

The Path to Prosperity with Better Management of Government Financial Resources

Christos Staikouras

MP, Former Alternate Minister of Finance

Assistant Professor

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Lessons from the implementation of the bailout programs

- Fiscal consolidation, adjustment and discipline, although necessary, are not, by themselves, a sufficient condition for economic growth and social welfare.
- To overcome the crisis, it is essential fiscal discipline to be combined with the implementation of coherent, consistent and sequential growth-enhancing structural reforms.
- Accurate fiscal multipliers and proper composition of consolidation are crucial for sustainable public finances.
- Fiscal rules with embedded expenditure ceilings tend to generate durable fiscal adjustments.
 - Public Financial Management reforms result in significant improvements to budget process, expenditure controls, cash management, and financial management capacity.

Lessons from the implementation of the bailout programs

- Public debt sustainability should be evaluated not only by the general government debt-to-GDP ratio, but also by the general government gross financing needs-to-GDP.
- The enactment of a framework and a financial envelope that ensure the stability of the banking system, especially in bank-based countries, is necessary.
- Programs should guarantee social cohesion and care for the most vulnerable.
- Bailout programs are not absolutely rigid and inelastic.
- Political and social consensus is a prerequisite for the successful implementation of the programs.

Did we learn from these lessons in the 2nd bailout program?

- The adjustment period was prolonged.
- The fiscal policy mix was modified.
- Public debt sustainability was strengthened.
 - The PSI operation, along with the debt buyback, generated a significant haircut.
 - The public debt profile obtained unique and attractive characteristics.
- The liquidity of the economy was enhanced.
 - Government cleared almost 2/3 of the state's arrears and tax refunds.
- A wide range of concrete structural reforms was implemented.
- Adequate resources for bank recap were allocated.
- Targeted, low-scale, tax reductions were initiated.
- A pilot scheme, the Guaranteed Minimum Income, for the most vulnerable people, was introduced.
- A wide range of Public Financial Management reforms initiated.

Achievements in the fiscal institutional framework

- A medium-term fiscal strategy was set.
- 97% of public entities have commitment registries in place.
- Improvements in monitoring budget execution allowed the Government to under-execute expenses in order to secure the achievement of fiscal targets according to the evolution of spending in other sub-sectors.
- Two-years binding ceilings for State-Owned Enterprises and Local Governments were introduced.
- Corrective mechanisms for State-Owned Enterprises and Local Governments were put in place.
- An Observatory for Local Governments was created.
- The Organic Budget Law introduced a budget balance rule.
 - Fiscal Compact legislation fully transposed; Fiscal Council was established.
- Overrun of expenses in health sector was timely detected.

Source: European Commission, Occasional Papers 192, The Second Economic Adjustment Programme for Greece, 4th Review, April 2014.

Achievements in the fiscal institutional framework

I. Progress to Date

I.1. Macro-Fiscal Policy Making & Budgeting



2010: Annual State Budget only

2011: Budget 2012 with MT content

- Multi-year economic & fiscal projections
- Situated within GG framework

2012: Medium-term Fiscal Strategy 2012-15 & Medium-term Fiscal Strategy 2013-16

- Medium-term macro forecasts and fiscal framework for GG
- Policy package to meet program targets
- 2013 State Budget prepared within MTF S update
- Multi-year expenditure ceilings

2013: Budget monitoring and dialogue with ministries strengthened

- Within-year budget monitoring framework with monthly and quarterly targets introduced
- MTF S circular (April 2013) and dialogue with ministries
- Local government observatory reviewed LG budgets



Source: IMF, Fiscal Affairs Department, Technical Assistance Presentation, April 2014

Achievements in the fiscal institutional framework



I. Progress to Date

I.2 Fiscal Reporting

Pre-2010: State Budget only

2010: Basic Reports

- Deficits only for GG entities
- Below-the-line data from BoG
- Arrears from ad hoc survey

2011: Consolidated Reports

- Total revenue & total expenditure
- Above-the-line data from surveys

2012: Detailed Reports

- Composition of revenue & expenditure
- State arrears data from commitment register

2013: Improved Data Sources

- New data sources phased in
- Arrears data from commitment register

2014 (April): GG by subsector

- Consolidated revenue & expenditure by subsector
- Full mapping from budget codes to GFSM/ESA95
- Full social fund data from Deloitte system

A screenshot of a complex financial report table, likely from a government budget or fiscal statement. The table has many columns and rows, with some cells highlighted in blue. The text is small and difficult to read, but it appears to be a detailed breakdown of financial data.

Achievements in the fiscal institutional framework

I. Progress to Date

I.3 Expenditure Controls and Arrears



2009: No commitment controls

- Line ministries do not control commitments
- Cash rationing at payment stage
- Arrears of unknown amount

2010: Commitment controls mandated for all GG entities

- Law mandates commitment controls
- Commitment circular specifies regulations
- Arrears from ad hoc survey

2011: Roll-out of commitment controls

- Commitment registers established in State
- Data collection through E-portal system

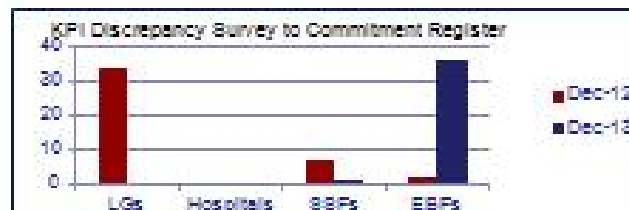
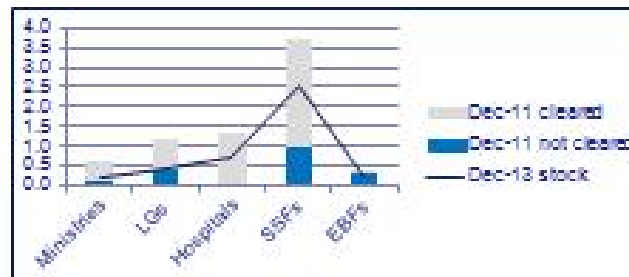
2012: Making controls effective

