



HELLENIC REPUBLIC

GREECE: Recent developments in Public Financial Management

**Ministry of Finance
General Accounting Office
General Secretariat for Fiscal Policy**

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Abbreviations

EA	Euro Area
ECB	European Central Bank
EC	European Commission
EFSF	European Financial Stability Facility
ESM	European Stability Mechanism
EU	European Union
GAO	General Accounting Office
GDFSs	General Directorates of Financial Services
HCA	Hellenic Court of Audits
HFC	Hellenic Fiscal Council
IMF	International Monetary Fund
LGs	Local Governments
MoF	Ministry of Finance
MTFS	Medium-Term Fiscal Strategy
OBL	Organic Budget Law
PBO	Parliamentary Budget Office
PDMA	Public Debt Management Agency
PFM	Public Financial Management
PIB	Public Investment Budget
SOEs	State Owned Enterprises
SSFs	Social Security Funds
TSA	Treasury Single Account

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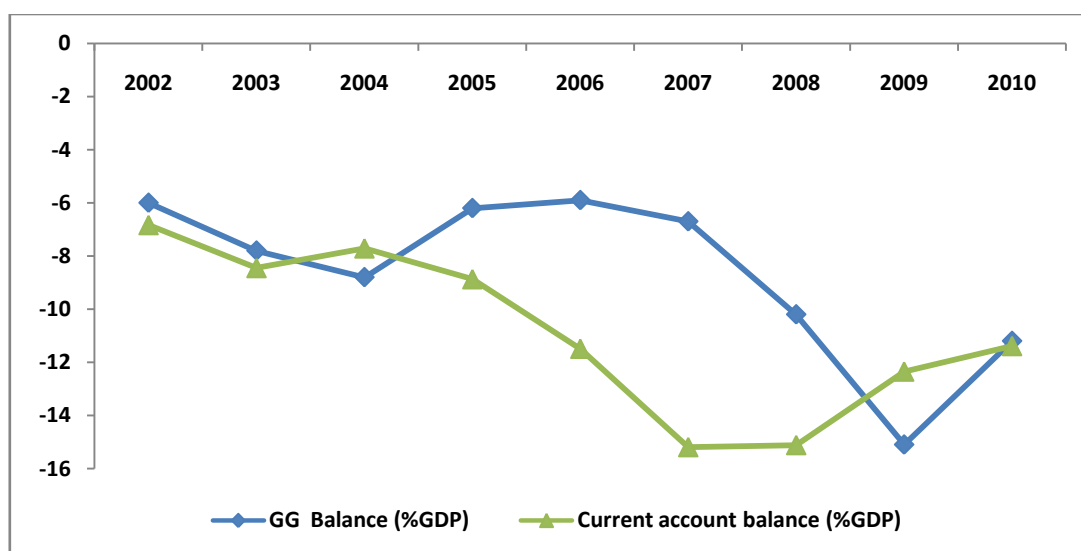
I. Introduction

From the mid-90s until the onset of the 2008 financial crisis, the Greek economy experienced a period of constant GDP growth that was accompanied by a sharp reduction in inflation and interest rates and marked by the country's participation in the euro area.

Over the period 2000-2008 constant growth reflected a domestic boom particularly in consumption. At the same time however, the share of exports in GDP declined and external competitiveness was weak. The combination of domestic demand growth and weakening external competitiveness translated into a rapid deterioration of the current account deficit. Greece's chronic imbalances with respect both to its fiscal deficit and to its current account were never adequately resolved, leading the already high twin deficits to unsustainable levels once the economy slowed down and access to liquidity was restricted as a result of the financial crisis.

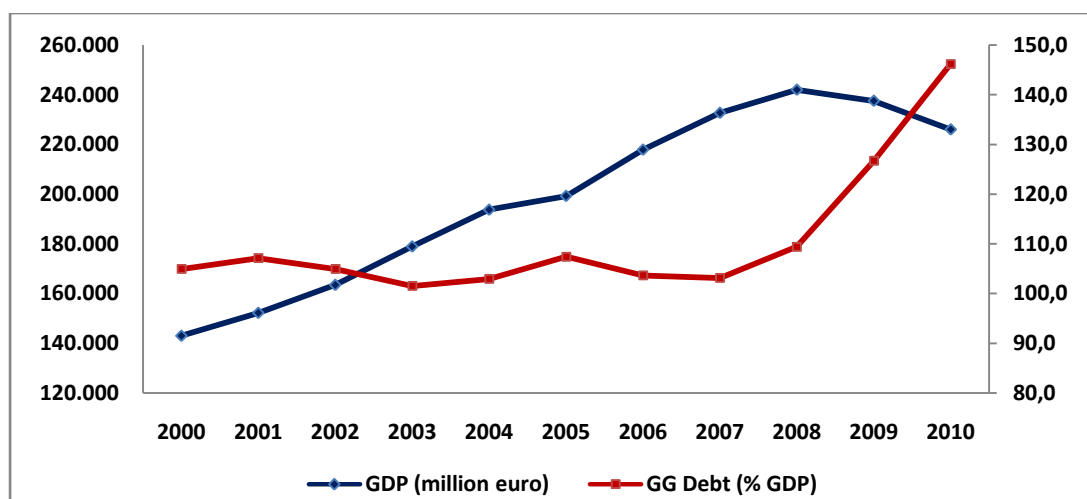
Specifically, the fiscal balance of the General Government fell below -10% in 2008 and collapsed in 2009 (-15.1%), while the economy's current account deficit rose to approximately 15% of GDP in 2008. As a result, the General Government's debt to GDP ratio, which had remained relatively stable at a level around 100% throughout the preceding period, rose to 126.7% in 2009 and to 146.2% in 2010, hence making refinancing at reasonable interest rates exceedingly difficult and eventually leading to the loss of access to international markets for covering borrowing requirements.

Figure 1: Fiscal Balance & Current Account Balance 2002-2010



Source: Eurostat and Bank of Greece

Figure 2: GDP and Public Debt 2000-2010



Source: Eurostat

The economic adjustment programmes¹ agreed upon with the International Monetary Fund (IMF) and the European Institutions secured the necessary resources for the refinancing of the Greek debt, thus preventing a default, and focused on two broad sets of objectives. The first set related to the required fiscal consolidation that would bring the primary fiscal balance into positive territory and reverse the rising trend of the debt to GDP ratio, as well as to the required implementation of policies to safeguard the stability of the financial sector. The second set of objectives related to the implementation of a series of structural reforms that would modernize the operation of the public sector and raise the competitiveness of the Greek economy and support growth.

