

REFORMS IN PUBLIC FINANCIAL MANAGEMENT IN THE
CONTEXT OF GREECE'S ECONOMIC ADJUSTMENT
PROGRAMMES

Hellenic Republic
Ministry of Finance
General Accounting Office of the State

The Economic Adjustment Programmes

- In early 2010, the Hellenic Republic lost access to international capital markets.
- An economic adjustment programme was agreed upon with the European Institutions and IMF.
- It was followed by two more programmes, in 2012 and 2015 respectively.
- Two broad objectives of the adjustment programmes
 - Fiscal consolidation (stabilization of debt, attainment of primary surpluses)
 - Reforms (economic efficiency, enhancement of growth potential)

Public financial management in the context of the programmes

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- Public financial management had been a critical area of reforms since the inception of the programmes.
- Six major categories on which these reforms have focused
 - Budgeting framework (strengthening of monitoring, imposition of expenditure ceilings, improved fiscal planning, introduction of sanctions)
 - Fiscal reporting (monthly data on budget execution, provision of accurate information at the General Government level)
 - Cash management (efficient management of liquidity, use of formerly idle reserves)
 - Accounting (financial statements for central administration on basis of comprehensive chart of accounts, elimination of existing fragmentation across the General Government)
 - Process of payments (streamlining of the process, avoidance of delays, clear separation of responsibilities)
 - Institutional reforms (creation of new bodies with important responsibilities with respect to fiscal issues)

Budgeting framework - overview

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- It constitutes the area where the most numerous and far-reaching reforms have taken place.
- Main issues that these reforms aimed at counteracting included
 - ▣ Poor oversight of General Government entities not belonging to Central Administration
 - ▣ Insufficient information on accounts payable and arrears
 - ▣ Only annual budgets without medium-term fiscal planning
 - ▣ No mechanisms for the imposition of strict upper limits to public expenditure
- All issues have been successfully faced through a series of reforms that culminated in two broad amendments of the Organic Budget Law, in 2010 (Law 3871) and in 2014 (Law 4270).

Budgeting framework - reforms

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- **Extension of scope from the State to the General Government**
 - ▣ Scope of fiscal management expanded to include legal entities, social security funds, local governments and public corporations classified under General Government by ELSTAT
 - ▣ Enhanced monitoring capacity of Ministry of Finance
 - ▣ Improvement of information used for fiscal projections
 - ▣ More accurate and detailed picture of fiscal finances at any point in time
 - ▣ Better identification of potential fiscal risks

Budgeting framework - reforms

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- **Introduction of top-down budgeting**
 - ▣ Imposition of expenditure ceilings that cannot be exceeded by Central Administration entities
 - ▣ Imposition of balance targets that must be adhered to by General Government entities
 - ▣ Significant reinforcement of oversight by Ministry of Finance
 - ▣ Attainment of fiscal discipline is built in the process of the drafting and execution of entities' budgets

Budgeting framework - reforms

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□ **Introduction of Medium Term Fiscal Strategy**

- Increase of the budgeting framework's horizon to 4 years, i.e. the budget year and three subsequent ones
- The MTFS includes targets for the fiscal balance and the level of debt of General Government, spending ceilings for Central Administration entities and balance targets for General Government entities
- Ceilings imposed through the MTFS are binding for the first two years
- Binding targets and expenditure ceilings must be observed during the process of drafting of the State Budget and the budgets of the General Government sub-sectors
- Fiscal projections are included for all sub-sectors both for baseline scenario and for scenario incorporating policy changes

Budgetary framework - reforms

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- **Establishment of Commitment Registries in all General Government entities**
 - ▣ All entities obliged to keep detailed registry of all obligations they assume against third parties
 - ▣ It is ensured that no obligation of General Government can be assumed in excess of available appropriations
 - ▣ Important tool through which pending commitments, accounts payable and arrears can be accurately known and closely monitored
 - ▣ Commitment registries in place in all General Government entities, including all available information for assumed obligations
 - ▣ Entities obliged to collect information on payables and arrears and submit it to the General Accounting Office on a monthly and quarterly basis

Budgetary framework - reforms

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- **Establishment of mechanism for monitoring SOEs budgets**
 - ▣ Budgets of SOEs over 10 million must be approved not only by the supervising Ministry, but also by the Ministry of Finance
 - ▣ SOEs obliged to submit to General Accounting Office monthly and quarterly targets, as well as data on their monthly budget execution, irrespective of whether they are classified within General Government or not
 - ▣ If monthly execution data show a divergence higher than 10%, then SOEs face sanctions that include the obligation for the implementation of corrective measures, the restriction of grants from the State Budget and the reduction of the entity's gross borrowing ceilings
 - ▣ These provisions have established a comprehensive monitoring framework that provides the Ministry of Finance with adequate information on SOEs' real and potential effect on the General Government's fiscal position