- Arrears clearance program designed
- Commitment registers enforced in GG

2013: Addressing arrears

- Arrears clearance implemented
- Data discrepancies significantly reduced

As of	Dec-11	Dec-12	Dec-13
Total	5.7	7.1	7.2
Ministries	0.6	0.8	0.6
LGs	0.8	1.1	1.2
Hospitals	1.3	1.3	1.3
SSFs	2.8	3.7	3.7
EBFs	0.2	0.4	0.4



Achievements in the fiscal institutional framework



I. Progress to Date

II. Laws, Systems, Institutions

Organic Budget Law strengthened

- 2010: Medium-term fiscal strategy, commitment controls, responsibilities clarified
- 2013: Revamped law, fiscal compact legislation fully transposed

MoF reorganization prepared

- 2011/12: MTFIS, fiscal reporting and GG affairs
- 2012/13: New chart developed with ongoing advice to MoF on new structures, and collaboration with functional review

Line Ministries: General Directorates Financial Services established

- 2011: Unification of financial services mandated
- 2012: Heads of GDFS appointed
- 2012/13: New organizational chart developed and adopted

Processes and IT systems improved

- 2011: GAO's SAP-based Financial Management Information System activated
- 2012: ERP project redesigned
- 2013: Payment process reform; electronic authorization of payments

Capacity and skill-building undertaken

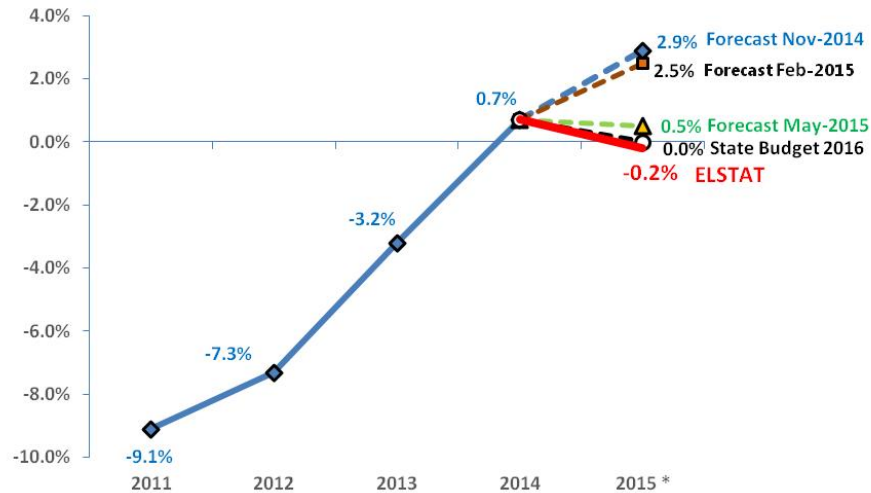
- Seminars for GDFS
- Social budget reporting

What were the results at the end of 2014?

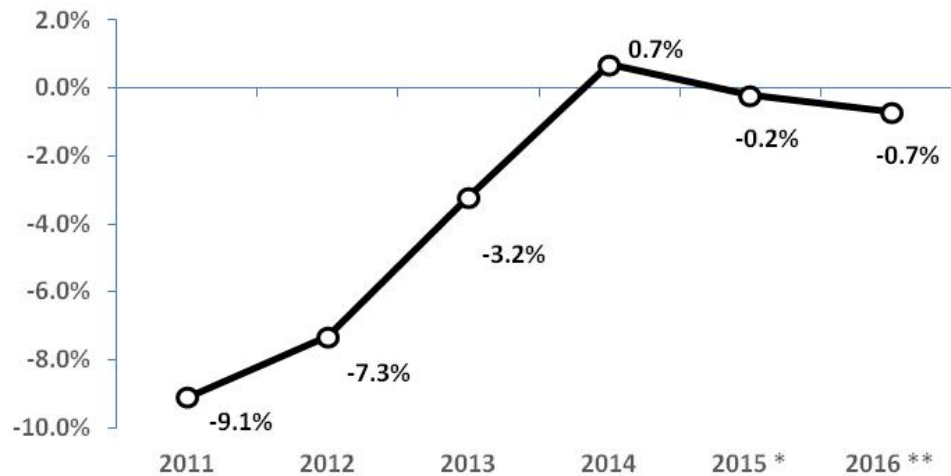
- The country, after six years of deep and prolonged recession, returned to positive growth rates.
- The country restored its public finances.
 - Greece demonstrated the highest cyclically-adjusted primary balance among its European counterparts.
- Unemployment, at a slow but steady pace, decreased.
- Disposable income was strengthened, for the first time after the beginning of the crisis.
- The economy rebalanced.
 - Greece was the country with the highest rate of promoting reforms among the OECD member-states over the period 2012-2014.
- The Greek sovereign, systemic banks and large enterprises cautiously and gradually returned to international capital markets.
- The stability of the financial sector was preserved.