Public Financial Management (PFM) has been one of the most prominent areas of reforms in the context of these objectives and the description of the specific reforms that have been pursued in this area constitutes the central aim of this paper. Weaknesses in the PFM area in need of modernization and reforms had already been identified even before the crisis, with the assistance of both the IMF and the OECD, and mostly consisted in fragmentation of functions, high degree of centralization of budgeting, multiplication of controls, detailed input orientation and low accountability, lack of multiannual planning framework, not sufficiently inclusive budget scope etc.

The PFM reforms implemented can be placed under six broad categories referring to the budgeting framework, fiscal reporting, cash management, accounting, payment processes and various institutional reforms. In the following sections, each one of these categories of reforms is going to be discussed in turn, focusing on the specific problems that the several reforms were meant to address and on the mechanisms that have been created in order for this task to be accomplished. The concluding section offers an overview of the progress that has been made on the area of PFM up to the present point, as well as a brief description of

¹ The first economic adjustment programme was agreed in May 2010 with euro area member states and the IMF. The second programme was agreed in March 2012 between Greece, EFSF and the IMF. In August 2015, Greece entered a financial assistance agreement with ESM, based on a three-year programme agreed upon with the European Commission, in liaison with the ECB and the IMF.

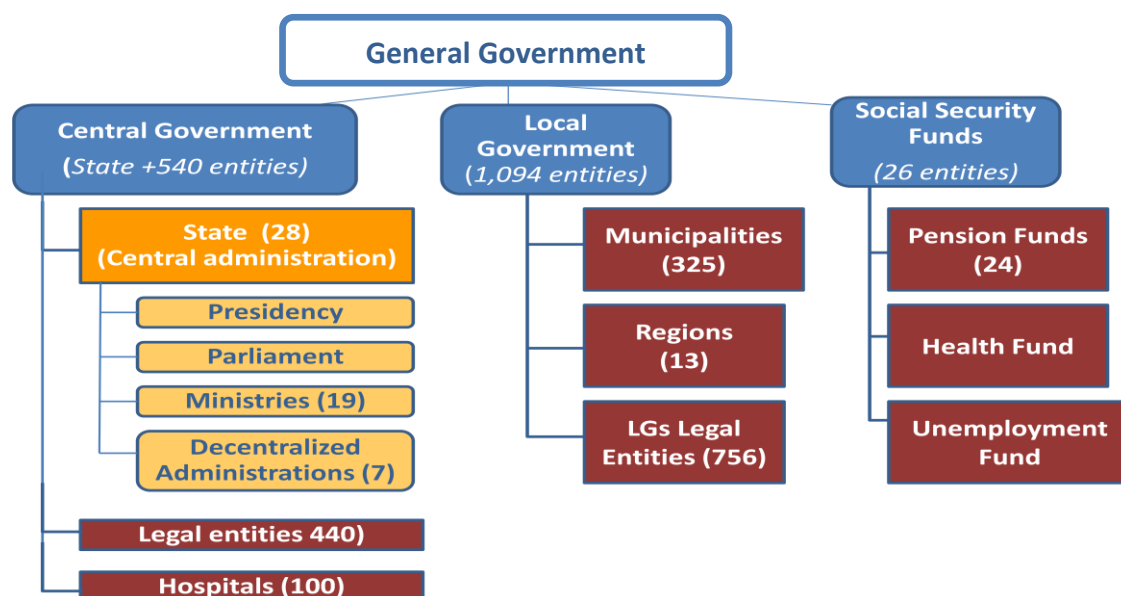
the next steps with respect to reforms that are currently in the phase of design or implementation.

II. Budgeting

The budgeting framework constitutes the area of PFM on which the reform agenda has mainly focused, hence also the area where the most numerous and far-reaching reforms have taken place. The main problems that budgeting reforms were meant to address were the poor oversight of General Government entities outside the confines of the State², the existence of insufficient information with respect to accounts payable and arrears, the lack of medium-term fiscal planning and the lack of adequate mechanisms for the imposition of strict upper limits to public expenditure.

All these problems have been adequately addressed through a series of reforms that culminated to two broad amendments of the Greek Organic Budget Law (OBL)³ in 2010 and in 2014⁴. The most important of these reforms, which are discussed in turn in the following paragraphs, include the extension of the budgetary scope from the State to the General Government, the strengthening of top-down budgeting, the introduction of the Medium Term Fiscal Strategy (MTFS), the establishment of commitment registries in all General Government entities, the establishment of monitoring mechanisms for State, Legal entities and State Owned Enterprises (SOEs) and for Local Governments (LGs) and the transposition into the national legal framework of the 2011/85/EU Directive on requirements for budgetary frameworks of the Member States.

Figure 3: General Government in Greece



Source: Hellenic Statistical Authority and General Accounting Office, April 2017

² Central Administration entities, i.e. the Parliament, the Presidency, spending ministries and Decentralised Authorities.

³ The term Organic Budget Law (OBL) is used throughout the text in order to refer to the basic legislation related to the management of public finances. However, the term is not strictly correct, since in the Greek legal order there can exist no laws with increased force in relation to ordinary legislation.

⁴ Law 3871/2010 and Law 4270/2014.

Expansion of fiscal monitoring to the General Government

Since the EU fiscal surveillance framework refers to debt and fiscal balance in terms of General Government, it was more than necessary to accordingly amend the focus of fiscal management.

Thus, the scope of fiscal management has been explicitly expanded from the State to the entire General Government, hence incorporating supervised legal entities, Social Security Funds (SSFs), LGs, as well as public corporations that are classified within General Government by the Hellenic Statistical Authority. Furthermore, in order for the expenditures of the social sector to be illustrated in a more systematic manner, the budgets of SSFs and Hospitals are integrated into a unified Social Budget included in the report submitted to the Parliament along with the annual State Budget.

As a result of the expanded budgetary scope, the monitoring and programming capacity of the Ministry of Finance has been substantially increased, while the quality and quantity of information used as an input for fiscal projections is greatly improved. Rather than focusing almost entirely within the narrow confines of the State, fiscal management encompasses sub-sectors that significantly affect the General Government fiscal result, but the fiscal monitoring and oversight of which had in the past been insufficient. Hence, the extension of scope provides with a much more accurate and detailed picture of the condition of public finances at any point in time, as well as of the potential future risks that should be countered in a timely manner.

