Working papers economics - National budget and central government fiscal balance: How are they related and what differentiates them?

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AUTHORS AND/OR EDITORS Rincón-Castro, Hernán Zapata-Álvarez, Steven
Although there is a close relationship between the government’s budget and its fiscal balance, they respond to different objectives, concepts, accounting bases, and measurement methodologies, which makes their understanding, monitoring, and evaluation more difficult.

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A basic relationship that economic authorities, fiscal and macroeconomic analysts, and investors should be aware of and understand is that between the nation's general budget and the central government's fiscal balance. Despite its importance and ongoing discussion, this connection is not clearly and precisely understood. The objective of this study is to explain in a simple yet technical and rigorous manner the stages of the budget execution process in Colombia, the current measurement of the fiscal balance, and the relationship and differences between them. The study shows that, although there is a close relationship between the two, the measurement of the fiscal balance incorporates accounting, methodological, and operational adjustments that are not included in the approved budget and that make them difficult to connect, understand, and evaluate. For this reason, it is recommended to fully adopt international accrual accounting standards so that they become the monitoring and evaluation statistics for the government's fiscal situation. This would align the budget and the fiscal balance with common principles and methodologies and generate greater transparency, credibility in statistics, and consistency with public and national accounting.

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