Growth rate

GDP % change (y-o-y, volume)



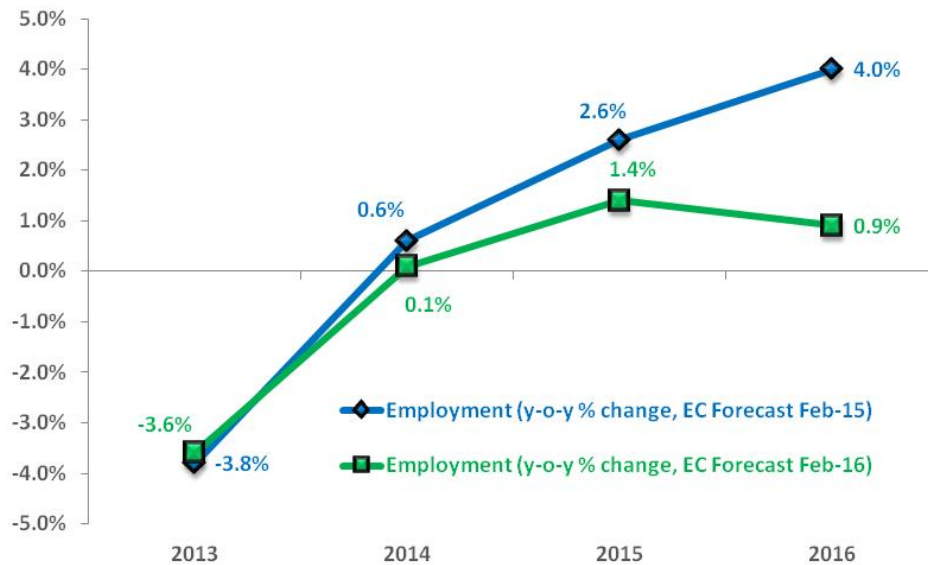
Source: ELSTAT, Ministry of Finance, European Commission
 *: Forecast



Source: ELSTAT, Ministry of Finance
 *: Forecast, **: Projection

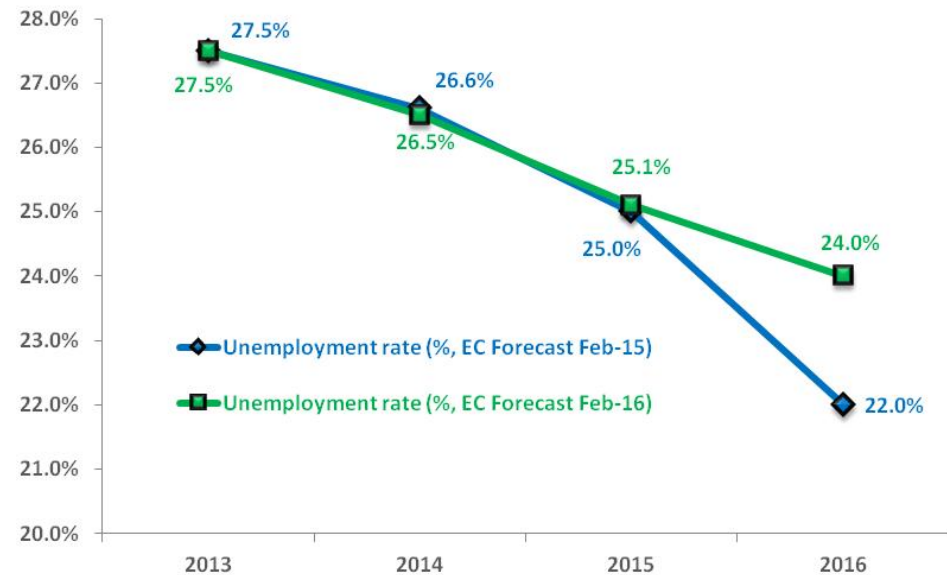
Unemployment rate

Employment (y-o-y, % change)



Source: European Commission

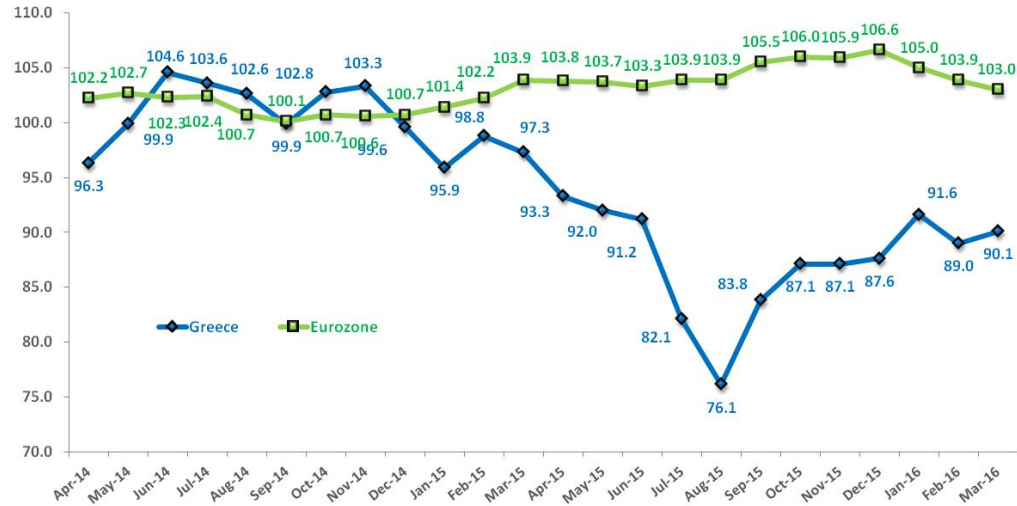
Unemployment rate (%)