Figure 4: General Government Budget Structure



Multiannual budgeting framework

Through the establishment of the Medium Term Fiscal Strategy (MTFS), the relevant horizon for the budgeting framework was increased to four years, i.e. the budget year and three subsequent years. For these years, the MTFS includes, among else, the targets for the fiscal balance and the level of debt of the General Government, spending ceilings for the State and balance targets for the budgets of LGs, SSFs and the rest of the General Government entities. These ceilings and targets are binding for the first two years. Moreover, it contains fiscal projections for each sub-sector of the General Government both for the baseline scenario assuming no policy change and for the scenario incorporating the fiscal measures that the government has decided to implement. The binding targets and the expenditure ceilings determined through the MTFS must be observed during the process of drafting the State budget as well as the annual budgets of the General Government sub-sectors, while the execution of these budgets must also comply with them.

The nexus of these provisions makes the MTFs an indispensable tool for the management of public finances and provides with the necessary framework for fiscal programming in the medium-term, thereby strengthening the budgetary framework, leading to more accurate fiscal projections, minimizing the risks of budget execution and ensuring the implementation of the government's fiscal strategy.

Top-down budgeting

The implementation of top-down budgeting was strengthened through amendments in the OBL and through the imposition of expenditure ceilings that cannot be exceeded by the State, while revenue targets for the State are also set.

In the case of General Government entities that are not part of the State, the same principle is applied with respect to the imposition of balance targets - instead of expenditure ceilings – to which the entities' budgets must adhere.

As far as the State entities are concerned, the budget is drafted by adhering to the ceilings set per entity and per major category of expenditure, whereas previously the budget was drafted in detail by budget code. Each entity is responsible for breaking down the ceilings by budget code according to its own individual needs, as well as for modifying its budget within the initial ceilings.

Therefore, the oversight of the Ministry of Finance over the entire General Government budget is significantly reinforced and the attainment of fiscal discipline is built in the very process through which the entities' budgets are drafted and executed. At the same time the system allows for flexibility and reinforces accountability and budget ownership by each entity.

Commitment registry

In order to ensure the adequate monitoring of arrears and accounts payable, all General Government entities are obliged to keep a detailed registry of every obligation that they assume against third parties. The establishment of commitment registries was one of the first reforms that took place in the context of the Greek economic adjustment programmes in an attempt to strengthen the monitoring of budget execution, to ensure that no obligation of the General Government can ever be assumed in excess of available appropriations and to provide with a tool through which the General Government's pending commitments, accounts payable and arrears can be accurately known and closely monitored.

Commitment registries are currently in place in all General Government entities, including information on the available appropriations in each budget code, the decisions through which obligations are being assumed, the invoices related to the specific expenditure, the payment vouchers issued and the outstanding amount of accounts payable and arrears. The heads of financial services of all ministries and other General Government entities are obliged by law to collect the information on accounts payable and arrears from the commitment registries and submit reports to the General Accounting Office (GAO) on a monthly and quarterly basis,

thereby ensuring the availability of information at the central level and providing the Ministry of Finance with a clear and detailed view of the process of budget execution.

In addition to being fully comprehensive, reliability of the data of commitment registries has also been strengthened, contributing to the closer monitoring of arrears of General Government to third parties. At the same time, in order to restore the levels of liquidity in the private economy and reduce arrears an endeavour for clearance of General Government arrears was launched in 2012. In total, by the end of 2014 arrears were reduced significantly compared to end-2012 by 65%.

Budget execution monitoring mechanism

In the context of fiscal management reforms that have taken place over the past few years, a mechanism has been established in order to monitor the budgets of General Government entities.

Spending ministries, all SSFs and the rest of the General Government entities with a budget higher than 10 million euro are obliged to submit to GAO- Ministry of Finance a monthly budget implementation program and quarterly data on budget execution. On the basis of the data submitted by the entities, the GAO publishes on a quarterly basis reports which include data on the targets, the actual execution and the divergences observed.

In case the monthly execution data show a negative divergence from the quarterly targets that is higher than 10%, entities are obliged to implement corrective measures and may face sanctions. The Budget Directorate of the GAO is also authorised to reduce all kinds of grants to the specific entity from the State Budget if such corrective measures are eventually not taken.

The above provisions are also in force for SOEs that are not classified within the General Government, hence leading to 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, as well as the necessary tools in order to timely identify potential threats and take the required corrective measures.

With regard to the LGs, given the restrictions set by the Constitution providing for a special status of independency, a strict monitoring framework by the Ministry of Finance could not apply. Thus, the Local Governments Observatory was established in the Ministry of the Interior in order to closely monitor the execution of the budgets of LGs and the legal entities supervised by them and to ensure the attainment of the balanced budgets target. In the context of reinforcing fiscal discipline over all General Government entities, LGs have to submit an Integrated Action Plan, which is assessed and potentially modified by the Observatory, especially in cases where projected revenues are judged to be over-estimated. If an LG does not submit its Integrated Action Plan within the deadlines that have been set, then a fraction of the grants that the LG receives from the State Budget can be withheld after a justified proposal by the Observatory. If a higher than 10% divergence from the Plan's

quarterly fiscal targets is identified, the Observatory provides with instructions and specific suggestions for the correction of the divergence. If the divergence continues for two consecutive quarters, then the specific LG is subject to a mandatory Consolidation Programme after the Observatory's justified proposal. While subject to the Consolidation Programme, LGs are obliged to implement a number of measures including the suspension of hirings, as well as the increase of own revenues and the restriction of their expenses to absolutely inelastic expenditures.

Organic Budget Law Amendments

The redrafting of Organic Budget Law (OBL) that took place in 2014⁵ transposed into the national legal framework the provisions of the 2011/85/EU Directive on requirements for budgetary frameworks of the EU Member States, fully aligned the national law with the overall requirements of the EU economic surveillance framework as defined by the six-pack⁶ and the two-pack⁷ and also incorporated the fiscal compact⁸. Besides the explicit introduction of general principles of fiscal planning, these provisions also included the introduction of a fiscal balance rule, a public debt rule, as well as an automatic correction mechanism that is set into force in the effect of a significant divergence from either the medium-term fiscal target or the course of adjustment towards it⁹.

Other reforms introduced through OBL amendments include the determination of explicit requirements for the submission of a supplementary budget, the imposition of sanctions to State entities (i.e. spending ministries) in cases of violations of OBL provisions regarding reallocations of appropriations, a more strict framework for the use of the contingency reserve, as well as for the assumption of obligations by authorizing officers and the introduction of restrictions to the availability of appropriations in the case of discretionary spending categories. All these amendments act so as to enforce fiscal discipline and accountability, providing with the necessary complement to the broader reforms that were discussed in the previous paragraphs and leading to the emergence of a comprehensive budgeting framework that can ensure the effective control of fiscal finances and of the execution of the budget by the Ministry of Finance.