Budgetary framework - reforms

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- **Establishment of Local Governments Observatory**
 - Established at the Ministry of the Interior in order to
 - monitor the budget execution of Local Governments and legal entities supervised by them
 - ensure the attainment of the balanced budgets target
 - LGs are obliged to submit an Integrated Action Plan which can be modified by the Observatory if revenue projections are judged to be over-estimated
 - If the Plan is not submitted within the set deadline, the Observatory can propose that a fraction of grants from the State Budget can be withheld
 - In case of a higher than 10% divergence from quarterly targets, the Observatory provides with instructions and specific suggestions
 - If the divergence continues for two consecutive quarters, the LG is subject to a mandatory Consolidation Programme
 - This implies suspension of hirings, increase in own revenues and restriction of expenses to inelastic ones

Budgetary framework - reforms

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- **Transposition of the 2011/85/EU Directive**
 - The Directive was transposed through Law 4270/2014 which constituted a comprehensive amendment of the Organic Budget Law
 - The provisions that were transposed include
 - The explicit introduction of general rules of fiscal planning
 - Fiscal balance rule: the fiscal position of the General Government must be either balanced or in surplus, in the sense that its structural balance lies at the medium-term fiscal target
 - Lower bound for medium-term fiscal target set at -0.5% of GDP, or -1% if debt to GDP ratio is below 60%
 - Public debt rule: difference between public debt and reference value of 60% must be reduced by 5% on average on annual basis
 - Establishment of correction mechanism that can be activated by the Minister of Finance through the submission of a corrective measures plan to Parliament, in case of a significant divergence from the medium-term fiscal target or from the adjustment path towards it

Budgetary framework - reforms

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- **Budgeting reforms introduced through OBL amendments, including**
 - ▣ The introduction of a consolidated Social Budget, submitted to Parliament along with the State Budget
 - ▣ The introduction of explicit requirements for the submission of supplementary budgets
 - ▣ Introduction of penalties in case of OBL violations with respect to re-allocation of budget appropriations
 - ▣ More strict framework for the use of the Contingency Reserve and strict boundaries with respect to its size
 - ▣ Tightening of the legal framework for the assumption of obligations by authorizing officers
 - ▣ Introduction of monthly and quarterly targets for budget execution, including sanctions in case of a significant divergence
 - ▣ Explicit restrictions to the availability of appropriations, especially during the first semester of the year

Fiscal reporting - overview

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- Main challenges with respect to fiscal reporting included the following
 - ▣ Regular publication of State revenues, expenditures and financing on cash basis
 - ▣ Creation of monthly consolidated General Government reports including a breakdown for each sub-sector
 - ▣ Monthly reporting on accounts payable and arrears for the entire General Government sector

Fiscal reporting - reforms

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- **Monthly report of cash basis statistics on revenues, expenditures and State financing**
 - ▣ Published by the General Accounting Office of the Ministry of Finance, in both a preliminary and a final form
 - ▣ Includes official data on budget execution, as well as on the financing needs of the State
 - ▣ Data on collection of revenues broken down by category of tax or non-tax revenue
 - ▣ Detailed analysis of State expenditures
 - ▣ Posted on Ministry's website providing easy access to valuable information about fiscal management

Fiscal reporting - reforms

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- **Publication of General Government Monthly Bulletin**
 - Consolidated report including data on revenues, expenditures and intra-governmental transfers both for the General Government and for each sub-sector
 - All GG entities submit to GAO financial data on budget execution and unpaid obligations on monthly basis
 - Sub-sectors include State, Central Government, EBFs of Central Government, Local Governments, Social Security Funds and Hospitals
 - Data recorded on cash basis, classified according to international statistical standards and depict both fiscal balance and net financial transactions
 - GGMB also contains data on
 - Gross debt of Central Administration
 - Outstanding amount of State guarantees and related cash calls
 - Level and time-path of GG arrears, broken down by sub-sector and including tax refunds