Source: European Commission

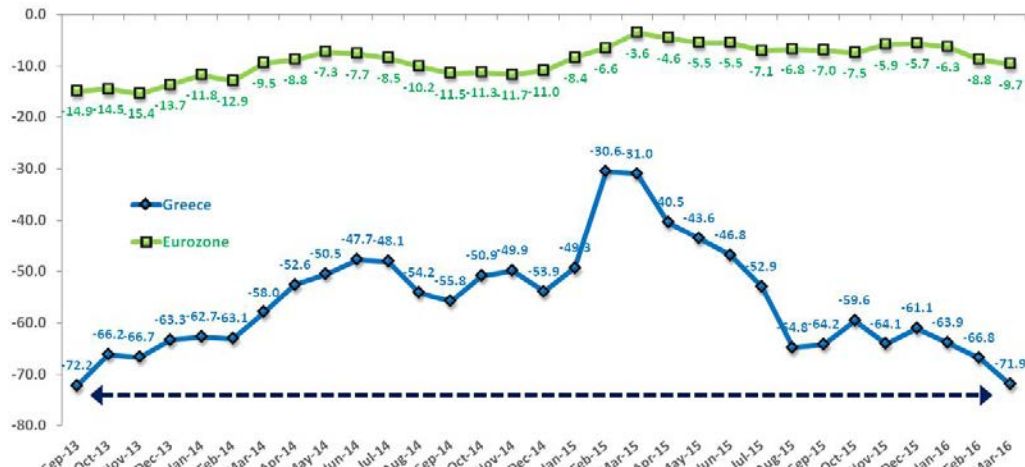
Economic sentiment

Economic sentiment indicator



Source: European Commission

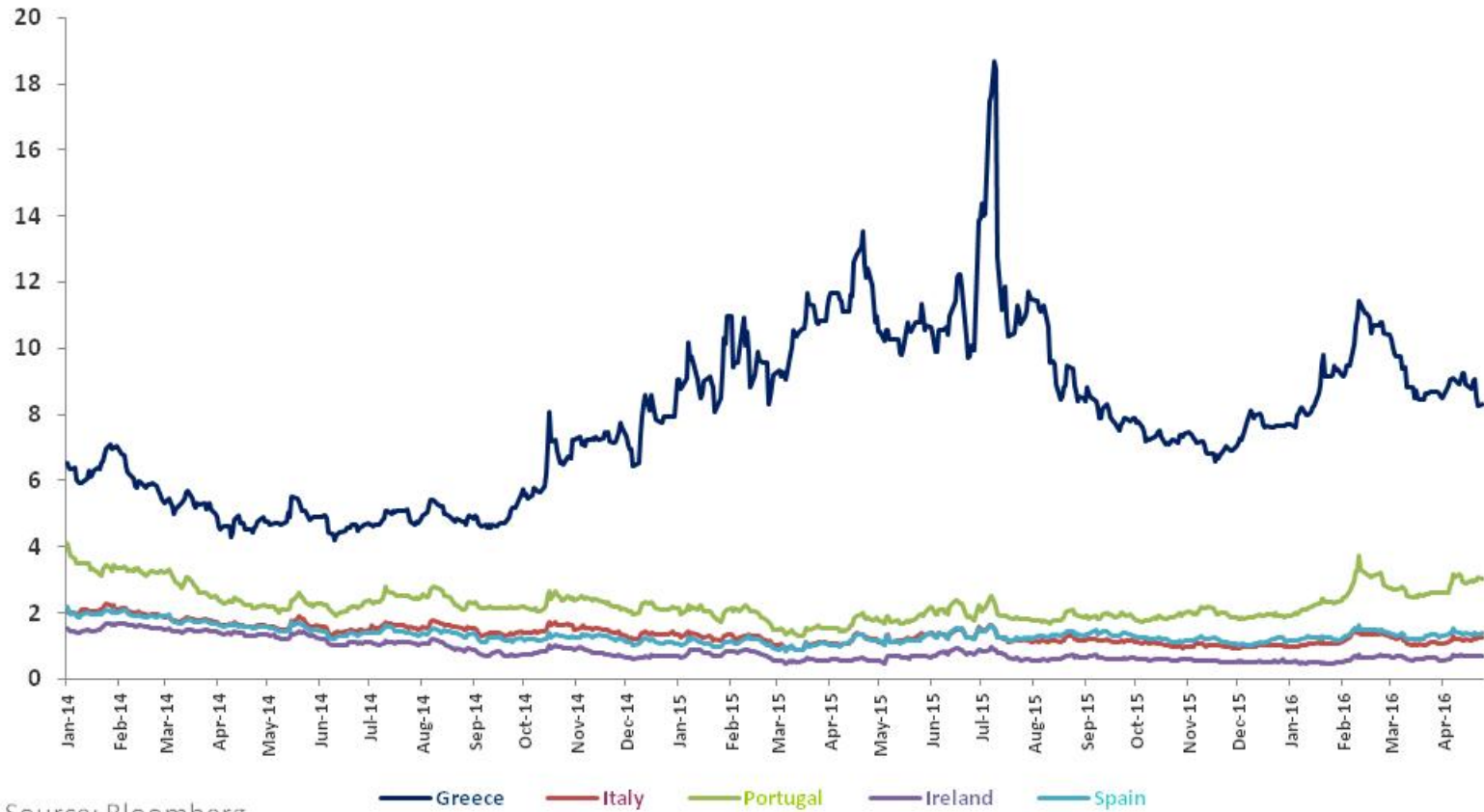
Consumer confidence indicator



Source: European Commission

Bond spreads

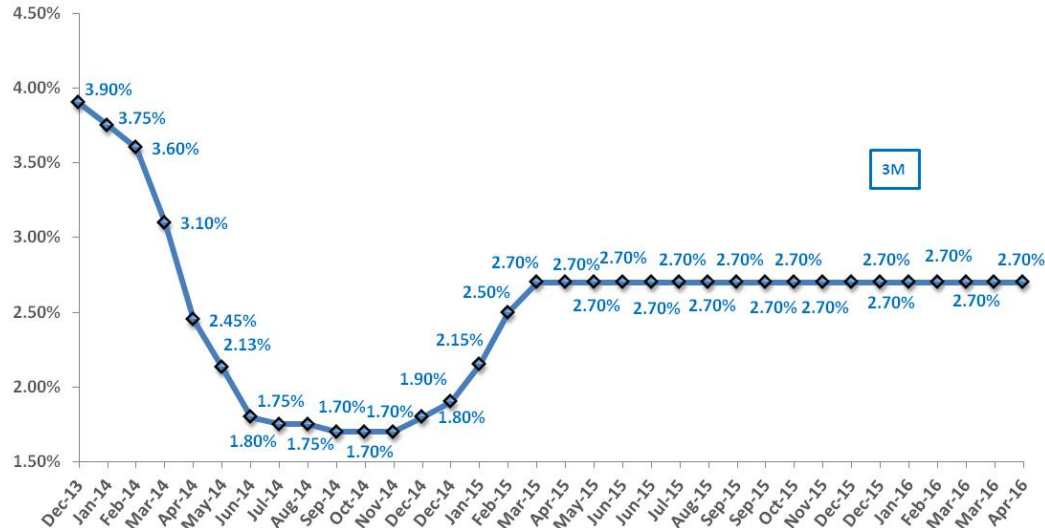
