352	4,431	4,718
Inflation	2.3%	1.7%	1.9%	1.9%	1.9%

* Source: GASTAT

** Preliminary data of Real and Nominal GDP (Ministry of Economy and Planning)

Medium-term Fiscal Projections

(SAR Billion, unless otherwise stated)

Fiscal Indicators	Actual 2023	Budget 2024	Estimates 2024	Projections 2025	2026	2027
Total Revenues	1,212	1,172	1,237	1,184	1,198	1,289
Total Expenditures	1,293	1,251	1,355	1,285	1,328	1,429
Budget Balance	-81	-79	-118	-101	-130	-140
As percent of GDP*	-2.0%	-1.9%	-2.9%	-2.3%	-2.9%	-3.0%

Source: MoF

* GDP of FY2024 - FY2027 is based on the updated Projections.

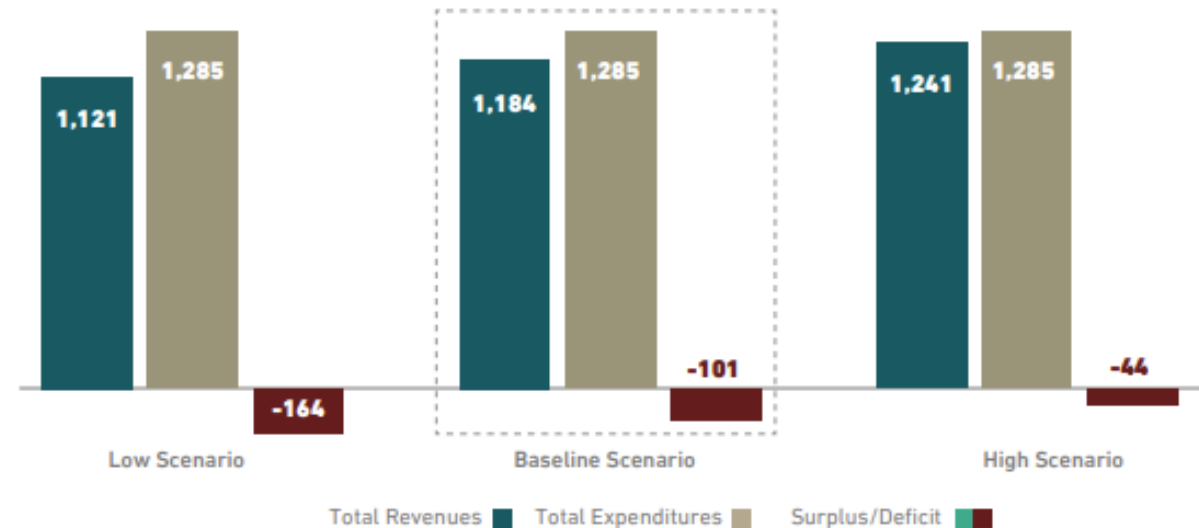Figures are rounded up to the nearest decimal point

Example: Saudi Arabia Pre-Budget Statement

In light of the aforementioned global and domestic developments, three revenue scenarios were developed, taking into consideration the challenges and geopolitical risks facing the global economy. These projections assist the government in addressing any potential scenario and establishing a flexible fiscal space.

Revenues Scenarios for FY2025
(SAR bn)

	Low Scenario	Baseline Scenario	High Scenario
Total Revenues	1,121	1,184	1,241
Total Expenditures	1,285	1,285	1,285
Surplus/Deficit	-164	-101	-44