Fiscal reporting – work in progress

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- Although basic challenges have been met, work is currently under way for further improvements in fiscal reporting including
 - ▣ Reconciliation of State budget execution results of the two bulletins currently published
 - ▣ Reconciliation of consolidated General Government reports with the reports used for the monitoring of the Adjustment Programme
 - ▣ Transformation of cash data of the General Government Monthly Bulletin into accrual basis
 - ▣ Compilation of financial balance sheets and other flow data for General Government and its sub-sectors
 - ▣ Preparation of input tables for purposes of the Excessive Deficit Procedure

Cash management - overview

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- Challenges with respect to cash management included
 - ▣ Excessive fragmentation of reserves due to great number of accounts held at commercial banks, with respect both to ordinary budget and to the PIB
 - ▣ Existence of significant idle balances in accounts of GG entities that could not be used to alleviate liquidity constraints faced by the State
 - ▣ Necessity for a more efficient short-term management of cash balances and for credible short-term projections of the State's liquidity position

Cash management - reforms

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- **Preparation of cash flow projections**
 - ▣ Projections prepared by the Budget Directorate of GAO, taking into account all inflows to and outflows from the State's central account at the Bank Of Greece
 - ▣ Ensures the provision of all available information so that payments be adequately programmed and financing needs be properly assessed
 - ▣ Enhances the State's capacity for liquidity management and for projecting future short-term financing needs

Cash management – reforms

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- **Implementation of repo transactions**
 - Repo borrowing framework has been implemented, consisting in transactions between the Public Debt Management Agency and the Bank of Greece
 - Initiated in order to alleviate State's financing needs through the use of idle reserves of GG entities that were deposited in private banking institutions
 - Significantly widened in scope through mandatory transfer of many entities' reserves to the Bank of Greece
 - Continuous implementation has led to substantial improvement of State's liquidity position through use of available resources that used to remain idle
 - Has greatly contributed to the establishment of a more general framework for the efficient management of available liquidity

Cash management - reforms

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- **Establishment of the Treasury Single Account**
 - Established with the objective of pooling liquid resources to the State's treasury so as to reduce financing costs
 - Closure of all Central Administration accounts in private banks and transfer of balances to TSA accomplished within time-schedule, with over 2.000 accounts closing between 2014-2016
 - Exemptions made only for imprest accounts and pre-payment vouchers
 - Comprehensive recording of accounts in commercial banks and respective balances has been completed for both Central Government and General Government entities

Cash management – work in progress

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- Although pooling of liquidity to the TSA has by and large been accomplished, room for further improvement certainly exists
- TSA should become fully operational in following sense
 - ▣ It will constitute the core of an integrated system of payments and accounting
 - ▣ It will possess a clear structure comprising of head account and sub-accounts corresponding to specific CG and GG entities
- Capacity in performing treasury operations and efficient liquidity management already enhanced, but above reforms will maximize the potential
- An efficient structure of the TSA will enable the transfer of balances of all CG entities and of a significant amount of GG entities

Accounting - overview

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- Challenges with respect to accounting included the following
 - ▣ Different charts of accounts simultaneously in force for different categories of GG entities and covering the entire range from cash to accrual accounting
 - ▣ Specifically, different accounting provisions are in place for Central Administration, Social Security Funds, Legal Entities of Public Law, Hospitals and Local Governments
 - ▣ Fragmentation of accounting standards complicates financial and fiscal reporting and may restrict the transparency of respective reports

Accounting - reforms

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- **Double-entry accounting of modified cash basis**
 - Established as accounting system for Central Administration through Law 3871/2010
 - Reporting principles and detailed chart of accounts determined through Presidential Decree in 2011
 - Since 2011 financial statements of Central Administration have been drafted on basis of new accounting methodology
 - Statements annually produced include Statement of Financial Position (Balance Sheet), Income Statement (Profit and Loss Statement), Cash Flow Statement and Statement of Changes in Equity
 - Important step in the direction of producing accurate financial statements, capable of providing adequate information on the State's financial position to all stakeholders

Accounting - reforms

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- **Chart of accounts for the General Government**
 - ▣ Authorization by OBL for the creation of new Chart of Accounts that will replace existing charts and will be used by all GG entities
 - ▣ New CoA to be organized in accordance to international standards and to cover needs related to both the budget and accounting
 - ▣ It will contain at least an economic, an administrative and a functional classification
 - ▣ Will be accompanied by system of explicit accounting rules that will be based on International Public Sector Accounting Standards
 - ▣ Comprehensive draft of new CoA containing economic classification up to 4th level of analysis already created by competent working group at GAO
 - ▣ New CoA to be legislated through a PD in order to be used in the process of drafting the 2018 budget