10-year Eurozone periphery Government bond spread over Bund



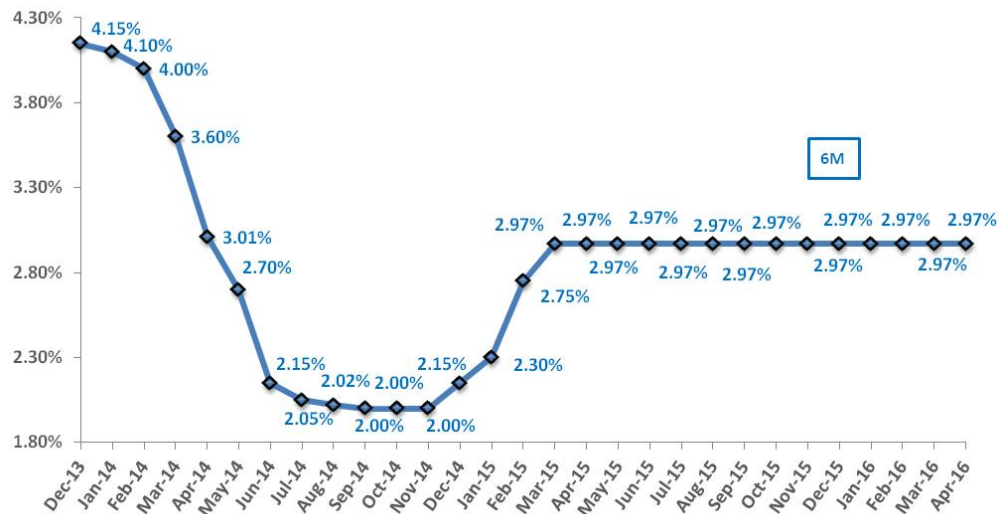
Source: Bloomberg

Borrowing cost

3-month and 6-month T-bills interest rate evolution



Source: Public Debt Management Agency



Source: Public Debt Management Agency

Public finances

General Government primary balance (% GDP, Program methodology)