III. Fiscal reporting

The main challenges that had to be addressed with respect to fiscal reporting were

- the regular publication of cash data on State's revenues, expenditures and financing needs,

⁵ Law 4270/2014 followed by Law 4337/2015 that introduced amendments to the initial law.

⁶ Regulation (EU) No 1173/2011, Regulation (EU) No 1174/2011, Regulation (EU) No 1175/2011 Regulation (EU) No 1176/2011, Council Regulation (EU) No 1177/2011, Council Directive 2011/85/EU.

⁷ Regulation (EU) No 472/2013 and Regulation (EU) No 473/2013.

⁸ Title III of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

⁹ According to the fiscal balance rule, as agreed under the fiscal compact the fiscal position of the General Government must be either balanced or in surplus, in the sense that its annual structural balance lies at the pre-determined medium-term fiscal target, while the lower bound for this target is set at -0,5% of GDP, or -1% of GDP in case the debt to GDP ratio is significantly lower than 60%. According to the public debt rule, the difference between the level of debt and the reference value of 60% must be reduced by 5% on average on an annual basis. Greece being a country under an adjustment programme is exempted from several obligations set out by the EU economic surveillance framework and the current programme targets apply instead.

- the creation of a consolidated report for the entire General Government that would include the breakdown for each sub-sector and
- the capacity to report on a monthly basis on the arrears of both the State and General Government entities.

These challenges have been met through the regular publication of two monthly bulletins, the contents of which are discussed in the following paragraphs.

State Budget Bulletin

The General Accounting Office (GAO) of the Ministry of Finance publishes on a monthly basis two cash basis reports, a preliminary and a final one, including official data on budget execution, as well as on the financing needs of the State. The report contains data on actual collections of revenues until the end of the reference period, broken down by the category of tax or non-tax revenue that they refer to, while it provides with a similarly detailed analysis for the expenditure that has taken place in the relevant time period.

Moreover, it contains both the respective amounts for the previous year and the pre-determined targets for the current year in order to facilitate the assessment of the process of budget execution. The monthly report is available on the website of the Ministry of Finance, thereby providing to the public easy access to valuable information on the management of the public finances.

General Government Bulletin

With respect to the General Government, GAO on a monthly basis collects and analyses financial data on their budget execution, as well as information on their unpaid obligations to third parties.

On the basis of these data, GAO publishes on a monthly basis a consolidated report which includes data on expenditure, revenues and intra-governmental transfers both for the General Government as a whole and for each sub-sector. Specifically, the sub-sectors refer to the State, Central Government, Legal Entities of the Central Government, LGs, SSFs and Hospitals. The financial data are reported on a cash basis, classified according to international statistical standards and they depict, for each sub-sector of the General Government, both the fiscal balance and the net financial transactions.

In addition to the above, the General Government Monthly Report contains data on the gross debt of the State, on the outstanding amount of State guarantees (including guarantees to General Government entities, to entities not classified in the General Government and to credit institutions) and on the level and time-path of General Government arrears, broken down by sub-sector and including tax refunds pending in the tax administration.

IV. Cash management

Cash management constituted an area with substantial room for improvement, in the sense that the management of liquidity was quite inefficient for a number of reasons. The most important reason was the excessive fragmentation of reserves due to the significant number of accounts, with respect both to the Ordinary Budget and to the Public Investment Budget

(PIB). This fragmentation implied the existence of substantial idle balances in accounts held by General Government entities, which however could not be used in the context of liquidity management operations in order to alleviate the liquidity constraints faced by the State. Taking into account that these constraints naturally became more binding as a result of the financial crisis and the recession that followed, the necessity for an efficient system of short-term management of the available cash balances, as well as for accurate short-term projections of the State's liquidity position, became even more pressing.

Cash Flow Projections

With respect to the latter issue, the problem has been addressed through significant improvements in the cash flow projections that are prepared on a daily basis by the Budget Directorate of GAO, taking into account all inflows and outflows of the State's central account in the Bank of Greece and providing the Ministry of Finance officials with the information required in order for State payments to be adequately programmed and State short-term financing needs to be properly assessed. The horizon of the projections, as well as the frequency at which they are revised, is not a constant, but varies according to the needs that may arise. Although cash flow projections are not public information due to their confidential nature, the progress that has been achieved in the specific field has led not only to the provision of more accurate information to the ministry's hierarchy, but also to substantial increases in the State's capacity for short-term liquidity management, hence also to reductions in the State's short-run financing needs as a result of the more efficient management of the State's resources.

Short-term Liquidity Management

With respect to the improvement of liquidity management per se, a repo borrowing framework has been more systemically implemented, consisting in transactions between the Bank of Greece and the Public Debt Management Agency (PDMA). The repo borrowing framework was initiated in order to alleviate the State's financing needs through the use of idle cash reserves of General Government entities. The continuous implementation of the specific programme has led to a substantial improvement of the State's liquidity position and to an alleviation of its financing needs, while it has greatly contributed to the establishment of a framework for efficient liquidity management.

Treasury Single Account

The culmination of these attempts has been the establishment by law of the Treasury Single Account (TSA)¹⁰ in 2015, with the objective of pooling liquid resources and setting up an improved cash management framework that would lead to an efficient use of entities' idle reserves and to a reduction in the cost of financing for the State.

All State accounts at private banking institutions would have to be closed by the end of 2015 and their balances transferred to the TSA. This was accomplished according to the initial time-schedule and almost 2.000 accounts in commercial banks were closed between 2014 and

¹⁰ Law 4337/2015 that amended the OBL (Law 4270/2014).

2016. As a result, almost the entire cash resources of the State have been transferred to the TSA. In the next phase, the transfer of cash balances into the TSA is to be gradually expanded into the Central Government (i.e. Legal entities, Hospitals) and then to other entities of the General Government.

The progress that has been achieved up to this point has significantly improved the State's capacity in performing treasury operations and managing efficiently its liquidity, hence also reducing financing costs. The next steps which are being taken, will maximize this potential not only by increasing the efficiency of the cash management but also by enabling the transfer of all Central Government entities - and even of a significant number of General Government entities - balances to the TSA.

V. Accounting

In the area of accounting, two important reforms should be discussed, the first of which has already been completed, while the second constitutes an ongoing project and probably one of the most important reforms in the entire public financial management area. The former refers to the introduction of a consistent and comprehensive double-entry accounting methodology for the State on a modified cash basis, instead of a pure cash basis, that has made possible the annual publication not only of Balance Sheets, but of all financial statements for the State. The latter refers to the introduction of a new single Chart of Accounts that will be implemented in all General Government entities combined with new unified rules aiming at ending the fragmentation of the current system where different accounting standards and methodologies are in place for different sub-sectors of the General Government.