Accounting – work in progress

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- Drafting of 5th level of economic classification already in progress
- New administrative classification to be attached to the new CoA, replacing the current system of “special entities”
- Functional classification to be created along the lines of Classification of Functions of Government (COFOG)
- Implementation of new CoA by all GG entities
- Gradual transition from cash to accrual accounting on the basis of the new CoA

Process of payments - overview

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- Challenges with respect to the process of payments included
 - ▣ Delays in payments as a result of cumbersome processes: expenditures were audited by two independent bodies and execution of payments conducted through the local tax offices
 - ▣ Inefficient operation of system of ex ante audits: audit was performed prior to execution of payment although expenditure had already been realized
 - ▣ Diffusion of responsibility due to the great number of entities that were involved in the process (line Ministries, GAO, Hellenic Court of Auditors and Tax Administration)
 - ▣ Liquidity constraints faced by the State as a result of fiscal crisis led to further delays in payments and contributed to the accumulation of arrears and payables

Process of payments - reforms

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- **Implementation of arrears clearance programmes**
 - ▣ Substantial rise in General Government's stock of arrears necessitated implementation of clearance programmes so as to restore liquidity conditions in private economy
 - ▣ First programme implemented in 2013-2014 and led to significant reductions in stock of arrears of all GG sub-sectors
 - ▣ Second programme initiated in July 2016 and is still ongoing, but substantial reductions in stock of arrears have already been accomplished
 - ▣ Current programme is financed through a dedicated account to ensure transparency in the use of ESM funds and its continuation is subject to the attainment of targets agreed upon with the Institutions
 - ▣ In the first six months of implementation, programme shows significant over-execution with respect to the targets in terms of reduction of net stock of arrears
 - ▣ Both programmes implemented through special financing in the context of the respective Economic Adjustment Programmes without affecting the GG fiscal balance

Process of payments - reforms

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- **Shift of payments execution to FAOs and increased threshold for HCA approval**
 - Both reforms aimed at streamlining payments process, reducing time required for payments to be processed and executed and alleviating the administrative cost implied in these procedures
 - Responsibility for execution of payments transferred to FAOs from 01/01/2014 onwards in an attempt to reduce delays and in the context of a re-organization in geographical distribution of local tax offices
 - The second reform consisted in the increase in the threshold for the performance of audits by the HCA from 15.000 to 30.000 for Central Administration expenditures in order to counter the creation of bottlenecks
 - For the same reason, a threshold of 5.000 was established for expenditures by Hospitals
 - Both reforms implied savings in terms of administrative cost, as well as a reduction in the average time required for payments to be executed

Process of payments - reforms

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□ **Abolition of ex ante audits**

- Ex ante audits of expenditures were conducted both by GAO (through the FAOs) and by the HCA
- No payment could be executed unless its legality and regularity were verified by both auditors
- The system led to delays since all expenditures had to be audited by two independent bodies
- Implied that rejected expenditures would have to be settled in courts, often leading to imposition of overdue charges
- Responsibility for the expenditure was spread across several entities
- System often led to confusion since different FAOs judged differently the fulfillment of legality and regularity criteria for similar types of expenditures
- Ex ante audits were abolished in the context of the transfer of responsibilities from FAOs to line Ministries' GDFSs
- Their abolition took effect on 01/01/2017 for State expenditures, while it will come into force from 01/01/2019 onwards for Local Governments' expenditures

Process of payments - reforms

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- **Transfer of responsibilities from FAOs to the GDFSs of line Ministries**
 - Culmination of a series of reforms aiming at streamlining the payments process, minimizing delays and creating within line Ministries the required capacities for the management of their budgets
 - Refers to FAO's former responsibilities with respect to the control of expenditures' legality and regularity requirements, the clearance of the expenditure, the issuance of the payment vouchers and the final execution of the payment
 - Entire process, from the authorization of an expenditure to the final payment order to the Bank of Greece to be conducted within Ministries' financial services
 - Ministries and GG entities are granted autonomy with respect to management of their financial affairs and are made solely responsible for it
 - Ministry of Finance strengthens its role with respect to fiscal planning, fiscal oversight and surveillance of entire GG sector and performance of audits without actively participating in payment process for every State expenditure
 - Transfer accompanied by re-organization of GDFS structure so that new responsibilities be assumed without violating standing provisions on separation of duties
 - New role assigned to FAOs related mainly to fiscal oversight of GG entities and the performance of audits