Total Revenues ■   Total Expenditures ■   Surplus/Deficit ■

Example: Australia – Forecast Performance and Sensitivity Analysis

Chart 7.2: Comparison of forecasts and outcomes for nominal GDP growth
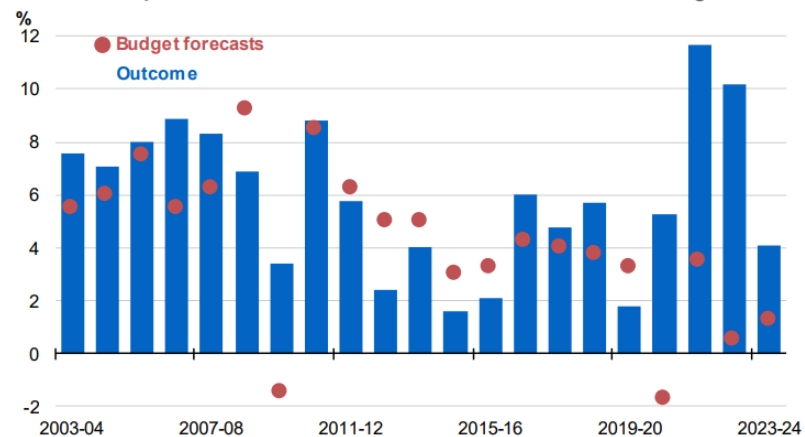
Chart 7.7: Comparison of forecasts and outcomes for underlying cash balance
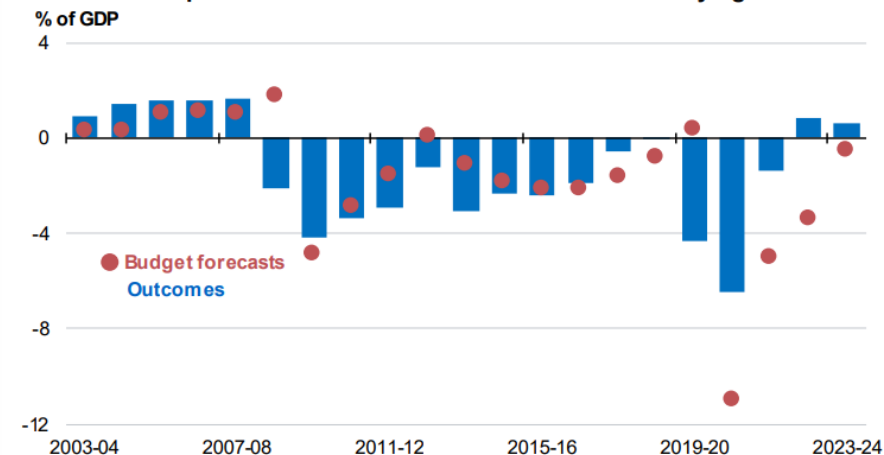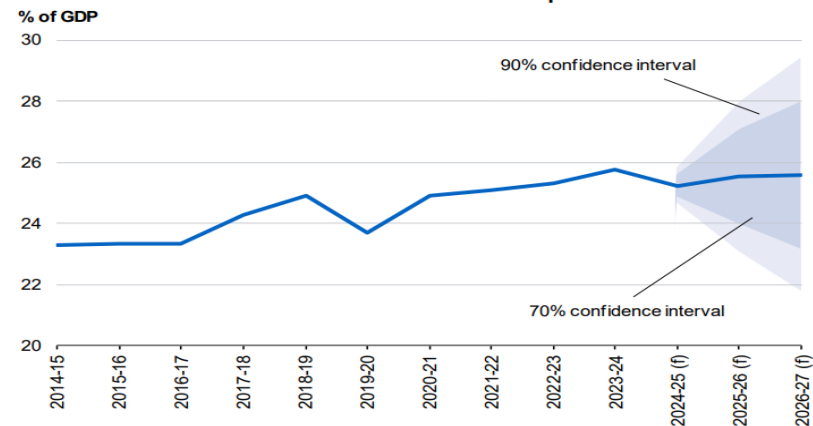
**Chart 7.11: Confidence intervals around total receipts forecasts[a]**

a) Includes Future Fund earnings from 2020–21 onwards.
Note: The central line shows outcomes and the 2025–26 Budget forecasts. Confidence intervals use Root Mean Square Errors (RMSE) for Budget forecasts from the 1999–2000 Budget onwards. (f) are forecasts.
Source: Budget papers and Treasury.

Gross debt under different 10-year bond yield assumptions
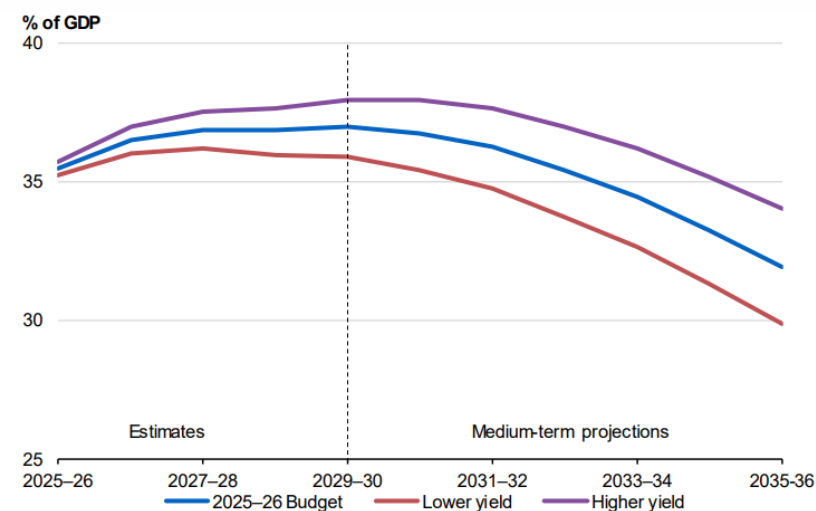
Source: Australian Office of Financial Management and Treasury.