Double-entry Accounting on Modified Cash Basis

Concerning the first reform, double-entry accounting on modified cash basis was established as the accounting system for the State in 2010¹¹ replacing the previous double-entry accounting in pure cash basis system, while the relevant reporting principles and the detailed chart of accounts were determined by a Presidential Decree that was issued in 2011. Since 2011, the financial statements of the State have been drafted in accordance to the new accounting methodology, which is based on the principles of accrual recording of revenues and expenditure and constitutes a step in the gradual transition from the cash basis accounting that was traditionally used to accrual accounting. The financial statements that are produced annually on the basis of this methodology consist of the Statement of Financial Position (Balance Sheet), the Income Statement (Profit and Loss Statement), the Cash Flow Statement and the Statement of Changes in Equity.

Through the implementation of double-entry accounting of modified cash basis, an important step has been made in the direction of producing accurate financial statements that do not characterised by the well-known shortcomings of traditional cash accounting and can provide to all stakeholders credible information on the State's financial position and performance.

¹¹ Law 3871/2010.

Moreover, the implementation of the specific accounting methodology and its use for the creation of the State's financial statements over the past few years has greatly enhanced the relevant skills of the ministry's personnel and increased their familiarity with concepts and methods of accrual accounting, thereby paving the way for the transition to a comprehensive system of accrual accounting that will not be confined to the State.

Chart of Accounts

Concerning the second reform, there are currently five Charts of Accounts in place within the General Government, since different provisions are in force for the State, SSFs, Legal Entities of Public Law, Hospitals and LGs respectively. The simultaneous existence of different accounting systems, covering the entire range from cash to accrual accounting, complicates both financial and fiscal reporting, while it also restricts the transparency of the reports.

To remedy this fragmentation, a new Chart of Accounts is envisaged that will be used by all General Government entities and will replace all the existing charts¹². In this context, a working group has been established at GAO - Ministry of Finance in order to develop this new chart of accounts that will cover the needs related to both budget and accounting and which will be organized on the basis of international standards. The new chart of accounts will contain at least an economic, an administrative and a functional classification and will be accompanied by a system of explicit accounting rules for the recording of assets liabilities, revenues and expenditures, as well as for the drafting and presentation of consolidated financial statements.

The economic classification up to the fifth (5th) level of analysis of the comprehensive new Chart of Accounts has already been drafted. The objective is the gradual application of the new Chart of Accounts in the General Government, starting from the 2019 State Budget. Since the objective is the gradual transition to accrual accounting, the creation of the new Chart of Accounts will have to be accompanied by the development and implementation of new accounting principles and standards that will replace currently used principles that are based on cash or modified cash basis.

The benefits that the adoption of the new Chart of Accounts implies are obvious in terms of transparency of financial statements, as well as with respect to the State's capacity to produce fiscal reporting in line with international standards without the extensive use of mapping between categories, hence also at a significantly lower administrative cost. Moreover, the implementation of a comprehensive accounting system will make possible the management of budget appropriations at a higher level of analysis, while at the same time providing with more detailed information through the accounting system.

VI. Payment processes

The process of payments was one of the areas where reforms had been deemed as absolutely necessary, mainly due to the cumbersome bureaucratic processes that entailed to a

¹² By virtue of Law 4270/2014.

significant degree a duplication of tasks and resulted in significant delays in the execution of payments. The system was also characterized by diffusion of responsibility as a result of the large number of entities that were involved in the process.

Reforms implemented in this area were meant to streamline the process, eliminate duplications and inefficient stages and reduce the entities involved by assigning clear responsibilities to line ministries for the execution of their budget, with an overall objective of reducing the time required for payments to be processed and executed and alleviating administrative cost. These reforms included the shift of the payment function from local tax offices to GAO in order to reduce delays in payments, the change in expenditure thresholds that would imply an ex-ante audit by the Hellenic Court of Audit (HCA) and the abolition of ex-ante audits, culminating in the full transfer of the relevant responsibilities to the financial services of line ministries.

With respect to HCA ex ante audits, the initial thresholds were equal to 15.000 euro for State expenditures, 10.000 euro for legal entities of public law, 5.000 euro for Municipalities and 15.000 euro for Regions. With a later amendment, the threshold for State expenditures was increased to 30.000 euro for commercial transactions, while a threshold of 5.000 euro was established especially for hospitals. Through the increase of the thresholds, significant savings were achieved in terms of administrative cost, while the exemption of really low expenses from the ex-ante audit was meant to counter the creation of bottlenecks in the payment process and the subsequent delays in the execution of payments.

The ex ante audit of expenditures constituted until recently a crucial point in the payment process, since no payment could be completed unless its legality and its regularity was validated by two independent bodies, Ministry of Finance (MoF) – GAO and the HCA, implying a duplication of tasks. Moreover, the specific procedure had the additional drawback of spreading the responsibility for the expenditure over many different entities and thus weakening the line ministries' incentive to plan and implement an internal system of checks and controls that would ensure the legality of State expenditures.

The aforementioned problems were faced through the abolition of ex ante audits in the context of the transfer of responsibilities from the Ministry of Finance – GAO to the line ministries' General Directorates of Financial Services (GDFSs) in 2015¹³. Specifically, ex ante audits, as described above, were abolished for State expenditures from 01/01/2017 onwards, while the abolition with respect to expenditures of LGs and legal entities will take effect from 01/01/2019.

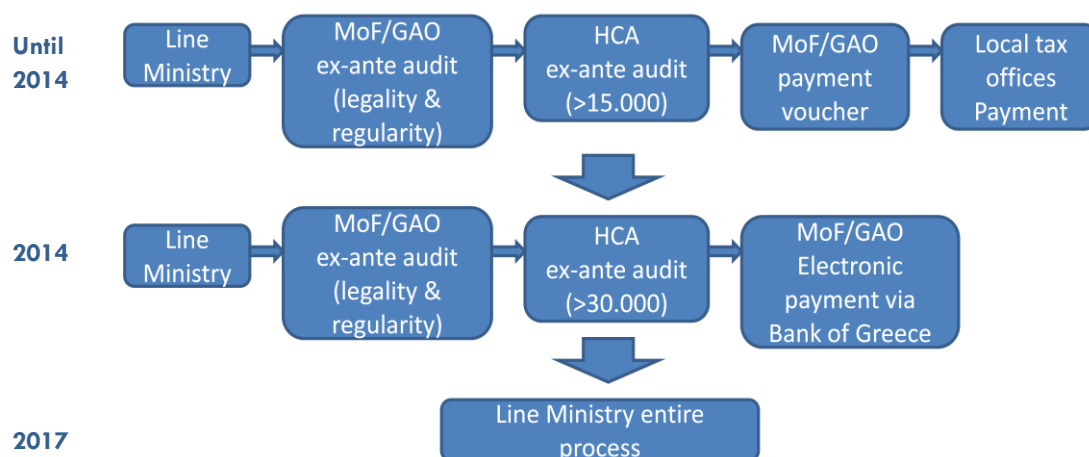
In parallel with the abolition of ex ante audits, the main responsibilities related to the process of payments were transferred from the Ministry of Finance - GAO to the GDFSs of line ministries effective January 1st 2017. The exact responsibilities that were transferred include, among else, the control for expenditures' fulfilment of legality and regularity requirements,

¹³ Law 4337/2015.

the clearance of the expenditure, the issuance of the payment voucher and the final execution of the payment.

