



OECD Papers on Budgeting

# Mandatory spending in budgeting in selected OECD countries

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# Abstract

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Large portions of spending by national governments can be considered mandatory, in that they are incurred through legislative requirements rather than annual budget approvals. As populations age and public debt increases, the impact of mandatory spending on the budget is increasing. If large portions of the budget are pre-allocated through processes that are largely outside of the budget, governments may reduce their ability to respond to crises and other spending needs. Drawing on practices from eight OECD countries, this paper examines how governments define, monitor and review mandatory spending. The OECD's analysis suggests that mandatory spending should be reviewed regularly, included in fiscal rules and budget processes, and be subject to clear accountabilities to parliament.

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**Keywords:** fiscal strategy; fiscal policy; public finances; fiscal institutions; fiscal rules; mandatory spending; budget process; spending reviews

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# Abbreviations and acronyms

AME	Annually Managed Expenditure, United Kingdom
DEL	Departmental Expenditure Limits, United Kingdom
EU	European Union
EUR	European euro
EUROSAI	European Organisation of Supreme Audit Institutions
FILP	Fiscal Investment and Loan Programme, Japan
GBP	United Kingdom Pound
GDP	Gross Domestic Product
IFAC	Irish Fiscal Advisory Council
IGEES	Irish Economic Evaluation Service
KRW	Korean Won
LOLF	Loi organique relative aux lois de finances (Organic Law on Finance Laws) (France)
LOLFSS	Loi organique relative aux lois de financement de la sécurité sociale (Organic Law on Social Security Financing Laws), France
LPFP	Loi de programmation des finances publiques (Law on the Programming of Public Finances), France
NDP	National Development Plan, Ireland
NPA	National Personnel Authority, Japan
NTF	National Training Fund, Ireland
OECD	Organisation for Economic Development and Co-operation
OMB	Office of Management and Budget, United States
PFA	Public Finance Act
PLACSS	Projet de loi d'approbation des comptes de la sécurité sociale (Draft Law for the Approval of Social Security Accounts), France
PLF	Projet de loi de finances (State Budget Bill), France
PLFSS	Projet de loi de financement de la sécurité sociale (Social Security Financing Bill), France
REV	Revised Estimates of Public Services, Ireland
SIF	Social Insurance Fund, Ireland

# Executive summary

Government expenditure can be identified within two broad categories: discretionary spending, which receives its authorisation from the government's annual budget, and mandatory spending, which often receives its authorisation outside the budget. Even though mandatory spending involves significant sums, the scrutiny it receives in the budget process can differ from that of discretionary spending because authorising legislation has been enacted in advance of the budget.

However, as populations age and public debt increases, the impact of mandatory spending on the budget is increasing. If large portions of the budget are pre-allocated through processes that are largely outside of the budget, governments risk limiting their flexibility to respond to unforeseen expenditure demands. Such considerations impact on a government's ability to restore public finances and contribute to long-term fiscal sustainability.

In recognising this challenge, this report considers five dimensions which are relevant to the fiscal management of mandatory spending, based on the national and federal budgets in eight OECD Member countries (France, Germany, Ireland, Japan, Korea, the Netherlands, the United Kingdom and the United States). The comparative analysis of these dimensions identifies key considerations in the context of restoring public finances by highlighting ways to strengthen the governance and institutional arrangements that apply to mandatory spending in budget processes.

## 1. Defining mandatory spending

The concept of mandatory spending in budgeting is generally understood to refer to spending that is authorised by existing legislation, or where the government has entered into an obligation to make a payment. However, a single international definition does not exist, which limits data collection and analysis across countries. In the absence of an international definition, a clearly articulated national definition is the next best option to understand the composition of the budget in a national context.

## 2. Governance arrangements

In the eight OECD Member countries in this report, mandatory spending is generally included within fiscal rules and/or expenditure ceilings in some form. The comparative analysis showed that including mandatory spending within the fiscal framework helps to maintain visibility of the government's total spending commitments and protects against off-budget spending.

The administrative responsibility within government for mandatory spending is frequently assigned to government bodies that are separate from the ministries that advise the government on mandatory spending policies. While the arrangements are mostly designed to provide operational separation from government ministries, the bodies should remain accountable to parliament and the financial statements should be subject to external audit in compliance with whole-of-government policies.

### 3. Mandatory spending and the budget process

Mandatory spending can contribute to macroeconomic stability and social protection both of which are crucial elements of the annual budget. This underscores the principle that budget formulation should cover all forms of spending, including mandatory spending to ensure that decision makers have full awareness of budget allocations.

### 4. Methodologies and tools to review mandatory spending

Based on experiences in the eight Member countries, the OECD found that mandatory spending in budgeting can benefit from regular review as much as any other category of spending to restore public finances on a sustainable footing. Such reviews can take a variety of forms, but three approaches are particularly relevant to mandatory spending:

- **Spending reviews:** A spending review analyses expenditure based on existing policy settings to identify potential savings to support aggregate fiscal control. In the Netherlands for instance, there is a requirement to conduct spending reviews at least every five years of the same policy area and to advise parliament of instances where spending has not been reviewed.
- **Legislated adjustment mechanisms:** A few OECD Member countries specify in legislation how the government will respond to increases in mandatory spending. In doing so, the governments have identified in advance how they will adjust, or correct, for excess spending. In the United States, the sequestration requirements for excess spending under the Pay As You Go Act provides a specific example of such a mechanism.
- **Reviews of legislated policy settings:** The enabling legislation for mandatory spending specifies the policy settings for the expenditure. In cases where the policy settings are not fiscally sustainable, there are several examples of how governments have reviewed the settings in an attempt to restore the affordability of the policies. For instance, France, Germany, Netherlands, United Kingdom and United States, have made changes to the policy settings for state pensions in a move to improve fiscal sustainability.

The specialised nature of mandatory spending also underscores the importance of high quality and accessible guidance on appraising and evaluating spending. In the United Kingdom, the Central Government Guidance on Appraisal and Evaluation (Green Book) and the Guidance for Evaluation (Magenta Book) provide publicly available guidance. Similar examples are available in Japan, where budget guidelines include rules stating that mandatory spending should be reviewed thoroughly.

### 5. Accountability and oversight

Within the eight OECD Member countries, ministries of finance and relevant government agencies are obliged to keep parliaments updated on developments in mandatory spending. Examples include reporting on liabilities from mandatory spending in financial reports, long-term fiscal statements, and other reports, such as the actuarial assessments. Given the materiality of mandatory spending on public finances, independent assessments by fiscal councils can also provide important insights on macro-fiscal forecasts and fiscal risks.

The analysis in this report contributes to themes being developed in the OECD's Restoring Public Finance initiative, particularly regarding the sustainability challenges facing public finances. It also identifies three potential areas for further analysis, specifically on developing a standardised definition of mandatory spending to allow for cross-country comparisons. Second, to consider how governments control the creation of mandatory spending, as mechanisms, such as fiscal-impact analysis, are not necessarily requirements for decision making purposes. Finally, the analysis briefly considered 'rigid spending,' which is related to mandatory spending in that it refers to expenditure the government cannot easily change or reform within a defined period, however it involves separate governance and budgetary control processes, and warrants further analysis in the context of fiscally sustainable budgets.

# 1 Mandatory spending in selected OECD Member countries

This section provides a synthesis of the governance policies and practices across five dimensions based on the case study information in eight OECD Member countries as shown in the annex of this report. The five dimensions consider technical aspects of how mandatory spending is defined, the legislative framework and budget rules, the way mandatory spending is included in the budget process, the methods and tools available to review and report mandatory spending in the budget, and the relevant accountability and oversight arrangements. These dimensions were identified in the context of the project work with the Korea Institute of Public Finance and are relevant to restoring public finances to settings that are sustainable over the medium and long term.

## 1.1. Defining mandatory spending

Within the eight OECD Member countries in this report, two countries define mandatory spending as an overarching term in legislation (Table 1). These are Korea, where mandatory spending refers to the sum of legal expenditure and interest expenditure, and the United States, where mandatory spending is defined as all spending that is not subject to annual appropriations. The Korean definition of mandatory spending is defined under both its National Finance Act and its National Fiscal Management Plan, and in the United States mandatory spending is covered by authorising legislation rather than budget appropriation legislation.

**Table 1. Definitions of mandatory spending in the case study countries**

Country	Context	Annexed Case Study	Overarching legal definition
France	Budget classifications do not refer to mandatory spending, but estimated allocations refer to costs that cannot be precisely determined, such as interest expense, and much the Social Security Budget provides for social guarantees.	1	No
Germany	No overarching definition of mandatory spending. The budget refers to social security legislation, but not the broader use of mandatory spending.	2	No
Ireland	Refers to spending that does not require annual approval by the Irish Parliament.	3	No
Japan	No overarching definition of mandatory spending, but many spending programmes are established through statutory provisions.	4	No
Korea	The term is defined in legislation as the sum of legal expenditure and interest expenditure.	5	Yes
Netherlands	No overarching definition of mandatory spending, although the budget systematically highlights proportion of budget expenditure that is obligatory.	6	No
United Kingdom	Annually Managed Expenditure is not defined as a standalone concept in legislation, however it is a budgetary category.	7	No
United States	Mandatory spending refers to all spending that is not subject to annual appropriations.	8	Yes

In the six other countries, while a single definition is not in legislation, the concept appears well understood. The countries recognise, either in budget documentation or in documentation used to review expenditure, that certain components of government expenditure will continue from one budget to the next on the basis of pre-existing legislation. The extent may vary for instance, in the United Kingdom the Treasury distinguishes between expenditure that can be determined via the annual budget cycle, and expenditure that is less predictable and harder to control. Similarly, France does not use the term ‘mandatory,’ but does refer to budget allocations where the precise amount of expenditure is unpredictable and therefore difficult to determine, while the Netherlands explicitly highlights the proportion of expenditure that is legally required in each of its budget items.

Several countries within this report make distinctions between social expenditure, such as pension and welfare spending, and other expenditure in the budget. This is the case when the expenditure is funded, or partially funded via mandatory contributions, rather than general taxation. While in most cases, budgets do not explicitly state that such expenditure is mandatory, this is almost always the case, as it is an expense that is specified in legislation separate from the budget. Perhaps the most explicit example of such a distinction is in France, where since 1996, two budgets are submitted to Parliament, one which considers social security and another which considers all other expenditure. The former notes that social security is an obligation and is, on the whole, funded by mandatory contributions. While the Netherlands does not have two distinct budgets, it notes that for three ministries (Defence, Public Health, and Welfare and Sports, Social Affairs and Employment) expenditure is allocated between general expenditure, and mandatory contributions, (or ‘premiums,’ the term used in the Dutch budget documentation).