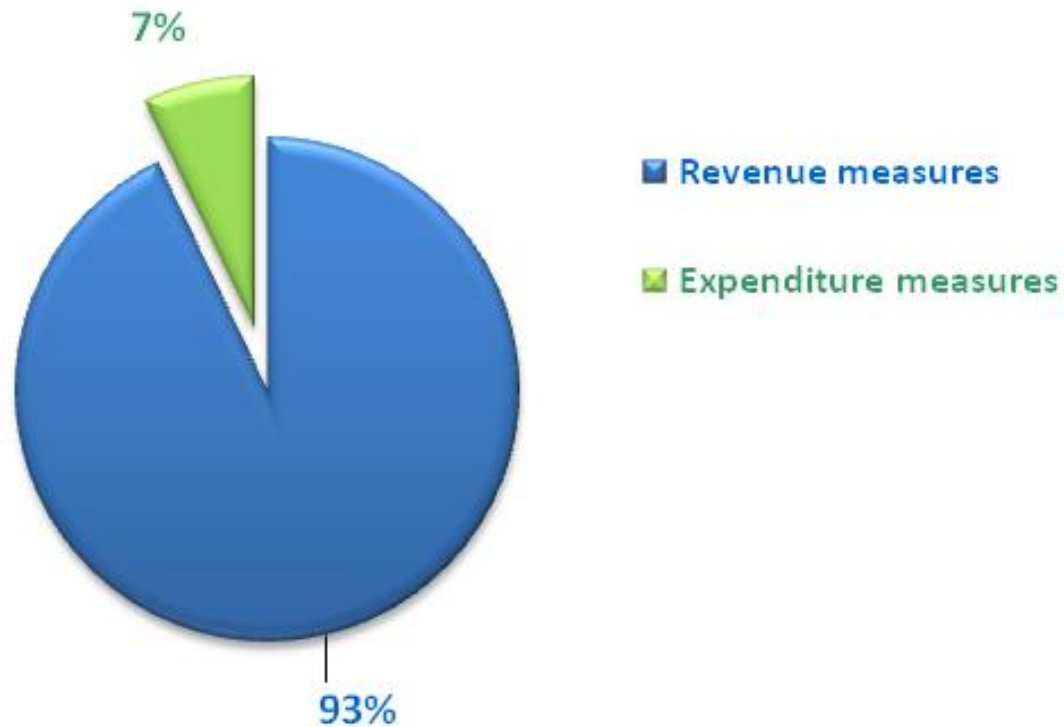


Source: Ministry of Finance, ELSTAT, Eurostat

*: Ministry of Finance estimate. The Institutions monitoring the Program have not yet verified this outcome which, if verified, will have been achieved after the implementation of additional measures amounting to 0.8% of GDP for 2015.

Composition of consolidation

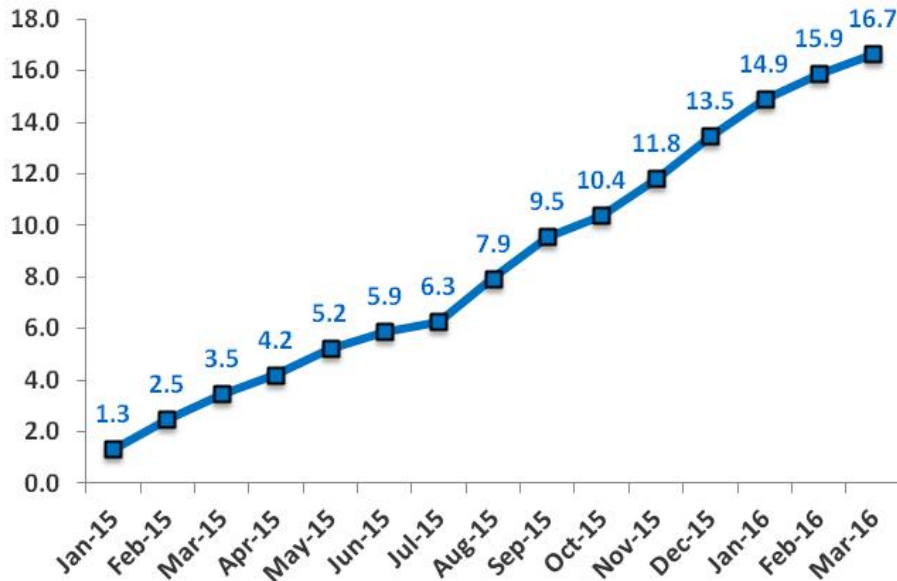
Allocation between revenue and expenditure implemented measures (2015-2016)



Source: Ministry of Finance

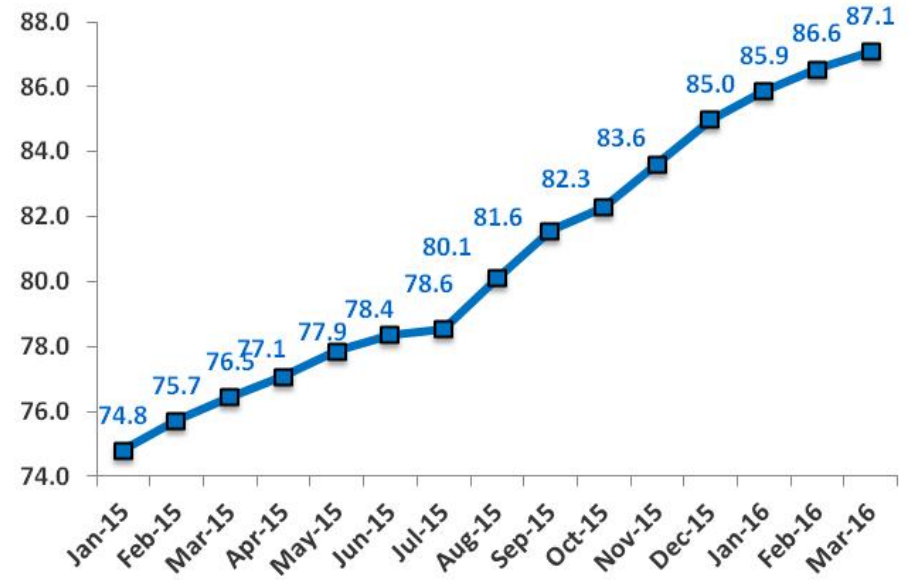
Household and enterprises tax arrears

New tax arrears due (cumulative, EUR billion)