The clear implication is that, as a result of this reform, the entire process starting at the authorization of an expense and ending at the payment order to the Bank of Greece will be conducted within each line ministry's financial services. Hence, not only is the process streamlined to a significant degree, but furthermore line ministries (spending ministries) - as well as the rest of General Government entities - are granted independence with respect to the management of their fiscal affairs and are made solely responsible for them. At the same time, the Ministry of Finance - GAO focuses on strengthening its competencies related to short-term and medium-term fiscal planning, fiscal oversight and surveillance of the entire General Government and the performance of audits, without however actively participating in the payment process of every single expense of the State.

Figure 5: Reforms in the payment processes of State expenditures



Note: LM-Line Ministry, MoF-Ministry of Finance, GAO-General Accounting Office, HCA-Hellenic Court of Audits

VII. Institutional reforms

A last category of reforms that should be discussed refers to the establishment of new bodies with significant competencies in the area of public financial management. The exact new entities to be presented in the following paragraphs refer to the Single Payment Authority, the Parliamentary Budget Office (PBO), the General Directorates of Financial Services (GDFSs) and of course the Hellenic Fiscal Council (HFC).

Single Payment Authority

One of the first reforms in the context of the country's economic adjustment programmes consisted in conducting a census of all employees of the State, of LGs and of Legal Entities of Public Law and the subsequent creation of a registry at the Ministry of Administrative Reform. At the same time, a Single Payment Authority was established at GAO, its responsibility being the payment of wages to all personnel that was recorded in the registry (public sector employees).

This centralization of the wage payment function implied not only a significant reduction in administrative cost, especially since all payments had to be conducted through the banking system, but also an increased capacity for cross-checks of public servants' remunerations, as well as the development of a significant source of quantitative data that allows for the closer monitoring of the State's expenditures for wages.

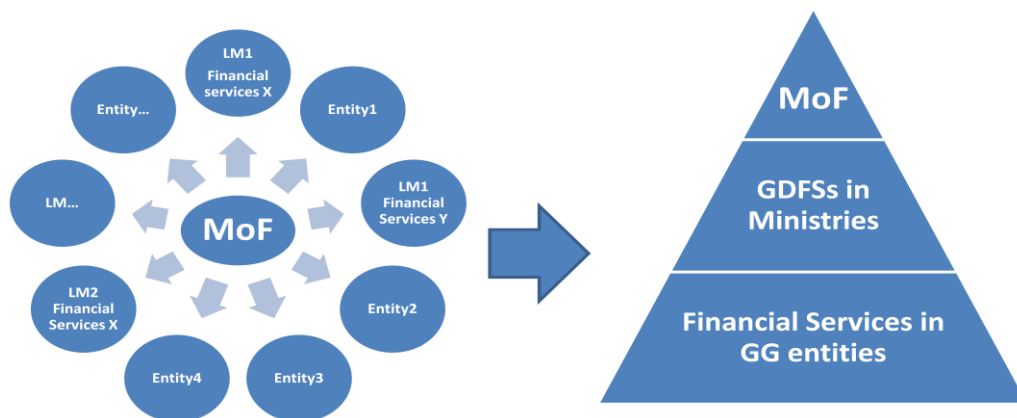
General Directorates of Financial Services - Budget Bureaus

The establishment of General Directorates of Financial Services (GDFS) in line ministries constituted a significant institutional reform aiming at overcoming the previously fragmentary nature of line ministries' units handling financial issues and at the same time improving fiscal discipline through the centralization of ministries' financial functions in one structure and the delegation to the head of this structure of significant responsibilities with respect to the management and execution of the ministry's budget.

The appointment of accounting officers in all General Government entities and the delegation to them of the responsibility for the sound fiscal management of the specific entity, as well as of supervised entities, was one of the first PFM reforms in the context of the first adjustment programme and was later superseded by the formal establishment of GDFSs that would encompass all existing financial units of each ministry.

The specific responsibilities of the heads of GDFSs included the provision of accurate information concerning the entity's budget to GAO - Ministry of Finance, as well as to other interested parties, the observance of the spending ceilings of the entity's budget, the management of the entity's resources, the compliance to GAO's instructions and the submission to GAO of all required fiscal data. Moreover, the head of the GDFS was made responsible for the compliance with the MTFs and for the quantification and assessment of all policies pursued by the entity that entailed fiscal implications, as well as for the assessment of fiscal impact of all legal provisions and administrative acts submitted by the entity. In addition, the GDFS of each ministry is responsible for the fiscal discipline of all General Government entities that are under its supervision and the timely and accurate reporting to GAO of fiscal data of these entities.

Figure 6: Changes due to the establishment of General Directorates of Financial Services (GDFS) - Budget Bureaus in Ministries



Note: GG - General Government, LM - Line Ministry

The establishment and the operation of the GDFSs addressed the weaknesses of the previous system, in the context of which the Ministry of Finance had to supervise and directly communicate with all financial services of the various entities (Figure 6). The new framework constituted a clear pyramid monitoring in PFM, where GDFSs serve as the contact point with the Ministry of Finance. Monitoring of budget execution was strengthened and the flow of information between line ministries and the Ministry of Finance was significantly improved. Moreover, the observance of fiscal discipline is imposed through a network of units that are responsible for their entities' fiscal management, operating under the same principles and following the instructions provided by the Ministry of Finance.

The transfer, from 01/01/2017, to GDFS of additional responsibilities previously performed by GAO (audit, clearance and payment of the entities' expenditures) has obviously led to a further reinforcement of GDFSs' position and to an increase in the importance of their role in ensuring the sound fiscal management of their respective entities.

Parliamentary Budget Office

In the context of increasing the transparency of fiscal management, strengthening controls by institutional mechanisms on the government's fiscal policy and improving both the quantity and the quality of information on fiscal issues that is available to the Parliament, the Parliamentary Budget Office (PBO) was established in 2010.