The transfer of funding from a national or federal budget to subnational governments can also be a form of mandatory spending in that it is prescribed by legislation and implemented through the budget process. For example in Korea, mandatory spending includes transfers, such as local education finance grants. In the United Kingdom, Annual Managed Expenditure (AME) includes, amongst other things, grants to local authorities when central government extends relief on business rates that would otherwise reduce income to local authorities. In the United States, some transfers to state governments have mandatory features, such as Medicaid, where the federal government provides funds to states. In the Netherlands, central government transfers to subnational governments are structured through a legal framework that defines the formulas for the allocations. The formula includes factors, such as population, fiscal capacity, and demographic variables.

The interest expense from public debt is considered mandatory spending as governments have contractual obligations to pay for the cost of public debt. Box 1 considers how information on public debt is included in budget processes and reports.

### Box 1. Government debt and mandatory spending

The case study countries in this report maintain a range of practices when reporting the cost and stock of government debt in their respective budgets. Examples include:

- **France:** The Ministry of Economy and Finance prepares a report that analyses the debt sustainability of the general government and its sub-sectors, including social security, and provides scenarios from potential changes to interest and inflation rates.
- **Ireland:** The Department of Finance prepares an annual report on public debt, which includes an analysis of Ireland’s credit rating, debt maturity profile, and interest burden, as well as an overview of long-term issues such as age-related and climate-related costs.
- **United States:** The budget refers to the interest expense the federal government must pay on debt in its budget. It divides spending into three broad categories – mandatory spending, discretionary spending, and net interest, which it defines as government interest payments on debt offset by interest income the government receives.

Finally, the impact from differences in the definition of mandatory spending across the case study countries means the coverage of spending in each country differs, and as such it is not practical to compare the rate or level of mandatory spending in one country relative to another. Regardless of terminology, there is a broad agreement that certain types of spending – most notably those tied to legal obligations and funded through dedicated contributions – are distinct from discretionary allocations.

## **1.2. Governance arrangements for mandatory spending**

### **1.2.1. Legal bases for mandatory spending**

The legal bases for mandatory spending fall within two broad categories, legislation that requires mandatory spending to be treated in a certain manner in the budget, and legislation separate from the budget that mandates expenditure on certain programmes. The eight countries in this report all have legislation that falls under the second category.

In countries with formal definitions of mandatory spending, the legislation specifies how the spending should be treated. This is most evident in the United States, where mandatory spending receives ‘authorising legislation,’ allowing departments and agencies to spend money on the programme in question without further approval from Congress. A similar concept of prior authorisation can be seen in Ireland and Korea, even though mandatory spending is not defined in legislation for these countries. In Ireland, the Social Insurance Fund (SIF) and the National Training Fund (NTF) have independent legal bases and do not need to be voted on by parliament. In Korea, the National Finance Act states that mandatory spending is exempt from requiring approval by the National Assembly.

All eight countries have legislation obligating certain social programmes, for example in Germany, most social legislation is regulated by the Social Code, which sets the requirements for financing and disbursing social security funds. While the Social Code is not a budget law, it is frequently referred to in German federal budget documentation, particularly in cases where it mandates federal expenditures, such as subsidies to the pension system. In the Netherlands, a comparable law exists known as the Social Insurance Financing Act, which states that while most social programmes are funded by mandatory contributions (or ‘premiums’), the Minister may determine any further amounts to be paid as a government contribution. In the other countries, social security legislation is not necessarily accounted for under a single Code or Act, but rather comes into being via a variety of legislative acts. The legislation tends to set out not only contribution levels, but also the administrative requirements around disbursement and regulation.

Within many of these eight countries, there are legal distinctions between general accounts and special accounts. While definitions vary slightly from country to country, special accounts refers to an account that is legally distinct from general government funds and established for a specific project. Japan makes extensive use of special accounts for a variety of purposes, including for mandatory and non-mandatory spending. For example, a special account provides the financial basis for the Fiscal Investment and Loan Programme, which has both mandatory elements, such as automatic stabilisers during downturns, and discretionary elements, such as large-scale investment projects.

### **1.2.2. Expenditure rules and mandatory spending**

Even where mandatory spending is not explicitly classified as mandatory, the expenditure still falls within the scope of fiscal rules, which helps to maintain control over budget aggregates. Table 2 shows that fiscal rules are commonplace across the eight case study countries. Legal requirements are the most common, particularly for debt and expenditure rules.

**Table 2. Overview of fiscal rules in case study countries**

Country	Budget balance	Public Debt	Expenditure	Revenue
France	⊙□	●	⊙	⊙□
Germany	●⊙	●⊙	⊙	⊙
Ireland	⊙	⊙	⊙□	□
Japan	⊙□	⊙	□	
Korea	□	□		
Netherlands	⊙	⊙	⊙	⊙
United Kingdom	□	□	□	
United States		⊙	⊙	⊙

  

Key	
●	Constitution
⊙	Law
○	Regulation/Rule
□	Strategic policy document/ political commitment

Source: 2023 OECD SBO Survey of Budget Frameworks.

Expenditure rules often take the form of expenditure ceilings. In some cases, these ceilings include sub-ceilings for discretionary and mandatory spending. The sub-ceilings for mandatory spending generally tend to be less strict than those for discretionary spending. This is the case in France, where in 2018, the legislation on expenditure was expanded to include a new rule for expenditure that cannot be strictly limited, but which should still be tracked. In 2023, the law was modified to introduce savings targets for social security and health administrations.

In other countries, namely Ireland, the Netherlands, and the United States, expenditure rules do not distinguish between mandatory and discretionary spending. In Ireland, expenditure within the SIF and the NTF are considered within the government's expenditure ceiling. In the Netherlands, expenditure ceilings are created when a coalition agreement is formed post-elections (normally every four years). In Ireland and the Netherlands, the ceilings exclude such things as expenses related to inflation, or automatic stabilisers, consistent with the EU Economic Governance Framework, but otherwise include government expenditure, legally obligatory or not (Box 2).

The United States also sets limits on mandatory spending, for example, the Pay-As-You-Go legislation states that any new legislation that changes the mandatory spending rules must not increase projected deficits over 5- and 10-year periods. If the proposed changes increase the projected deficit, the increases must be offset with across-the-board spending cuts known as sequestrations.

The United States is not the only OECD Member country with legislation that specifies a correction mechanism in the event mandatory spending exceeds certain thresholds. For example, in Sweden, a ratio is calculated every year to determine the balance between pension assets and liabilities. If this ratio falls below 1, a balancing mechanism is triggered, automatically adjusting the indexation of pension entitlements.

## Box 2. Fiscal Rules and the European Union

The European Semester is an annual process designed to co-ordinate the economic and social policies of the 27 EU Member States and align the policies with EU objectives and rules. During the process, EU Member States prepare their respective economic and budgetary plans and agree key priorities in an effort to align national policies with the parameters within the EU Economic Governance Framework.

The EU Economic Governance Framework, which has its origins in the 1992 Maastricht Treaty, as codified in the 1997 Stability and Growth Pact and its revisions, is based on country-specific debt sustainability analyses and uses a benchmark rule of net expenditure as a fiscal policy target for each EU Member State. The benchmark rule is to ensure that:

“assuming that there are no further budgetary measures, the projected general government debt ratio is put or remains on a plausibly downward path, or stays at prudent levels below 60% of GDP over the medium-term” (Regulation (EU) 2024/1263).

EU Member States prepare medium-term Draft Budgetary Plans that outline net public expenditure, commitments and public investments. The expenditure benchmark rule sets a maximum annual growth rate for nationally financed net expenditure. Net expenditure is defined as general government expenditure excluding interest expense, one-off expenditure, EU-funded spending, national spending on EU co-funded programmes, and temporary spending on unemployment benefits related to the economic cycle. It adjusts for the net impact of tax measures and includes adjustments for the lumpsum nature of capital expenditure.

The calculation of net expenditure excludes some aspects of mandatory spending, e.g. interest expense, but includes other aspects, such as social security benefits. The exclusion for unemployment benefits related to the economic cycle is to allow self-adjusting costs within a budget to stabilise the economy without requiring any new policy actions.

In March 2025, the European commission presented its ‘ReArm’ Europe Plan, which proposes to identify around EUR 800 billion in defence spending over the next four years. One way the Plan is to achieve this is to allow EU Member States to activate their escape clauses from within the Stability and Growth Pact. This means that expenditure related to defence would not be included within the expenditure benchmarks of the fiscal rules, allowing countries flexibility for defence spending within their national budgets. This enlarges the scope for larger budgets without triggering deficit rules.

Expenditure ceilings can also be divided into sub-ceilings, such as personnel costs, within government (see Table 3 and Box 3).

**Table 3. Specification of top-down expenditure ceilings**

	France	Germany	Ireland	Japan	Korea	Netherlands	United Kingdom	United States
Staff/personnel costs	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Other current expenditure	No	No	Yes	No	Yes	Yes	Yes	No
Interest expense	No	No	No	No	No	No	No	No
Subsidies, including benefits	No	No	Yes	No	No	Yes	No	No
Capital spending	No	No	Yes	No	No	No	Yes	No
No sub-ceilings in place	No	No	No	No	No	No	No	No

Note: In Japan, ceilings are also set for social security and allocation tax grants. In the United States, sub-ceilings vary significantly depending on the programme and specific appropriations, although subceilings for staff and personnel costs are almost always present.

Source: 2023 OECD SBO Survey of Budget Frameworks.

### Box 3. Public sector salaries

Public sector salaries are not considered mandatory spending, but they have similar characteristics to mandatory spending in that they are often subject to obligations on the amount they are adjusted from one year to the next. Public sector salaries are adjusted through periodic and multi-annual pay agreements set via negotiations between employers, employees and social partners, including trade unions.

In Ireland, funding for salary adjustments is provided for in the annual budget process, and the cost is approved in the same way as other voted expenditure in the budget. In the United Kingdom, the HM Treasury sets an upper limit on how much can be spent on salaries and the limit informs wage negotiations. Similarly, in France, public sector salary adjustments are based on an index which is established in legislation. Japan, Korea, the Netherlands and the United States all also use upper limits within their respective budget frameworks.

In several of these countries, public sector salaries are determined through job classifications. For example, in France, Germany and the United States, public sector salaries are set by pay grade and level, and changes to salaries resulting from collective bargaining occur within these frameworks. This approach means that salaries are structured and more standardised, which is designed to improve the comparability of the data collected, contribute to better planning of personnel/payroll expenditure and improve the predictability of budget management.

Government spending that is authorised outside of budget legislation can be difficult to change to increase or decrease the spending. This can include public sector remuneration, particularly where the spending is subject to multi-year contractual obligations. Such spending is rigid in nature as it cannot be adjusted easily and, in this regard, displays characteristics that are similar to mandatory spending.