Challenges and Lessons

Common Challenges in the Region

- Data availability, quality and timeliness

- High macroeconomic uncertainty and volatility

- Insufficient levels of technical capacity and high staff turnover

- Lack of mechanisms to facilitate coordination across departments and ministries

- Significant public sector fiscal activity occurs outside the boundaries of the budget

- Weak linkages between the MTFF and the annual budget process

- Communication and transparency gaps

Lessons learned

1. Secure political commitment at the highest level.

2. Build robust institutional and technical arrangements, alongside comprehensive capacity-building measures.

3. Adopt a sequenced approach tailored to the country's context.

4. Include the MTFF in a country's legal framework for continuity and enforceability

5. Develop technical forecasting capacity over time.

6. Improve data availability and reliability for the accuracy of forecasts.

7. Establish institutional arrangements to integrate the MTFF into budgetary processes.

8. Develop a communication strategy and engage key stakeholders.

9. Have processes and procedures for monitoring and reporting.

10. Build progressively a multifaceted approach understanding the interplay between technical, institutional, and political.
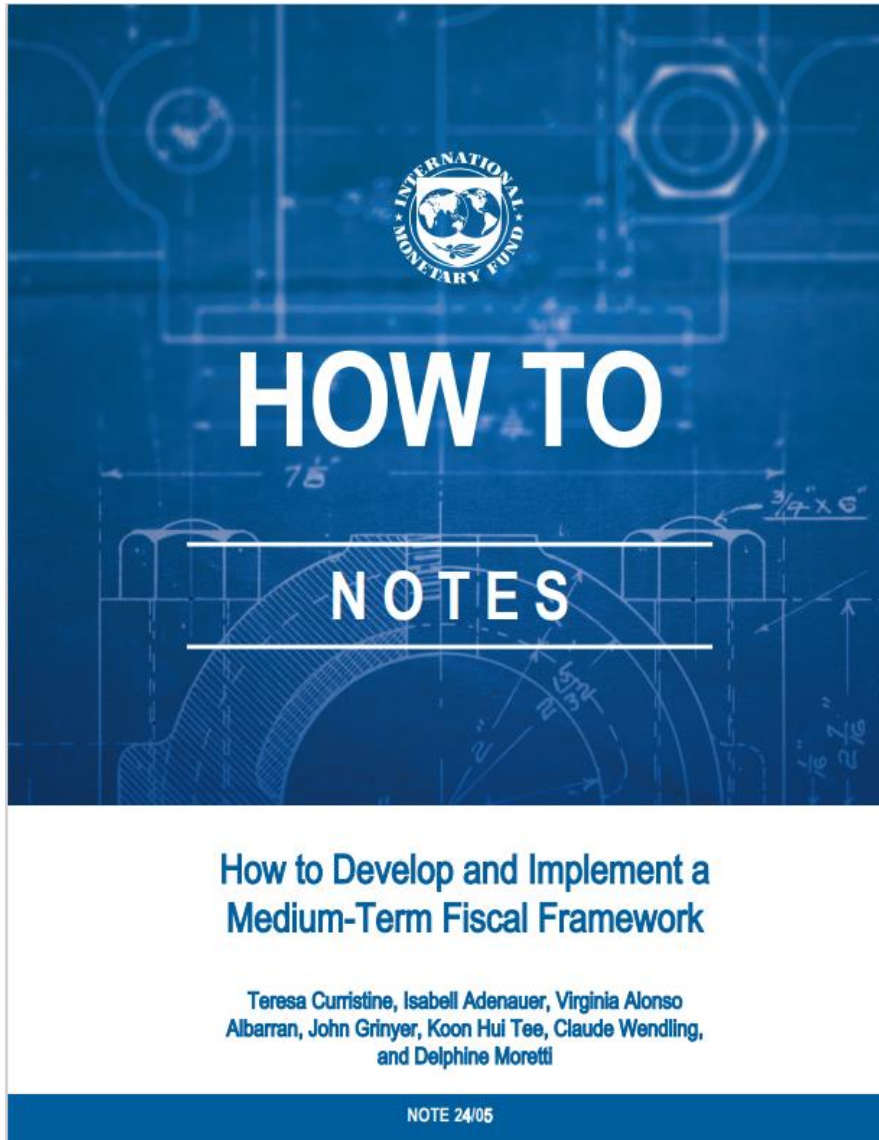
For additional information please see the IMF's How To Note on:

How to Develop and Implement a Medium-Term Fiscal Framework

Thankyou!

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