The PBO reports to the President of the Hellenic Parliament and its operation is determined through a Special Regulation, while the provision to the PBO of the necessary data and information is mandatory for the Ministry of Finance, as well as for other ministries or public entities. The PBO's responsibilities include the monitoring of the execution of the State Budget, the analysis and assessment of budget projections concerning revenues, expenditures and the long-run sustainability of fiscal finances, the provision of assistance to the relevant Committees of the Parliament and the submission of reports on the observance of the medium-term fiscal targets, on the assumptions used in the derivation of macroeconomic and fiscal projections and on the compatibility of the government's fiscal policy with the general framework of fiscal rules and principles dictated by the OBL.

The establishment of the PBO constitutes a crucial reform with respect to the attainment of transparency in the management of public finances, not only because of its autonomous operation, but also due to the fact that it is attached to the Parliament, implying a significant reinforcement of the Legislative Branch and an increase in its capacity to monitor the Executive Branch.

Hellenic Fiscal Council

The Hellenic Fiscal Council was established in 2014¹⁴, as an Independent Administrative Authority responsible for monitoring and assessing the macroeconomic and fiscal projections,

¹⁴ Law 4270/2014.

as well as the compliance to the fiscal rules that have been set with a view to the attainment of the medium-term fiscal targets.

Specifically, the HFC assesses the macroeconomic projections on which both the annual budget and the MTFS are based, the fiscal estimations incorporated in the budget or in the MTFS, the fiscal targets set for the MTFS years and the implementation of the relevant policies, the fiscal balances that ensue and the results of the Social Budget, while it can proceed to any other course of action that may be deemed necessary.

At least on a bi-annual basis, the HFC publishes in a report the conclusions it has reached with respect to the aforementioned issues, while once in 4 years it conducts an assessment of the process through which macroeconomic projections are produced. It may also publish any additional report on any subject related to its responsibilities.

The HFC is already operational and has already published its first bi-annual report in November 2016. Its establishment is of great importance, since in Greece no independent authority for the monitoring and the assessment of fiscal policy existed. Hence, the creation of the HFC is expected to increase the transparency of fiscal management, provide the authorities with a valuable source of analysis and expert advice and can also lead to the introduction of more robust and accurate methodologies for obtaining fiscal and macroeconomic projections through the expertise of its staff.

VIII. Concluding comments

The preceding sections clearly show that substantial progress has been achieved in the area of PFM, but also that room for further improvement undoubtedly exists. On the one hand, a large number of important reforms has been completed and their outcome is now a central and indispensable part of the standard framework for the management of public finances. These include the creation of a fully developed budgeting framework that ensures fiscal discipline and allows for the efficient monitoring and oversight of budget execution, the introduction of MTFS, the publication in a timely manner of accurate and comprehensive reports at the General Government level, significant increases in the efficiency of liquidity management, the publication of financial statements for the State on the basis of a consistent accounting methodology, the elimination of bottlenecks in the process of payments and the establishment of independent bodies with important competencies with respect to issues of fiscal management and with the ability to provide with the necessary checks and balances.

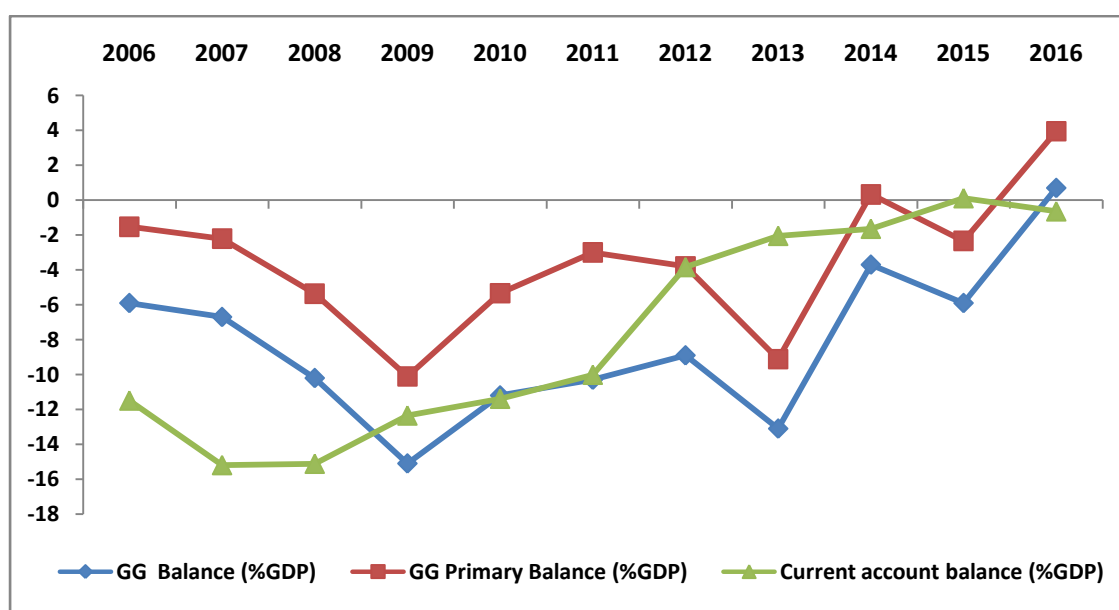
On the other hand, this process of restructuring PFM is continuous, since there are significant reforms that are currently underway and whose completion and implementation in the near future will lead to increased efficiency. The most important among them is probably the new Chart of Accounts that will gradually be implemented in the entire General Government sector, starting from its use in the State from the 2019 Budget. Of great importance and related to the above is the full operation of the Treasury Single Account on the basis of a coherent internal structure and a comprehensive accounting system, that will make available for liquidity management all reserves of General Government entities. Upon the completion

of these steps, the accounting reforms are planned to continue, the next step being the gradual transition from cash to accrual accounting which will also lead to further improvements in the area of fiscal reporting.

Furthermore, while the reforms mentioned in the previous paragraph constitute essentially the continuation and culmination of attempts that were initiated in the previous years, the reform agenda also contains some new directions with far-reaching consequences for the efficiency of fiscal management in Greece. These include the introduction of performance budgeting, the regular performance of spending reviews both in line ministries and in their supervised General Government entities and the creation of a framework for the assessment of policies and actions not only from the standpoint of legality but also of economic efficiency. All three reforms will take a concrete form in the immediate future through the creation of a new unit designed specifically for these purposes in the context of the new organizational chart of the Ministry of Finance.