In Japan, the expenditure from special accounts can also be described as rigid rather than mandatory, as even the non-mandatory spending in a special account can be difficult to change through the budget process. Similar examples exist in Germany and Korea, where special accounts are established by legislation, and once established can operate independently of the government's core revenue and expenditure budget. In Germany, the Federal Court of Audit has cautioned against creating an excessive reliance on the use of special accounts, as could the rigid nature of the spending from special accounts could risk undermining fiscal sustainability within the framework of parliamentary budget law.

The scope of this report does not consider rigid spending in detail, but such spending can impact budget flexibility and fiscal sustainability and warrants further investigation across the five dimensions covered in this report.

### 1.3. Mandatory spending and the budget process

The extent to which government ministries have responsibilities for mandatory spending during the budget planning formulation process depends on how mandatory spending is included in the budget process. As an example, in the United States, the budget resolution excludes the income and expenditure of Social Security Trust Funds from which funding for social security is disbursed. However, the administrative cost of the disbursement is included in the federal budget.

In other countries, ministries of finance and line ministries have separate roles in the budget process. In France, the Ministry of Economy and Finance is responsible for preparing the general budget and the Ministry for Social Security is responsible for preparing the draft laws on financing of social security. Even with this distinction, the French Minister of Finance is responsible for the overall balance of social accounts.

In Japan, the Ministry of Finance is responsible for the budget process and line ministries prepare the budgets for the Special Accounts that they administer, for example, the Ministry of Health, Labour and Welfare administers the Government Pension Fund, which is outside the government's budget process.

Multi-year macro-fiscal forecasts play a key role in budget planning and formulation of mandatory spending. The forecasts help to inform analyses on long-term fiscal sustainability and the limits or ceilings on expenditure. For example, in the Netherlands, the Central Planning Bureau is responsible for preparing economic analyses and forecasts on the expenditure ceiling. The ceiling includes the sub-ceilings for social security and health expenditure, and are an integral part of the budget process. In a similar manner, the French Budget Directorate, within the Ministry of Economy and Finance, prepares three-year forecasts within each budget on likely social security revenue and expenditure, based on macroeconomic predictions.

For several of the case study countries, mandatory spending is administered by operating agencies that are separated from government ministries. In Germany, for example the Federal Employment Agency operates under the guidance of its own administrative board that sets strategic objectives for the agency. The federal government provides funding for the agency's operations and supplements certain social security payments. Consequently, it retains significant authority over the agency's budgetary decisions. In the Netherlands, the agencies responsible for social security schemes must send their budgets to their responsible Ministers. The documents are to include explanations of any new items and/or variations. In other cases, such as the United Kingdom Department for Work and Pensions, mandatory spending is directly administered by the department.

The OECD also found that across the eight countries, budget circulars play an important role in setting expectations for budget formulation and helping to operationalise the responsibilities held by ministries and agencies in the budget process, although the extent to which the circulars discuss mandatory spending varies. In France, budget circulars do not systematically refer to mandatory spending, but the 2024 budget circular clarified that while many appropriations would be affected by delays in the legislative process, programmes with inflexible expenditure components (known as evaluative credits) would remain unaffected. In Ireland, the guidance emphasises the requirements for financial accounts in relation to all voted expenditure, and Japan's guidelines state that mandatory spending should be reviewed as part of the budget process. In the United Kingdom, the HM Treasury provides guidance for DEL to explain the budget process and the ways in which ministries can request additional funding, while the Central Government Guidance on Appraisal and Evaluation (Green Book) and the Guidance for Evaluation (Magenta Book) set government standards on evaluation. The United States has the most comprehensive overview of mandatory spending in its budget circular, in that the document provides detailed guidance on legal limitations, recording methods, and instructions on how to estimate the requisite budgetary resources for mandatory spending.

## 1.4. Methodologies and tools to review mandatory spending

The methodologies and tools that countries use to review mandatory spending provide ways to highlight the budgetary impact of government policies and the actions that may be needed to restore public finances for medium and long-term fiscal sustainability.

### 1.4.1. *Ex ante appraisal of new spending*

In most of the case study countries, laws that introduce mandatory spending must undergo the same *ex-ante* analysis that applies to any other new bill. However, publicly documented examples of where mandatory spending laws undergo fiscal analysis are rare.

In France, most legislative bills must be accompanied by an impact assessment. These must describe the current situation, justify the need for legislation, and analyse the economic and financial impacts. They often also consider non-legislative alternatives. When legislation on mandatory expenditure is first introduced to parliament, an impact evaluation is required (Légifrance, 2023<sup>[1]</sup>).

However, *ex-ante* analysis of prospective legislation does not necessarily consider fiscal impact. For example, the Netherlands uses a framework known as the Policy Compass, which policymakers refer to when developing a new policy or revising an existing policy. The Policy Compass requires an assessment of regulatory, social, environmental and immediate economic impacts, but does not specify requirements for fiscal analysis (Rijksoverheid, 2025<sup>[2]</sup>).

In some cases, the legislation that introduces mandatory spending includes requirements to review the spending. For example, Ireland's 2005 Social Welfare Consolidation Act, which codifies several elements of the social welfare system requires that actuarial reviews of the financial condition of the SIF are carried out at least every five years. These should determine the extent to which the Fund can be expected to continue meeting its demands. The results must be presented before parliament. In 2004, the Japanese government passed a major pension reform, which included raising the share of state subsidy for the basic pension. It also mandated that at least every five years, a financial verification is conducted to examine the current status and forecast the finances of the national pension system (Ministry of Health, Labour and Welfare, 2024<sup>[3]</sup>).

One example where requirements exist specifically for mandatory spending is in the United States. Here, legislation introducing both discretionary and mandatory expenditure is subject to a cost estimate by the Congressional Budget Office. Furthermore, the 2010 Pay-As-You-Go Act requires that all new legislation changing taxes, fees or mandatory expenditures must not increase projected deficits. As such, any bills increasing mandatory expenditures must be fully offset by revenue increases or cuts in mandatory programmes. This creates a *de facto* requirement for analysis of the fiscal impact of mandatory expenditure (OMB, 2010<sup>[4]</sup>).

#### 1.4.2. Spending reviews of existing spending

Spending reviews are a key budgetary tool for countries to analyse existing expenditure within baselines in order to support the fiscal sustainability of public finances. While there is no one-size-fits-all methodology for spending reviews, they are generally most effective when they have a clear, realistic scope, are aligned with the budget process, maintain a medium-term perspective, and respond to the policy priorities of the government (OECD, 2022<sup>[5]</sup>). The extent to which spending reviews within the eight OECD Member countries consider mandatory spending varies, ranging from occasional to systematic (Table 4).

**Table 4. Overview of reporting and reviewing practices in budgeting**

	Reporting on mandatory spending			Spending reviews include mandatory spending
	Within budget process	Outside the budget process	Includes a financial overview	
France	Yes	Yes	Yes	Yes
Germany	No*	Yes	No**	Yes
Ireland	No	Yes	Yes	Yes
Japan	Yes	Yes	Yes	Yes
Korea	No	Yes	No	No
The Netherlands	Yes	Yes	Yes	Yes
United Kingdom	Yes	Yes	Yes	Yes
United States	Yes	Yes	Yes	Yes

Notes: \*In Germany, expenditure that would typically be considered mandatory is included in the federal budget but is not identified separately.

\*\*In Germany, financial data on legally mandated spending is included in Germany's federal budget, does not include a financial overview of mandatory spending.

Source: Authors.

Methodologies for spending reviews often include criteria to determine which topics to review, and frequently include mandatory spending. For example, in France, the law that established expenditure ceilings also established spending reviews. The methodology considers that a spending review should question the relevance, effectiveness, efficiency, equity and clarity of a public programme, and should be accompanied by the development of an institutional and governance framework to structure the process. It also noted that spending reviews should consider the ‘evolutionary dynamics’ of policy, which is central to the expenditure trends of mandatory spending programmes. The spending review process in France links reviews to the budget process. While these reviews do not focus exclusively on mandatory spending, they include all spending areas of government, thus including social expenditure. This practice of linking spending reviews with budgets and expenditure ceilings is shared with other countries, including the Netherlands and the United Kingdom, where decisions on spending reviews are anchored to budget negotiations.

In Ireland, the spending review methodology assesses the rationale, efficiency, effectiveness, impact and relevance of expenditure, and highlights key sectors to cover as health, education, justice, and social welfare. In Ireland, the Irish Economic Evaluation Service (IGEES) prepares between 20 and 40 reports each year to review spending. While much of this work relates to voted expenditure, the process has also produced spending reviews on improving the management of non-voted expenditure.

Spending reviews can improve programme efficiency and reduce administrative costs. However, they face limitations in making changes to mandatory spending, as legislative amendments are also required. Such amendments have occurred in OECD Member countries, and spending reviews, along with policy evaluations, are often an important step that can provide the basis for legislative change and improving fiscal sustainability. The following examples highlight legislated changes to pensions within the eight countries:

- **France:** The 2023 pension reform increases the retirement age from 62 to 64 by 2030, as well as the size and duration of pension contributions needed for a full pension. The reform’s justification focused on the pension system’s financial deficit, where the Pensions Advisory Council predicted that deficits were likely to persist for at least the next 50 years, and be between 0.6% and 1.3% of GDP in 2025 (COR, 2022<sup>[6]</sup>).
- **United Kingdom:** The State Pension Age is expected to rise to 67 between 2026 and 2028. This decision occurred in the context of the 2014 Pensions Act, which requires the Secretary of State for Work and Pensions to regularly review the eligible age for the state pension (UK Government, 2023<sup>[7]</sup>).
- **United States:** The 1983 pension reform gradually increased the age of eligibility for retirement benefits, set to reach 67 by the year 2027. This reform also required the Secretary of the Department of Health and Human Services to conduct a comprehensive study and analysis of the implications of the changes in retirement age (Social Security, 2025<sup>[8]</sup>).

Not all pension reforms have involved increasing the retirement age. For example, in the Netherlands in 2019, the government reached an agreement to reduce the rate at which the retirement age increased, in return for trade unions agreeing to other reforms, such as a transition to a defined-contribution pension system. These reforms were partially informed by advice from the Social and Economic Council, an advisory body to the Dutch government on social and economic policy.

### ***1.4.3. Analytical assessments of mandatory spending within the budget***

Impact assessments are frequently used in budget documents to show the likely impact of budget initiatives on policy objectives. The assessments can cover both discretionary and mandatory spending. In France, the assessments are presented in a set of six social security policy evaluation reports, which

examine the impact of the measures in the budget. These reports provide an overview of the various social security schemes, including the bodies and funds within the schemes. A similar assessment is available in the Netherlands, where, as part of the budget process, all ministries review their expenditure, including mandatory spending, in an annual report, which must show how actual expenditure compares to the expenditure ceiling and any variations.