Source: Ministry of Finance

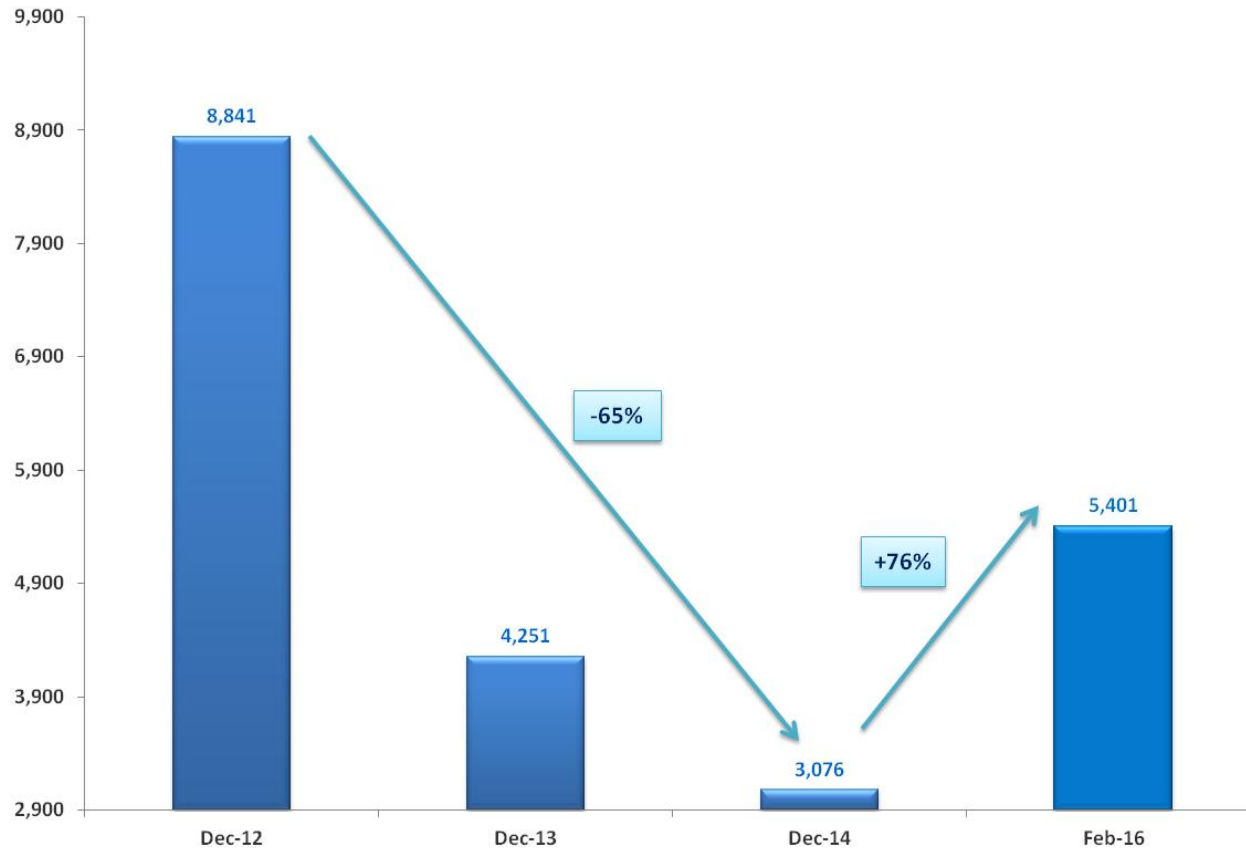
Total tax arrears due (cumulative, EUR billion)



Source: Ministry of Finance

Arrears of the State to the private sector

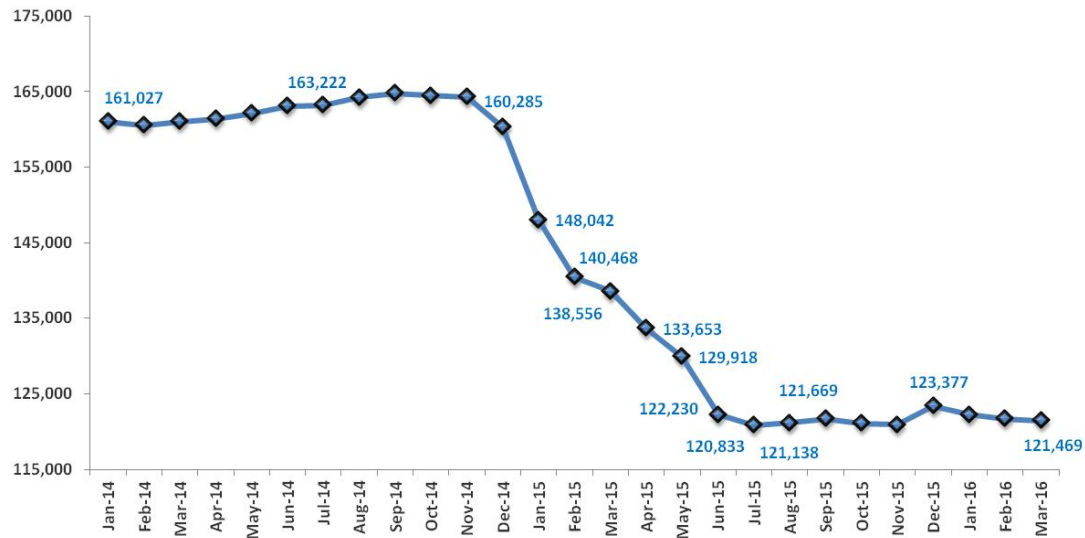
General Government arrears (EUR million)



Source: Ministry of Finance

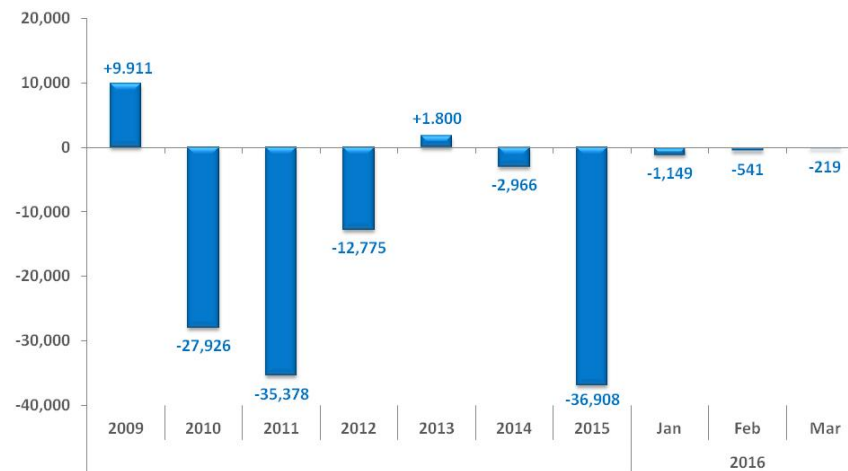
Private sector deposits

Household and enterprises deposits (EUR million)