Significant progress has also been achieved in the area of fiscal consolidation. Greece has followed a rigid fiscal consolidation path achieving a primary balance of 3.9% of GDP in 2016 compared to a primary balance of -5.3 % of GDP in 2010. In order to achieve this, measures have been adopted both on the revenue and the expenses side, mostly horizontal and mostly permanent in terms of their budget impact.¹⁵

Figure 7: Fiscal Balance & Current Account Balance 2006-2016

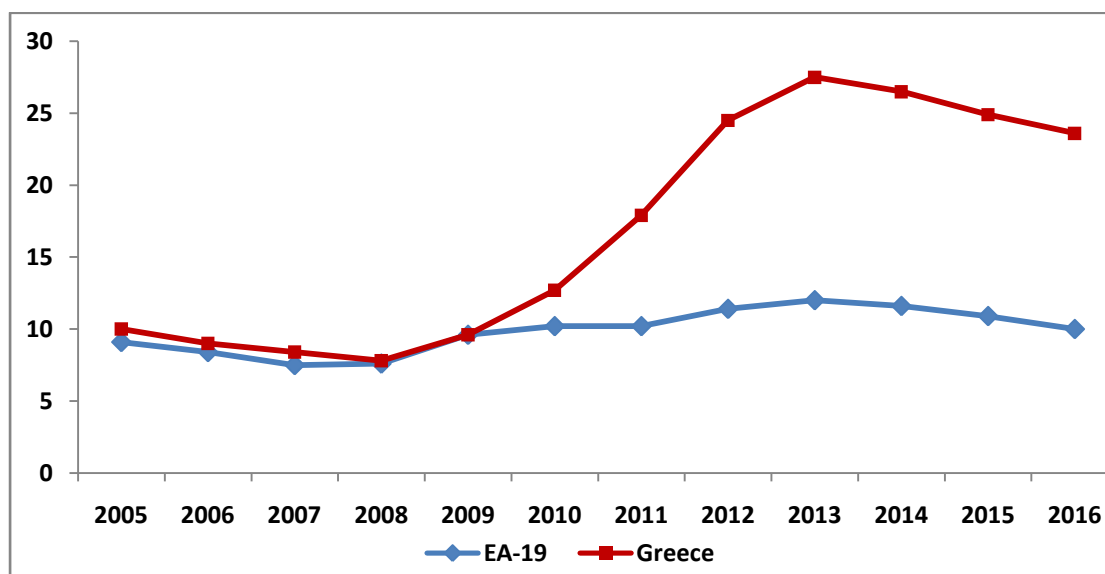


Source: Hellenic Statistical Authority

¹⁵ Greece has introduced several wide-ranged reforms in PFM as well as in other areas and several wide-ranged measures both on the revenue (increases in taxation) and the expenses (budget cuts) side. More specifically Greece adopted several fiscal reforms and measures such as horizontal cuts in public expenditure including salaries and pensions, wage bill reform, rationalization of special wage regimes, VAT and income tax reform etc, as well as structural measures with a fiscal impact such as the attrition rule (rule of restricting recruitments in the public sector), health sector measures, a pension reform, restricting new guarantees, etc.

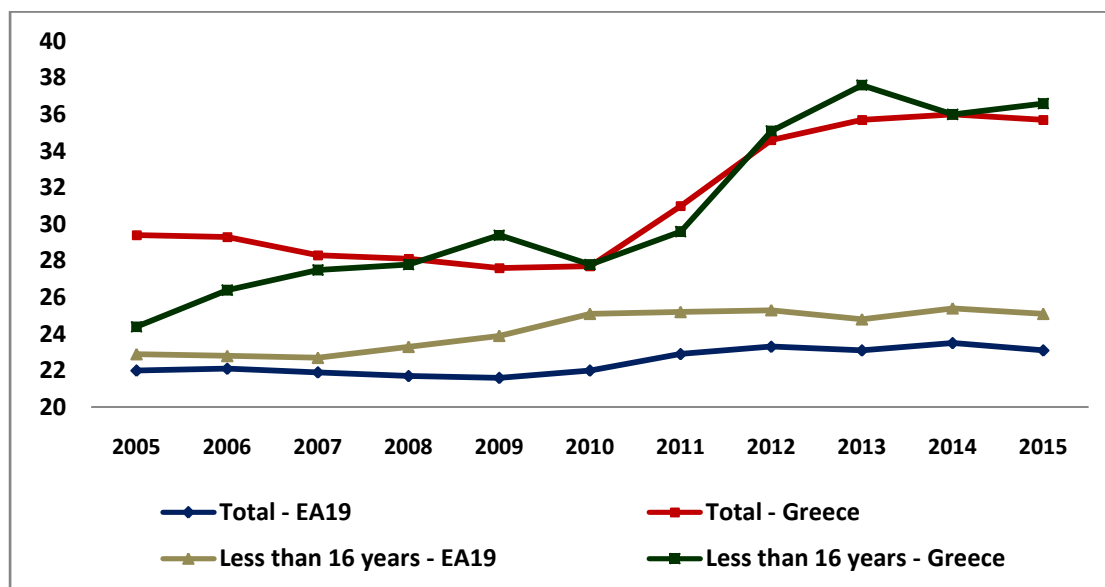
In the last few years Greece, by taking fiscal measures and implementing structural reforms, managed to overcome its weaknesses concerning the twin deficits and is now on track for achieving positive fiscal balances. On the other hand the severe fiscal consolidation aggravated depression and resulted in a reduction in GDP of 27% in the period 2008-2016 and severe social cost. Unemployment increased sharply and peaked to 27.5% in 2013 compared to 7.8% before the crisis (2008). The percentage of people at risk of poverty or social exclusion has also sharply increased, making the risk of poverty significantly higher in Greece than the average in the Euro Area member States.

Figure 8: Unemployment rate (% active population) 2005-2016



Source: Eurostat

Figure 9: People at risk of poverty or social exclusion (% of population) 2005-2015



Source: Eurostat

As indicated in the latest MTFS (2018-2021) recently voted in the Parliament, recent estimations forecast once again growth that will reach 4% per year for 2018-2021. This will eventually drive the debt as percentage of GDP to be reduced to 150% by end 2021. The primary balance is projected to reach the ESM programme targets that are set at 1.75% GDP in 2017 and to 3.5% from 2018 onwards and even exceed them, reaching approximately 4% GDP during 2018-2021.

The fiscal targets for the coming years refer to stable primary surpluses and sustainable public debt. The detailed framework is currently under discussion with the European Institutions and the IMF.

Once the economy is stabilized and the fiscal position is in positive territory, the management of public finances will have to adequately respond to a different task, i.e. to efficiently and effectively direct available resources in a way that will alleviate social inequalities, counteract the social impact of the crisis and enhance growth potential.

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