Other countries include evaluations of public spending within budget processes. In Japan this is part of its Plan-Do-Check-Act approach to budgeting, which evaluates how budget funds are spent and what results have been achieved. In the United Kingdom, the economic and fiscal outlook, produced by the Office for Budget Responsibility (OBR), provides forecasts of and an overview of the uncertainties in the next five years on the basis of the most recent budget. The outlook includes mandatory spending – recently highlighting, for example, the fiscal risks from rising welfare costs. In the United States, the Office of Management and Budget (OMB) publishes an Analytical Perspectives report alongside the budget. This report provides both analysis of economic assumptions, as well as evaluations on the effectiveness of certain programmes, and discussions on efforts to enhance government performance. The report includes trust funds, the main mechanism through which mandatory spending is funded.

The point in the budget process when countries prepare analytical reports on mandatory spending varies. In France, evaluation reports on social security policies are annexed to the budget and submitted to the National Assembly. In Japan, ministries and agencies conduct evaluations after the budget process, which the Japanese Ministry of Finance considers in preparation for the next budget. In the Netherlands, the House of Representatives holds ‘Accountability Day,’ in which annual reports are submitted to the House, alongside a report by the Court of Audit with its review of these reports. In the United States, the Analytical Perspectives Report is released after the release of the initial budget but before it has been approved in Congress.

#### **1.4.4. Analytical assessments of mandatory spending outside the budget**

Analytical reports on mandatory spending are also prepared outside of the budget process. For example, in Germany, the Federal Ministry of Labour and Social Affairs prepares the annual Social Budget, which provides a detailed analysis of the services and expenditures within the country’s social security system. Despite its name, the Social Budget is not part of the federal budget, but it remains an important tool for understanding the scope and cost of social programmes.

While Ireland’s Finance Accounts Report is a budget document and contains detailed analyses of payments into and out of the Central Fund, financial analyses of the SIF and NTF are not budget reports. These reports are prepared by the Department of Social Protection and Department of Further and Higher Education, Research, Innovation and Science respectively. In Japan, the Ministry of Finance produces a report which provides an overview of Japan’s public finances and notable trends over time (including those driven by mandatory spending such as social security). It also examines sustainability questions, including the ratio of benefits to burdens of the social security system.

In the United Kingdom, the OBR produces reports both within the budget process, such as the Economic and Fiscal Outlook, and outside of it. Since 2022 its Fiscal Risks and Sustainability Report included analyses of the short-term and long-term risks that could impact the United Kingdom’s fiscal health, including from demographic changes, health spending, and productivity changes, and provides estimates as to the extent to which they put public finances on an unsustainable path. Such sustainability reports are common practice across the eight OECD Member countries in this report (Box 4).

## Box 4. Fiscal sustainability reports

Fiscal sustainability reports are important tools in assessing the fiscal challenges posed such things as ageing populations. These reports highlight the projected impacts of such changes on public finances. While all countries discussed within this report prepare fiscal sustainability reports, either as a legal requirement or as a good practice, this box highlights practices in Germany, Ireland and Japan.

### Germany: Report on the Sustainability of Public Finances

In Germany, the Federal Ministry of Finance publishes a Fiscal Sustainability Report once per legislative term, looking at long-term trends of government expenditure in areas most affected by demographic changes. It examines both demographic (e.g. impact of changes to the rate of immigration) and economic parameters (e.g. impact of changes to employment and economic growth) and explores possible future scenarios. It also discusses policy options that are relevant to fiscal sustainability challenges.

### Ireland: Long-term Sustainability Report

Ireland has extensive reporting on the long-term impacts of social security expenditure, including actuarial studies on pensions that in 2013 led to the introduction of a single pension scheme for public sector employees to ensure the long-term sustainability of the pensions. In 2020, the IFAC published its first long-term sustainability report. The report included perspectives on public expenditure and its main drivers, as well as breakdowns of likely changes in age-related costs and interest expenses. It offered scenarios, which highlighted that the faster the government acts to address long-term financial issues, the more manageable fiscal challenges are likely to be.

### Japan: Journal of Population Problems

The National Institute of Population and Social Security Research is a research institute operating under the Ministry of Health, Labour and Welfare, providing insights into social security issues in Japan, particularly in the context of an ageing population. It publishes the *Journal of Population Problems*, which covers issues related to social security and population. This includes regularly updated statistical data on birth rates, death rates and migration patterns and predictions for future demographic patterns, as well as empirical research and policy evaluations of social security systems. The positioning of this institute within the government allows this research to be prepared in close contact with policymakers, and is relevant to the financial sustainability of public programmes.

## 1.5. Accountability and oversight

### 1.5.1. Mandatory spending and parliament

While parliaments regularly assess discretionary spending, their review of mandatory spending can vary. In Germany, mandatory spending is part of the German federal budget, but are not explicitly labelled as such. As a result, the Budget Committee of the German Bundestag typically discusses these expenditures only when the federal government proposes subsidies beyond the statutory contributions.

In other countries parliaments play a direct role in scrutinising and approving mandatory spending within the budget process. Since 2006 in France, parliament has voted on each budget programme, including the entire social budget and mandatory components of the general budget, such as pensions, defence expenditure, and interest obligations. This allows the parliament full view of budget developments. In Ireland, contribution-based social security programmes, including pensions, are considered alongside tax-

funded programmes in the budget, meaning parliament makes no specific distinction between contributory and non-contributory programmes. A similar situation is found in Japan, where the formulation process for special accounts mirrors that of the general budget, as both require approval from the Diet. In the United Kingdom, the Treasury submits figures for both discretionary and mandatory spending for each ministry in the Supply Estimates, through which parliamentary authority enables the Treasury to release funds. In all four countries, the inclusion of mandatory spending in parliamentary processes means that, despite the mandatory nature of the spending, a high degree of legislative oversight remains in place.

Governments are obliged to keep parliament up to date on the development of mandatory spending. In the Netherlands, this takes the form of budget memorandums that are sent to parliament at various points during the budget process to keep parliament informed on developments to the budget ceiling. If the government exceeds the ceiling, it is to explain why this has occurred in a detailed letter to parliament. While the United Kingdom's National Insurance Fund for social security expenditure is generally separate from the budget process, it is still subject to parliamentary scrutiny. In the United States, each budget resolution that the government submits to Congress must be accompanied by a report detailing changes to both mandatory and discretionary spending. Furthermore, while the budget documentation sent to Congress does not include expenditure and revenue from social security trust funds, it does include them separately to comply with the Pay-As-You-Go legislation.

Parliaments also have a significant role to play in monitoring budget execution, including for mandatory spending. In Germany, the Budget Committee and the Audit Committee have responsibilities for reviewing and monitoring budget execution. In Ireland, the Budget Oversight Committee reviews the annual Public Service Performance Report, which reviews the delivery of public services against pre-set targets. In the United Kingdom, the Public Accounts Committee scrutinises public spending after the budget process, based on audits from the National Audit Office, and examines government departments on the efficiency of their spending.

### **1.5.2. Mandatory spending and independent fiscal institutions**

Independent fiscal institutions play an important role in the oversight of mandatory spending, in most cases by assessing compliance with fiscal rules and assessing fiscal sustainability. In Ireland, the Irish Fiscal Advisory Council assesses fiscal forecasts and the government's compliance with fiscal rules. In Japan, a comparable organisation is the Council on Economic and Fiscal Policy evaluates the likelihood of achieving fiscal targets. In the United Kingdom, the OBR performs a similar role, assessing whether government is meeting its fiscal targets.

### **1.5.3. Mandatory spending and courts of audit**

Courts of audit also play a critical role in the budget process, helping ensure accountability in public spending. For example, the German Court of Audit is mandated to audit the federal budget and submit an annual report to parliament. The report covers both the core budget and special funds, offering analysis and recommendations on the management and efficiency of government programmes.

Courts of audit operate independently of the executive branch of government and may examine mandatory spending. In Japan, the Court of Audit is independent of government and parliament, and conducts audits of government expenditure and revenue before the budget is submitted to the Diet. In the Netherlands, audits have included both letters to parliament highlighting increases in social expenditure, as well as analyses of the financial management of ministries with high proportions of social expenditure. In the United States, the Government Accountability Office has produced in-depth reviews on social security spending, analysing the likely public finance trajectory and proposing remedies.

# 2 Case studies

## 2.1. Case Study 1: France

### 2.1.1. Composition of budget spending

France maintains two budgets: the state budget (PLF) and the social security budget (PLFSS). Although neither budget explicitly refers to mandatory spending, the PLF includes *crédits évaluatifs* (“estimated allocations”), which refer to costs where the exact amount cannot be precisely determined, such as debt service, tax rebates, and state guarantees. Much of what the PLFSS reports can be considered mandatory spending, as it is related to social guarantees by the state. Table 5 presents net expenditure in 2024 for basic compulsory social schemes (ROBSS) and the old-age solidarity fund (FSV), both of which are reported through the PLFSS. Significant transfers occur between the state and social security, such as subsidies to pension schemes and compensation for contribution exemptions (Cour des Comptes, 2023<sup>[9]</sup>).

**Table 5. Expenditure on compulsory social schemes and the old-age solidarity fund, 2024**

	Total amount, billions	%
Age	293.7	46%
Sickness	251.9	39%
Family	55.7	9%
Autonomy	37.6	6%
FSV	19.3	3%
Occupation Accidents and Diseases (AT-MP)	15.4	2%
<b>Total</b>	<b>642.0</b>	

Note: The total is lower than the sum of the disaggregated parts due to the removal of internal financial transfers.

Source: Cour des Comptes, France (2024<sup>[10]</sup>).

### 2.1.2. Governance and legal framework

The 2001 Organic Law for Central Government Finance Laws (LOLF) restructured the PLF, introducing the requirement for a budget allocated by missions. Several of these missions include spending that can be considered mandatory, such as the “State Financial Engagement Mission”, which is used to predominantly to record debt interest, and the mission on pensions. For social security, the 1996 Organic Law for the Financing of Social Security (LFSS) introduced the requirement that the PLFSS be approved separately from the PLF. These laws have been amended several times, including the 2005 Organic Law on Social Security Financing Laws (LOLFSS) and the 2022 Draft Law for the Approval of Social Security Accounts (PLACSS), both of which moved to better align and co-ordinate the PLF and PLFSS. However, some differences remain: most notably, while the PLF sets spending limits (with exceptions), as the PLFSS is predominantly made up of what can be considered mandatory spending, it treats revenue and expenditure as targets, allowing flexibility for actual conditions (Légifrance, 2022<sup>[11]</sup>).