Institutional reforms - SPA

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- Census of all employees of State, Local Government and legal entities and creation of relevant Registry at the Ministry of Administrative Reform
- Establishment of Single Payment Authority at GAO, with responsibility for payment of wages to all personnel recorded in the Registry
- Significant reduction in administrative cost, since all wage payments are conducted through banking system
- Increased capacity for cross-checks on public servants' remuneration
- Significant source of quantitative data that allows for closer monitoring of State's expenditure for wages
- Through recent amendment of relevant legislation, obligation for recording employees in the Registry was extended to cover all entities classified under General Government, thereby enhancing the Authority's scope

Institutional reforms - PBO

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- The Parliamentary Budget Office was established in 2010 through an amendment in the Hellenic Parliament's Regulation
- Objectives were to increase transparency of fiscal management, to strengthen institutional controls on government's fiscal policy and to improve quantity and quality of information available to the Parliament
- PBO reports directly to the President of the Hellenic Parliament
- Provision of necessary data and information is mandatory for the Ministry of Finance, as well as for other Ministries and public entities
- Responsibilities include
 - ▣ Monitoring of State budget execution
 - ▣ Analysis and assessment of fiscal projections
 - ▣ Assistance to relevant Committees of the Parliament
 - ▣ Submission of reports on fiscal issues
- Operation of PBO implies not only increased transparency, but also a reinforcement of Legislative Branch and an increase in its capacity to control the Executive

Institutional reforms - GDFS

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- General Directorates of Financial Services were established in all Ministries with the objectives of
 - ▣ Overcoming previous fragmentation with respect to responsibilities for financial issues
 - ▣ Improving fiscal discipline through centralization of financial functions and delegation of important responsibilities to Head of the GDFS
- Responsibilities include
 - ▣ Sound fiscal management of Ministry and supervised entities
 - ▣ Observance of Medium-Term Fiscal Strategy
 - ▣ Quantification and assessment of all policies with fiscal implications
 - ▣ Provision of accurate financial information to Ministry of Finance and other interested parties
 - ▣ Observance of spending ceilings of Ministry's budget
 - ▣ Management of Ministry's resources
 - ▣ Compliance to GAO's instructions and submission of all required fiscal data
- Operation of GDFSs strengthened overview and monitoring of budget execution and improved flow of information between Ministry of Finance and line Ministries
- It also strengthened fiscal discipline which was imposed through units responsible for their entities' budgets, operating under same principles and following centrally provided instructions

Institutional reforms – HFC

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- Hellenic Fiscal Council was established as an Independent Administrative Authority responsible for
 - ▣ Monitoring and assessing macroeconomic and fiscal projections
 - ▣ Monitoring compliance to fiscal rules with a view to the attainment of medium-term fiscal targets
- Constitutes the first independent authority for monitoring and assessing fiscal policy in Greece
- Assesses projections, targets and implementation of policies related to the Budget and the MTF5 and provides instructions for the correction of systemic biases
- In case the HCA discovers shortcomings with respect to the projections made, the Ministry of Finance is obliged to publish the relevant findings and adopt corrective measures
- Publishes biannual reports on fiscal condition
- Reviews the process through which macroeconomic projections are made every 4 years
- Can publish any additional report in areas of its responsibility
- Already operational, with Board of Directors in place and adequately staffed

A summing up – what has been accomplished

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- A fully developed budgeting framework allowing for the efficient monitoring and oversight of budget execution
- A consistent Medium-Term Fiscal Strategy with the necessary safety valves in terms of both legal provisions and procedures
- Accurate and timely fiscal reporting at the General Government level
- Substantial improvements in the efficiency of liquidity management
- Publication of financial statements for Central Administration on the basis of a consistent accounting methodology
- Streamlining of the process of payments and elimination of bottlenecks arising out of cumbersome procedures
- Establishment of independent bodies with important responsibilities on fiscal issues, providing with the necessary checks and balances

A summing up – what remains to be done

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- Completion of the accounting reform through the implementation of the new Chart of Accounts
- Full operation of the Treasury Single Account on the basis of a rational internal structure and a comprehensive system of accounting
- Gradual transition to accrual accounting and related improvements in fiscal reporting
- Enhancement of the audit mechanism's capacity through the accumulated experience of FAOs
- Establishment of the necessary framework for the regular performance of spending reviews
- Establishment of the necessary framework for conducting assessment of policies and actions from viewpoint of economic efficiency
- Planning and gradual introduction of programme budgeting

Thank you for your attention...