Many social security bodies exist, responsible for running social security programmes. They operate with a degree of administrative independence, although they are supervised by the Social Security Directorate (*Direction de la Sécurité sociale*) and their accounts are reported in annexes of the PLFSS. The Social Security Code requires a principle of neutrality, meaning that the state must reimburse in full any expenditure by social security bodies.

### **2.1.3. Mandatory spending in the budget process**

The preparation of the budget is based on the Central Dialogue Authority, a responsibility shared between the Minister of Finance, who prepares the PLF, and the Minister for Social Security, who prepares the PLFSS. Discussions on the PLF start after the Budget Directorate has calculated government fiscal flexibility having accounted for unavoidable expenditure, which includes payroll, civil service pensions, debt servicing, and automatic mechanisms like tax refunds (Vie publique, 2024<sup>[12]</sup>).

The PLFSS tracks deficits and proposes corrective measures if necessary. In 2025, it projected an EUR 18.5 billion deficit due to increased health expenditure, and so provided savings plans including an increase in the share of supplementary health insurance (la sécurité sociale, 2025<sup>[13]</sup>).

France also uses multi-year frameworks: the Law on the Programming of Public Finances (LPFP) sets expenditure trajectories aimed at achieving a balanced budget. The 2018–22 LPFP created a two-tier rule, controllable spending and total expenditure objectives, with the latter including spending that cannot be limited under a strict rule. The 2023–27 LPFP replaces this with a single aggregate. However, this aggregate does not include certain components of mandatory spending, such as debt payments, contributions to civil and military pensions. It aims to reduce debt to 108% of GDP by 2027, with annual savings targets of EUR 6 billion each for the state and social security (Légifrance, 2023<sup>[14]</sup>).

### **2.1.4. Methodologies and tools to review mandatory spending**

France has run multiple spending review exercises (e.g. Public Action 2022, which included the goal of reducing public spending). The 2023–27 LPFP mandates annual spending reviews that are linked to the budgetary process. These reviews have already identified savings in areas that are relevant to mandatory spending, for instance the National Family Sector Social Action Fund (Government of France, 2023<sup>[15]</sup>). The PLFSS is assessed by Social Security Policy Evaluation Reports, which examine economic and demographic impacts, and are annexed to the PLACSS when it is submitted to the National Assembly. Long-term pressures are also monitored through the EU's Aging Report and the Debt Sustainability Monitor. The Pensions Advisory Council advises on pension sustainability.

### **2.1.5. Accountability and oversight**

The LOLF expanded parliament's authority, requiring votes on the entire budget as opposed to new appropriations only. It also established that the government must maintain general accounting of its operations, including expenses and revenues of the fiscal year on an accrual basis, and off-balance commitments (Cour des Comptes, 2024<sup>[16]</sup>). The 2023 Finance Law requires that Government submits a report to parliament each year detailing the results of the evaluations of the budget proposals conducted, as well as any proposals for reforms and associated savings. These assessments must cover the expenditure and resources of entities receiving public funds, including social security bodies.

The Cour des Comptes audits state and social security accounts, certifies budgets, and evaluates implementation, regularly highlighting risks such as growing pension deficits. The High Council of Public Finance, attached to the Court, issues mandatory opinions on macroeconomic forecasts and budget alignment with LPFP targets before budget adoption.

## 2.2. Case Study 2: Germany

### 2.2.1. Composition of budget spending

Germany does not explicitly define mandatory spending in law or budget practice, yet large shares of the federal budget function as mandatory due to long-term legal commitments and constitutional provisions. Three lenses are useful:

- Time horizon, where certain expenditures are predetermined through multi-year obligations and thus can be considered mandatory (i.e. federal social expenditure and interest expenditure).
- Nature of commitment, which concerns expenditure based on social legislation or legal obligations (i.e. personnel expenses, repayment obligations).
- The Constitution (Basic Law), which specifies that for purposes of continuity, the federal government can make all necessary expenditures in cases where the budget for the following year has not yet been adopted.

The Federal Court of Audit has noted that only a small fraction of federal spending is non-earmarked at budget preparation, with rigidity driven mainly by social security obligations set in law. Social items account for roughly half of federal expenditure. (Federal Audit Office, 2023<sup>[17]</sup>).

### 2.2.2. Governance and legal framework

The Basic Law lays down fundamental requirements of the budget process, the Budgetary Principles Act and Federal Budget Code provide the procedures for presenting and authorising the budget, and the Budget Act sets the annual budget. It is accompanied by a four-year financial plan and a report on the current state of public finances.

Social insurance and transfers are governed by the Social Code, which defines financing and entitlements across pensions, health, long-term care, unemployment, youth welfare, and more. Delivery of social services is conducted via implementing agencies, such as the Federal Employment Agency, responsible for employment-related provisions of the Social Code. These agencies set their own strategies independently, and as their funding comes primarily from contributions paid by employees and employers, they have a degree of financial autonomy. However, they remain under ministerial supervision and are subject to government audit.

Federal subsidies top up systems where needed (including for jobseeker benefits, the Health Fund, and public pension insurance). These figures appear in the federal budget but are not subject to annual parliamentary discretion. The legal basis for these subsidies is found in the Basic Law. Beyond social transfers, rigidity arises from multi-year authorisations to incur obligations (although the Federal Ministry of Finance in Germany sets limits on the extent to which budgetary funds can be used to this end), guarantees (although these are only included in core expenditure figures if they are activated), interest payments, and repayment obligations.

### 2.2.3. Mandatory spending in the budget process

Entitlements in the Social Code are legal obligations: once eligibility is met, benefits must be paid. Federal transfers to help implementing agencies meet these obligations can be considered mandatory spending. As evident from the above discussion, large parts of the federal budget are predetermined and frozen by earmarked funds. However, a budgetary supplementary act alongside the annual budget law can amend rules within the Social Code, and therefore federal payment obligations. The core federal budget records only federal responsibilities, with expenditures executed by autonomous insurers not included.

The constitutional debt rule limits federal structural net borrowing to 0.35% of GDP under normal economic conditions. The rule in effect provides a limit on the growth of interest expenses as mandatory spending. A 2025 reform revised this rule to allow the states of Germany to borrow to the same extent, as well as partially exempting defence expenditures from the debt rule (Federal Audit Office, 2023<sup>[17]</sup>).

The breakdown of revenue and expenditure found in the budget plan includes rigid expenditure areas such as personnel expenditure, which is included as a separate line item. It also includes a section on commitment appropriations (Federal Government, 2024<sup>[18]</sup>).

#### **2.2.4. Methodologies and tools to review mandatory spending**

While Germany does not have a dedicated review process for mandatory spending, several publications explore relevant themes. For example, the its Federal Ministry of Finance's Fiscal Sustainability Reports assess long-term pressures from ageing on pensions, health, long-term care, and unemployment, and the Federal Court of Audit has highlighted the high share of legally committed spending and the absence of long-term sustainability strategies for the social security system (Federal Audit Office, 2024<sup>[19]</sup>). The Federal Ministry for Labour and Social Affairs provides an annual statistical report known as the "Social Budget" (*Sozialbudget*), which provides a comprehensive statistical picture of social revenues and expenditures managed largely outside the federal budget.

#### **2.2.5. Accountability and oversight**

The Bundestag's Budget Committee scrutinises the draft budget prepared by the Federal Ministry of Finance in Germany and monitors execution throughout the year, often working in co-operation with the Federal Court of Audit. Issues related to legally committed expenditure are regularly discussed. For example, debates on the 2025 draft addressed pension subsidy projections, reductions in federal subsidies to insurance schemes, and potential changes to the responsibilities of the Federal Employment Agency (German Bundestag, 2024<sup>[20]</sup>).

The Stability Council monitors budgetary discipline of both federal and state governments, meaning that even legally committed expenditures are subject to consistent review and evaluation. The federal government and regional governments are required to provide it with standardised indicators on their budgetary positions, alongside evidence of compliance with borrowing limits and fiscal projections (Stability Council, 2022<sup>[21]</sup>).

### **2.3. Case Study 3: Ireland**

#### **2.3.1. Composition of budget spending**

In Ireland, government expenditure is defined as the sum of funds issued from the Central Fund to government departments, spending funded by revenues directly paid to departments ("Appropriations-in-Aid") and spending from two specified funds, the Social Insurance Fund (SIF) and the National Training Fund (NTF). Disbursements from the Central Fund are approved annually by Dáil Éireann and include public service pay and pensions, capital, and non-pay current outlays (Department of Public Expenditure and Reform, 2024<sup>[22]</sup>). Some voted expenditure items reflect ongoing obligations, such as EU co-funded programmes governed by multi-annual EU regulations, and National Lottery receipts hypothecated by law to specified policy areas.

The SIF funds social welfare payments (including pensions and unemployment benefits) and is funded primarily from social insurance, while the NTF funds training and upskilling and is funded by the NTF levy. In both cases, these funds are derived from employer and employee contributions. While mandatory

spending is not explicitly defined within Ireland, as both these funds are legally part of government expenditure but are not voted annually, they can in effect be considered equivalent to mandatory spending.

The SIF operates on a pay-as-you-go basis and as the population ages, there is greater risk of structural deficits in the SIF from 2035 and after, based on actuarial assessments. In 2025, the government budgeted for the SIF to fund approximately EUR 13.7 billion in social insurance payments, up from EUR 11.5 billion in 2020, indicating that the cost of the SIF is increasing over time.

Non-voted expenditure refers to permanent legal obligations on the Central Fund and includes servicing of national debt and contributions to the EU budget. It does not require annual approval by the Dáil Éireann. Table 6 summarises the voted and non-voted expenditure in Ireland.

**Table 6. Government expenditure in Ireland, 2024**

In EUR million

	Voted Expenditure	Non-Voted Expenditure (SIF and NTF)
Social Protection	13 708	13 258
Health	23 366	0
Education (inclusive of Further and Higher Education and training)	13 369	978
Other departmental spending and direct departmental receipts	39 041	0
EU Budget contribution	0	3 369
Interest on national debt	0	2 992
Oireachtas Commission	0	165
Debt management expenses	0	146
Other non-voted expenditure	0	353
<b>Total</b>	<b>89 484</b>	<b>21 261</b>

Note: Other Departmental spending from the Central Fund and direct Departmental receipts includes both current and capital expenditure.  
Source: Department of Finance, Ireland (2024<sup>[23]</sup>)

### 2.3.2. Governance and legal framework

The Constitution requires that all public accounts be accounted for in the Central Fund unless otherwise provided by law. It also requires the government to present estimates of expenditure to the Dáil Éireann for approval. The 1924 Ministers and Secretaries Act (and subsequent amendments) assigned departmental responsibilities and empowers the Minister for Public Expenditure, NDP Delivery and Reform to set financial and administrative conditions for expenditure.

Several acts underpin non-voted and fund expenditure. These include the annual Finance Acts, which authorise borrowing on behalf of the state, the 2005 Social Welfare Consolidation Act, establishing the SIF, and the 2000 NTF Act 2000, establishing the NTF. The SIF is administered by the Minister for Social Protection, while the NTF is administered by the Minister for Further and Higher Education, Research, Innovation and Science.

The Department of Social Protection is responsible for the administration of social insurance programmes and controls the SIF as part of its remit. Several administrative bodies work under this Department, including the Pensions Authority and Social Welfare Tribunal. Similarly, the Department of Education and Skills is responsible for overall management of the NTF, but day-to-day operation is managed by SOLAS. In all cases, annual financial statements are submitted to the House of the Oireachtas.

### **2.3.3. Mandatory spending in the budget process**

Ireland prepares its budget within the EU economic framework. As such, it first submits a report on the Stability Programme Update, before outlining medium-term economic and fiscal forecasts, and compliance with EU deficit and debt limits. It later produces an annual Summer Economic Statement providing details on the government's economic strategy, before producing a mid-year expenditure report examining expenditure trends in advance of the budget. The draft budgetary plan is then submitted by mid-October and must include 4–5-year plans outlining a net expenditure path. In 2025, the government published a Medium Term Fiscal Structural Plan, which was also submitted to the European Union. The plan included detail on the government's fiscal strategy and medium-term expenditure strategy, as well as economic outlooks and information on the government's investment priorities and structural reforms (Government of Ireland, 2025<sup>[24]</sup>).

A net expenditure rule limits the annual growth rate of net expenditure after excluding interest, one-off items, EU-funded and co-funded spending, and cyclical unemployment outlays, and adjusts for the net impact of tax measures and technical factors. Domestic expenditure ceilings set three-year aggregate and departmental caps.

Since 2020, Ireland has used non-core (temporary) funding to address specific challenges. This was initially envisioned for Brexit-related costs but has since been extended to respond to COVID-19 and the cost-of-living crisis (IFAC, 2023<sup>[25]</sup>).

### **2.3.4. Methodologies and tools to review mandatory spending**

Line departments have autonomy to review and prioritise reviews within their analytical work programmes, to ensure consistency with their own policy priorities. Recently, this has included a shift from single-issue analysis to a wider variety of analytical outputs, reflecting the cross-cutting nature of many of the areas driving growth in public expenditure. IGEES often contributes to this analysis, with over 300 economists and analysts working across departments.

The Public Spending Code sets appraisal, evaluation, and value-for-money standards. There have been studies examining the sustainability of expenditure, including IFAC's Long-term Sustainability Report, which examines the impact of ageing on public expenditure, and the Department of Finance's annual report on public debt in Ireland.

The range of research on the sustainability of public service pensions led to the introduction of the Single Pension Scheme for public servants in 2013 to support long term sustainability. Changes included increasing the retirement age and calculating pensions based on career average earnings rather than final earnings.

In 2025, the Department of Public Expenditure and Reform published a Medium-Term Expenditure Framework. The framework was based on three core pillars: fiscal sustainability, spending adequacy and spending efficiency, and was developed using a whole-of-budget approach, placing an emphasis on the totality of expenditure. It provides insights to guide budgetary decisions, including discussions of trade-offs in the Health and Social Protection sectors (Department of Public Expenditure and Reform, 2025<sup>[26]</sup>).

### **2.3.5. Accountability and oversight**

The annual financial reports (which include non-voted expenditure) are prepared by the Department of Finance and audited by the Comptroller and Auditor General. Annual appropriation accounts are also prepared for voted expenditure (Department of Public Expenditure and Reform, 2024<sup>[27]</sup>).

Relevant parliamentary committees examine the proposed budget on an ex-ante basis and meet with ministers. Once the Comptroller and Auditor General has audited the financial reports for the year, the

Public Accounts Committee examines the reports and meets the relevant Accounting Officer. This includes oversight of the SIF and NTF, which are approved by the accounting officers in the Department of Social Protection and the Department of Further and Higher Education, Research, Innovation and Science respectively.

IFAC is an independent fiscal institution with the legislative mandate to assess fiscal forecasts and monitor compliance with fiscal rules. Its historical review of public spending in Ireland emphasises the importance of non-voted expenditure.

## 2.4. Case Study 4: Japan

### 2.4.1. Composition of budget spending

In Japan, public spending is allocated between the General Account and multiple Special Accounts. In 2024, social security, local allocation tax grants, and national debt service comprised about three-quarters of General Account outlays, while 13 Special Accounts financed specific purposes such as national pensions, local taxes and transfers, and the Fiscal Investment and Loan Program (FILP) (Ministry of Finance Japan, 2024<sup>[28]</sup>).

There is considerable overlap between the General Account and Special Accounts and an overall view of spending requires consolidation between the accounts. Table 7 illustrates the overlap.

**Table 7. Government expenditure (General and Special Accounts) in Japan**

Japanese Yen (billion)	2023 Actual	2024 Estimate	2025 Budget
Total Expenditure in the General Account (A)	127.6	136.9	115.2
Total Expenditure in the Special Accounts (B)	412.5	431.5	429.5
Total (C = A + B)	540.1	568.4	544.7
of which, the amount overlapped (D)	137.4	152.5	153.5
Difference (E = C – D)	402.7	416.0	391.1
of which, the amount deducted (F*)	153.9	134.2	136.2
<b>Net Total (= E – F)</b>	<b>248.8</b>	<b>281.8</b>	<b>254.9</b>

Note: "(F)" means the amount of redemption by the refunding in the National debt consolidation fund special account.

Source: Ministry of Finance, Japan (2025<sup>[29]</sup>)

Expenditures that may be considered mandatory in nature constitute a significant element of both Japan's General Account Budget and central government spending, social security, debt servicing and redistributive local government allocations, with lower but still significant amounts on public works projects and education. Provisions for social security are also in place in special accounts, most notably the Government Pension Special Account.

### 2.4.2. Governance and legal framework

Constitutional rules require Diet authorisation for all spending and ex-post audit by the Board of Audit, with a limited exception for continuing expenditure on multi-year projects. The Public Finance Act (PFA) and Public Debt Management Law define budget procedures and set restrictions on government borrowing. While the PFA prohibits deficit financing, the Diet can authorise deficit-financing bonds by special law. While this was intended as an emergency response to oil crises in the 1970s, it has been used almost annually since (European Parliament, 2016<sup>[30]</sup>).

Each Special Account is grounded in its own statute. For example, the National Pension Special Account operates under the National Pension Act. Their budgets are submitted alongside the General Account and require separate Diet approval. Alongside these, the budgets of government affiliated agencies, and the FILP must also be separately approved by the Diet.

Health and long-term care are organised as universal insurance, with the government funding around 40% of total healthcare costs through direct subsidies to health insurance funds. As such, the Ministry of Health, Labour and Welfare provides strict guidance to health insurance funds and supervises them. Local and national governments co-finance long-term care insurance, ensuring affordable elderly care. Health and other labour intensive sectors are influenced by the National Personnel Authority, which makes statutory recommendations to the Diet and Cabinet on public-service remuneration (Kantō-Shin'etsu Regional Bureau of Health and Welfare, 2013<sup>[31]</sup>)

### **2.4.3. Mandatory spending in the budget process**

The Ministry of Finance in Japan is responsible for preparing the draft budget and setting the key fiscal parameters for ministries and agencies. Between June and August, each ministry submits its budget request to the Ministry of Finance, forming the basis of the draft budget. The Cabinet then submits the Draft Budget to the Diet in January. Each summer the Cabinet also issues the Basic Policy on Economic and Fiscal Management and Reform, which guides the subsequent budget and broader reforms (Cabinet Office, 2024<sup>[32]</sup>)

The budget process does not begin until the Cabinet approves the Guidelines for General Expenditure Budget Requests. These guidelines include rules stating that mandatory spending should be reviewed thoroughly, and that expenditures should be cut as much as possible.

Special Account budgets are drafted by relevant line ministries and consolidated by the Japanese Ministry of Finance into the overall national budget package, while the FILP effectively functions as a second budget for public investments and is managed separately. Supplementary budgets can be enacted during the year (Ministry of Finance Japan, 2024<sup>[33]</sup>).

### **2.4.4. Methodologies and tools to review mandatory spending**

Japan applies a spending review process known as Plan-Do-Check-Act. This process is embedded in the budget cycle, and evaluates how budget funds are spent and what results have been achieved (Ministry of Finance Japan, 2024<sup>[28]</sup>).

Several other review processes are in place. This includes budget execution surveys, where the Ministry of Finance in Japan examines the actual execution of budgets by each ministry, and administrative expenditure reviews, where each ministry conducts policy evaluations of its programmes once every five years. In the case of the latter, the OECD has found that while these programmes connect to the annual budget process, they do not feed into multi-annual programmes. While these reviews can consider Special Accounts, they do not systematically consider mandatory spending.

The government also conducts comprehensive analyses of public debt servicing costs, primarily through the Ministry of Finance. These analyses are published in the annual Debt Management Report, which provides detailed analysis of debt management policies, strategies for debt management and associated costs. Furthermore, demographic research by the Cabinet Office and the National Institute of Population and Social Security Research underpins long-term projections for medical and long-term care costs (National Institute of Population and Social Security Research, 2025<sup>[34]</sup>).

These review systems have led to several reforms. For example, significant changes were introduced to Japan's pension system in 2004, including incorporating an automatic balancing mechanism to adjust benefits based on demographic and economic conditions.

### **2.4.5. Accountability and oversight**

The Cabinet submits the draft budget to the Diet by late January. The House of Representatives Budget Committee examines and votes first, followed by the House of Councillors, aiming for enactment by 1 April. All appropriations are annual except multi-year continuing expenditure authorised by the Diet. (Ministry of Finance Japan, 2025<sup>[35]</sup>).

The Constitution requires that each year, the Cabinet submits to the Diet the final accounts of the state's expenditure and revenue, preceded by an external audit by the Board of Audit. The Diet reviews whether the budget was properly executed and approves the final accounts audited by the Board of Audit. The Board of Audit has the legal authority to audit accounts prescribed by law (i.e. expenditure deriving its authority from legislation rather than budget approval) (E-gov, 2022<sup>[36]</sup>).

Strategic oversight is provided by the Council on Economic and Fiscal Policy. It is chaired by the Prime Minister and comprises ten Council members, which includes cabinet ministers and the Governor of the Bank of Japan. The relevant legislation requires that private-sector experts must account for at least 40% of the Council's members.

## **2.5. Case Study 5: Korea**

### **2.5.1. Composition of budget spending**

Under the Enforcement Decree of the National Finance Act, the scope of mandatory spending includes local transfers (such as Local Allocation Tax and Local Education Finance Grants) expenditures mandated by treaties and international law, and interest on government debt. The 2024-2028 National Fiscal Management Plan (the Korean medium-term expenditure framework) categorises mandatory spending into welfare-related mandatory spending, local transfer funds, interest payments, and other mandatory spending.

The welfare-related mandatory spending includes pensions, specifically for the National Pension System, the basic pension and occupational pensions, such as those in the defence and education sectors. In all, the cost of pensions on the state have increased sharply since 2015 in line with the ageing population in Korea and changes to policy settings on the coverage of pensions. The increased cost and the multiple categories of pensions in Korea highlights the importance the government is placing on identifying fiscally sustainable expenditure trajectories for pensions and other forms of mandatory spending.

Beyond legally mandatory items, Korea also recognises rigid expenditures that are hard to adjust for legal, institutional, or political reasons (e.g. non-mandatory social security). The largest items of rigid expenditure relate to income security for the poor and elderly support. Payroll has trended up, but its growth has eased since 2018, stabilising near 4% (Statistics Korea, 2025<sup>[37]</sup>).

### **2.5.2. Governance and legal framework**

Korea is one of two countries in this report (alongside the United States) with a legislated definition of mandatory spending. This definition is found in Article 7 of the National Finance Act and classifies mandatory spending as legal expenditure and interest expense, the obligation of which arises according to Acts, and the scale of which is decided according to statutes, with the specific scope determined by President Decree (elaw, 2016<sup>[38]</sup>).

In the budget request process by line ministries, the budget formulation by the Ministry of Economy and Finance, and the budget deliberation by the National Assembly, there are no specific procedures or governance mechanisms dedicated to mandatory spending.

### 2.5.3. Mandatory spending in the budget process

In Korea, there is no separate budgeting procedure for mandatory spending. Budget allocations are determined by the laws that specify expenditure obligations and amounts to be budgeted are determined by regulation (Table 8). Therefore, changes in mandatory spending occur through amendments to the relevant laws and regulations, and the budget is then reviewed to account for the changes. In contrast, discretionary spending is determined during the budget formulation process, with reviews focusing on the validity of the project and the appropriateness of the expenditure amount. Mandatory spending is referred to in budget guidance, which includes reviewing medium- to long-term mandatory spending requirements (Ministry of Economy and Finance, 2025<sup>[39]</sup>).

**Table 8. Mandatory vs discretionary spending**

	<b>Mandatory spending</b>	<b>Discretionary spending</b>
Legal definition	National Finance Act, Art 7, Para 2, Item 4-2	National Finance Act, Art 7, Par 2, Item 4-3
Cause of expenditure	Laws specifying expenditure obligations	Laws providing project implementation
Expenditure size	Determined by regulations	Determined through parliamentary deliberation
Method of budget amendment	Amendment or revision of financial laws	Adjustment of scale during the budget deliberation process
Budget bill review	Accuracy of the allocation size	Validity of the policy (project) and its scale

Source: Korea Development Institute (2024<sup>[40]</sup>)

### 2.5.4. Methodologies and tools to review mandatory spending

The government must specify growth rates and detailed calculations of mandatory spending in the National Financial Management Plan. However, as the role of the plan is limited to presenting trends in mandatory spending and mid-term plans for discretionary spending, there are limitations to its effectiveness as a binding mid-term plan.

Additionally, the Korean government operates a Self-Assessment of Fiscal Project, in which projects deemed inadequate are required to have at least 10% of their budget cut when submitting budget bill. However, projects that involve mandatory spending are excluded from this mandatory budget cut, and are usually exempted from expenditure reconstruction of other evaluation systems.

### 2.5.5. Accountability and oversight

The National Assembly Budget Office supports the Korean parliament in their deliberation on the national budget. This involves a variety of tasks, including budget analysis, cost estimation, and programme evaluation. It also publishes an annual economic outlook, which examines trends and likely developments in expenditure, production, income, and sustained growth. The 2025 report, which provides an outlook between 2024 and 2028, highlights that government expenditure is expected to increase, in large part due to the growth in mandatory spending. It also highlights that the government's fiscal consolidation efforts have predominantly focused on discretionary spending, and that mandatory spending's basis in law can make it difficult to adjust.

## 2.6. Case Study 6: The Netherlands

### 2.6.1. Composition of budget spending

The Dutch budget explicitly identifies which outlays are legally obligatory and which are not. Regardless of legal status, all spending must fit under the government's (nominal) expenditure ceiling.

While there is no single legal definition of mandatory spending, the budget distinguishes between legally required social programmes funded by contributions, or ‘premiums’, and expenditure allocated via other sources. Table 9 shows the portions of the budget that include premium expenditure.

**Table 9. 2024 Budget Expenditure in the Netherlands for premium-relevant expenditure**

EUR billions and percentage of total (including non-premium) expenditure

EUR billions and percentage of total	Expenditure including premiums	Expenditure excluding premiums	Premiums
Public Health, Welfare and Sports	108.2 (21.5%)	35.3 (7.0%)	73.0 (14.5%)
Social Affairs and Employment	107.8 (21.4%)	58.0 (11.5%)	49.8 (9.9%)
Defence	21.3 (4.2%)	14.8 (2.9%)	6.5 (1.3%)
<b>Total (incl. non-premium expenditure)</b>	<b>503.2 (100%)</b>	<b>373.9 (74.3%)</b>	<b>129.3 (25.7%)</b>

Source: Ministry of Finance, The Netherlands (2024<sup>[41]</sup>) and (2024<sup>[42]</sup>)

Premium expenditure refers to expenditure that is financed by premiums rather than other traditional sources of government revenue such as taxation, but it does not necessarily mean mandatory. For example, debt service is legally obligatory but not premium-financed, and an ongoing proportion of expenditure is required to supply ongoing Defence missions (Ministry of Finance, The Netherlands, 2024<sup>[43]</sup>).

### **2.6.2. Governance and legal framework**

The legislative basis for mandatory spending depends on the expenditure item in question. The most notable of these is the Social Insurance Financing Act, serving as an overarching law for a number of insurance schemes. While most social insurance funds are funded by premiums, the relevant Minister may annually determine any further amounts to be paid as a government contribution.

While most social insurance funds are funded by premiums, the Minister may annually determine any further amounts to be paid as a government contribution. Furthermore, each year, the Employee Insurance Agency and the Social Insurance Bank (the two government agencies responsible for implementing the social insurance schemes covered in the Act) must send to the Minister a budget for each fund (Government Law Bank, 2005<sup>[44]</sup>).

### **2.6.3. Mandatory spending in the budget process**

Around March, the Minister of Finance sends a framework letter to other ministers, asking about any anticipated setbacks or windfalls. This includes asking whether spending in social security and health will increase or decrease. In June, each ministry prepares a draft budget, which is finalised by August and submitted to the Ministry of Finance. For ministries where premium expenditure is relevant, the 2024 budget highlights the percentage of expenditure that is legally obligatory, and the budgetary consequences of both budget and premium-funded expenditure. As part of the budget process, the Minister of Finance establishes National Budget Regulations, which govern the national budgets and annual reports. These regulations require departments to include premium flows in their departmental reports (Rijksfinancien, 2025<sup>[45]</sup>).

The Netherlands’ budget process operates on the basis of an expenditure ceiling. This is set when a government comes into office, based on an economic forecast that is prepared by the Central Planning Bureau, and remains in place for the four-year term of government. Historically, the ceiling was divided into four sub ceilings, but in 2024 this was abolished in favour of a single total expenditure ceiling. At

several points in the year, the government publishes ‘ceiling tests,’ where it assesses the expenditure levels against this ceiling and explains any discrepancies.

The budget rules specify that the expenditure ceiling can be adjusted for changes in unemployment expenditure that are not the result of policy choices, as well as for wage and price developments, but cannot be adjusted for policy changes. Furthermore, outside of cyclical expenditure, the ceilings cannot be adjusted if premium-financed expenditure is greater than expected. There have been some exceptions to this for budget responses to COVID-19 (Ministry of Finance, The Netherlands, 2024<sup>[46]</sup>).

#### **2.6.4. Methodologies and tools to review mandatory spending**

The Netherlands runs systematic interdepartmental spending reviews that often include premium spending. In addition, every five years the entire budget is reviewed using a standardised method. The Dutch Ministry of Finance prefers the reviews to consider potential expenditure reductions of up to 20%. Once completed, reviews are quality-checked by an independent board before Cabinet submission. If a budget line is not reviewed for seven to eight years, the line minister responsible must justify the delay to parliament.

Reviews of mandatory spending also occur via the Directorate-General for the National Budget, responsible for organising the budget and accountability process of the national government. Its suborganisation, the Inspectorate of National Finances, is responsible for monitoring whether or not the expenditure ceilings have been exceeded.

All Ministries are required to review their expenditure in an annual report. The Ministries for Social Security and Public Health, Welfare and Sports divide this into budget and premium expenditure, before highlighting any variances.

#### **2.6.5. Accountability and oversight**

While parliament approves the government’s budgets, its ability to determine premium-based spending comes from specific legislation (such as the Social Insurance Financing Act) rather than budget legislation. Prior to the merging of the expenditure sub-ceilings, the government was required to keep parliament informed on developments to the Health Care and Social Security Ceilings. The information was sent to parliament in budgetary memoranda, annual reports, and supplementary budgets. Despite this change, budget documentation in 2024 continued to consider the budgetary development of these ceilings. Parliament can also consider mandatory spending matters in its questions to government.

The Central Planning Bureau reviews the plans of the government, either at the request of Parliament or of its own accord. In its review of the 2025-2028 coalition agreement, its review included a prediction that healthcare expenditure would rise, in large part due to the lowering of a mandatory deductible (Central Planning Bureau, 2024<sup>[47]</sup>).

The Court of Audit frequently examines topics related to premium-financed expenditure, which has included letters to the House of Representatives outlining ministry draft budgets, and investigations into ministry annual reports. The Court of Audit frequently examines topics related to premium-financed expenditure, which has included letters to the House of Representatives outlining ministry draft budgets, and investigations into ministry annual reports (Algemene Rekenkamer, 2024<sup>[48]</sup>).

## 2.7. Case Study 7: The United Kingdom

### 2.7.1. Composition of budget spending

United Kingdom public spending is organised into Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). AME covers spending that is legally required or demand-driven and therefore harder to control annually, including welfare benefits, state pensions and debt interest, and can therefore be considered equivalent to mandatory spending. DEL covers planned, controllable departmental spending (current and capital). HM Treasury's Public Expenditure Statistical Analyses presents both voted and non-voted outlays on this basis, although the Whole of Government Accounts do not show DEL and AME as separate categories of spending (HM Treasury, 1998<sup>[49]</sup>). Some elements of public spending have been moved between DEL and AME over time, such as certain funding mechanisms for the National Health Service.

The United Kingdom also distinguishes between voted and non-voted expenditure, where non-voted expenditure refers to public spending not subject to an annual parliamentary vote, such as certain elements of the National Insurance Fund and debt interest costs. However, AME and DEL are more commonly used in budget administration and management.

### 2.7.2. Governance and legal framework

Parliament votes on the annual Supply Estimates and Appropriation Acts each year to authorise government spending. Following parliamentary approval of the Supply Estimates, Appropriation Acts are passed. These Acts legally authorise the withdrawal of funds from the government's consolidated fund (the government's general bank account within the Bank of England) and set the legal limit on public spending.

Appropriation Acts only cover DEL. Non-voted items generally rest on primary legislation such as the National Insurance Act, which sets the rules for collecting and managing national insurance contributions and ensures funds are ringfenced, and the Social Security Contributions and Benefits Act, which covers state pensions, maternity allowances, and Jobseeker's Allowance. In addition, the National Loans Fund Accounts Act 1975, provides that the government must service its debt before any other spending. However, the annual Supply Estimates document discusses AME, with estimates on how components of AME, including benefits, pension and energy, are likely to develop over time (House of Commons Library, 2025<sup>[50]</sup>).

### 2.7.3. Mandatory spending in the budget process

Departments submit spending plans to HM Treasury, distinguishing between AME and DEL. The Budget Statement by the Chancellor of the Exchequer sets out overall government spending plans, including changes to AME and DEL, and is accompanied by the Budget Report ("Red Book") which includes AME and DEL projections. Spending plans are guided by consolidated budgeting guidance, which discusses the distinction between DEL and AME, and highlights the need to monitor AME closely and inform Treasury if they expect AME spending to rise above forecast (HM Treasury, 2025<sup>[51]</sup>).

The government sets fixed multi-annual limits on DEL, established through spending reviews. Guidance provided by the Treasury emphasises that departments cannot exceed DEL without Treasury approval. HM Treasury monitors AME and manages it with additional tools. This includes a cap on welfare spending introduced in 2014, requiring the government to explain to parliament if welfare spending exceeded predefined limits. These limits are now integrated into the broader DEL/AME fiscal targets framework. HM Treasury also enforces two multi-annual fiscal rules: one which states that day-to-day costs are met by revenues by 2029/30, and the other that net financial debt should fall as a share of GDP. The Charter for Budget Responsibility allows for suspension of these rules in the event of a significant negative shock. In

2024, the United Kingdom introduced a broader definition of debt for its fiscal target, known as Public Sector Net Financial Liabilities, which considers a broad range of financial liabilities, including public sector funded pensions and accounts payable (ONS, 2024<sup>[52]</sup>).

HM Treasury provides guidance on public sector pay in the budget process, which serves as an upper limit in salary discussions. Investment plans are set through Spending Reviews, with guidance on how to appraise policies, programmes and projects provided in the “Green Book”.

#### **2.7.4. Methodologies and tools to review mandatory spending**

HM Treasury conducts spending reviews, monitors AME and DEL, and advises the government on fiscal strategy. Spending reviews are conducted on a two-year basis, with the Treasury most recently completing a 2025 spending review for the 2026-2028 period. This review states that AME is only published as part of an OBR forecast and is therefore not included. HM Treasury manages public finances and allocates spending to departments within legal and fiscal constraints. Treasury control is enforced through mechanisms such as the Managing Public Money framework (HM Treasury, 2025<sup>[53]</sup>).

Other bodies also examine the sustainability of government spending. This includes the Government Economic Service, the professional body for economists in the United Kingdom civil service, which operates across multiple departments, including HM Treasury, the Department for Work and Pensions, and the Office of Budget Responsibility. It provides economic analysis, cost-benefit evaluations, and policy impact assessments that inform government spending decisions.

#### **2.7.5. Accountability and oversight**

Parliamentary oversight involves a range of Committees. The Public Accounts Committee scrutinises public spending on an ex-post basis, based on audits from the National Audit Office and, in broad terms, examines government departments on the efficiency of their spending. The Treasury Select Committee reviews fiscal policy, tax policy, and economic forecasts. Committees and auditors also review the National Insurance Fund, ensuring it is administered according to the legal framework (HM Revenue & Customs, 2024<sup>[54]</sup>). The Whole of Government Accounts, which provides a consolidated view of the government’s financial position, including mandatory spending components such as pension liabilities, is also subject to parliamentary review.

The National Audit Office conducts independent audits of government spending, including the Whole of Government Accounts, and publishes reports on value for money in public services. Each Ministry also produces annual reports and accounts for parliamentary select committees to examine.

The Office for Budget Responsibility provides independent economic and fiscal forecasts for the Budget and assesses whether the government is meeting fiscal targets. It also prepares the Fiscal Risks and Sustainability report, which assesses medium- and long-term risks to public finances and contains projections of government debt.

## **2.8. Case Study 8: The United States**

### **2.8.1. Composition of budget spending**

The United States categorises federal budget expenditure into three main categories:

- Mandatory spending, mandated by existing laws,
- Discretionary spending, which must be approved through the appropriations process, and
- Net interest, reflecting the net cost of servicing federal debt.

As shown in Table 10, mandatory spending makes up the majority of expenditure within the budget, at 61% in 2023.

**Table 10. 2023 Budget by expenditure type and category**

Expenditure type	Expenditure category	Amount (billions)	% of Total expenditure
Social security	Mandatory	1 300	21%
Non-defence	Discretionary	917	15%
Medicare	Mandatory	839	14%
Defence	Discretionary	805	13%
Net interest	Net interest	659	11%
Medicaid	Mandatory	616	10%
Other	Mandatory	502	8%
Income-security programmes	Mandatory	448	7%

Note: Net Interest is defined as federal interest payments on public debt offset by interest income received by the government.

Source: Congressional Budget Office, The United States (2023<sup>[55]</sup>).

### **2.8.2. Governance and legal framework**

Mandatory spending derives its legal authority from permanent law, not from annual Appropriations Acts. A key example of such law is the Social Security Act, which has undergone numerous amendments since its 1935 origin, including establishment of disability benefits, Medicare and Medicaid. Some cases exist (i.e. Medicaid) where programmes are considered mandatory but are nevertheless established in appropriations acts (Office of Management and Budget, 2024<sup>[56]</sup>).

Most mandatory spending is funded via trust funds, which are funds legally earmarked for specific purposes. The federal government manages these funds' assets and, via legislative changes, may raise or lower trust fund collections and payments. Trust funds are funded by a combination of public payments and transfers from federal funds, with the exact combination depending on the fund in question.

While the United States Constitution states that money can only be drawn from the Treasury in consequence of appropriations made by law, there are no such specific provisions for mandatory spending. However, both discretionary and mandatory spending are included in the multi-annual expenditure baseline. Most mandatory spending is administered by the Social Security Administration, the United States Department of Health and Human Services, the Department of Labor and the Department of Energy.

### **2.8.3. Mandatory spending and the budget process**

The Office of Management and Budget (OMB) guides agencies' submissions and assembles the President's Budget, which primarily proposes discretionary levels but can also include mandatory policy changes and re-estimates. This budget is developed under the guidance of OMB Circular A-11, which instructs federal departments and agencies on how to prepare and submit budget requests, and includes guidance on mandatory spending ranging from explanations on its legal limitations to advice on how to estimate its level (White House, 2024<sup>[57]</sup>).

Congress then adopts a Budget Resolution, which sets targets for congressional committees but does not enact law. Following this, Congress considers the annual appropriations bills. In the case of mandatory spending, the law that authorises a programme and the law that determines the programme's spending are combined, and thus changing mandatory programmes requires amending the relevant authorising law (Center on Budget and Policy Priorities, 2024<sup>[58]</sup>).

A further component of the budget process is reconciliation legislation, which allows Congress to expedite the approval process of certain types of high-priority fiscal legislation. It has been exclusively used for

mandatory spending or revenue matters, although it cannot be used to modify the Social Security programme.

There are certain legislative limits on the extent to which mandatory spending can be modified. The pay-as-you-go requirement, introduced in 1985 and further established in 2010, requires that if new legislation changes revenue and/or mandatory spending in a way that results in a net deficit, an automatic across-the-board cut known as sequestration is required. Some accounts are exempt, while others follow special rules in which they can only be sequestered up to a maximum amount. Sequestration of mandatory spending is currently set to last until 2032 for most mandatory programmes and 2033 for Medicare (Office of Management and Budget, 2024<sup>[56]</sup>).

#### **2.8.4. Methodologies and tools to review mandatory spending**

The Financial Report of the United States Government is prepared by the Department of the Treasury in co-ordination with the OMB, and is audited by the Government Accountability Office. The report provides figures on gross costs and revenues, explanations of increases in expenditure at agency level, and discussions of key economic trends likely to impact expenditure levels. The Report also includes a Statement of Social Insurance, which highlights the present value of government expenditure for several components of mandatory spending, including social security and some elements of Medicare (Department of the Treasury, 2024<sup>[59]</sup>).

The OMB also prepares an “Analytical Perspectives” report with each budget, which examines the economic assumptions of the President’s Budget, provides a long-term budget outlook, and provides analyses of the budget and federal investment. It also contains a technical section which examines trust funds, explaining their purpose, financial status and funding sources (Office of Management and Budget, 2024<sup>[56]</sup>).

Separate reports are also prepared on various trust funds. For example, the Board of Trustees for the Social Security Trust Funds and the Medicare Board of Trustees prepare annual reports on the financial state of their respective funds, which are then submitted to Congress. These reports include estimates on the short-term and long-term financial sustainability of the trust funds (OASDI Trustees, 2023<sup>[60]</sup>).

#### **2.8.5. Accountability and oversight**

While Appropriations Committees only have jurisdiction over discretionary spending, the reports they receive during the budget process contain details on both discretionary and mandatory spending, so that they can understand the overall budget impact. In contrast, Legislative Committees have jurisdiction over both discretionary and mandatory spending, and can make changes by modifying the programme’s parameters. (Congressional Research Service, 2023<sup>[61]</sup>).

For both discretionary and mandatory spending, Congress must ensure that any new legislation introduced conforms to parameters set out in the budget resolution, as established under the 1974 Congressional Budget and Impoundment Control Act, thus limiting the extent to which new expenditure, including new mandatory spending, can be introduced (Congressional Research Service, 2023<sup>[61]</sup>).

The Congressional Budget Office is responsible for estimating the cost of proposed legislation and analysing the federal budget outlook. The Government Accountability Office is responsible for auditing the Financial Report of the United States Government. Both institutions prepare reports on a range of topics relating to mandatory spending, including projections of social security funds and analysis of the fiscal impact of changes to policy settings.

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