Source: Bank of Greece

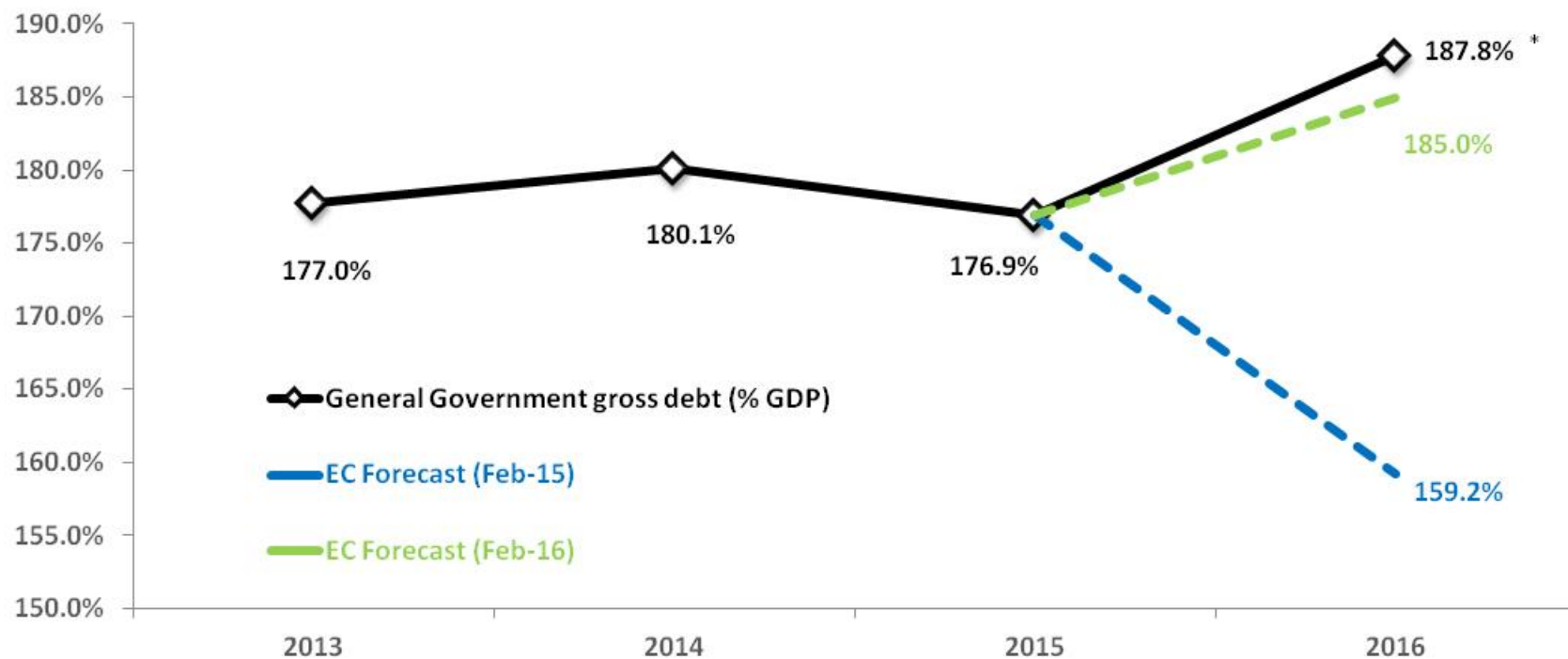
Deposit inflows/outflows per year (2009-2016, EUR million)



Source: Bank of Greece

Public debt sustainability

Forecasts for the short-term evolution of public debt (% of GDP)



*: Forecast, Ministry of Finance

Source: ELSTAT, Eurostat, European Commission

The priorities for the path to prosperity

- The restoration of political trust and stability.
- The rapid completion of the first review of the program.
- The review, though with a much higher cost, must, at least, be completed in the optimal way for the country's interests.
 - The insistence on raising taxes has proved to be economically inefficient and socially unjust.
- The safeguarding of fiscal discipline and greater commitment to good accounting.
 - Amendments in the budget legislation framework.
 - Spending review.
 - Adoption and implementation of international accounting standards.
- The acceleration of product and services markets reforms.
- The intensive implementation of the privatization program and the development of public real estate property.
- The further enhancement of public debt sustainability.
 - Greek Government must create the conditions for debt restructuring.
 - European partners should fulfill their long-lasting promises.

The priorities for the path to prosperity

- The provision of liquidity to the real economy.
 - Banks must respond to their intermediation role.
 - Faster absorption of EU funds, utilization of new financial tools of the European Investment Bank and promotion of the European Fund for Strategic Investments.
- The efficient enhancement of social spending.
 - Active and passive labor policies and social transfers (Guaranteed Minimum Income scheme nationwide).
- The qualitative improvement of public finances.
- The completion of the public administration reform.
- The adoption of a national strategic plan for the productive reconstruction of the economy.
 - Gradual modification of the production model of the economy, from an economy based on consumption of imported goods to a competitive and outward looking economy, oriented to investments, exports and each sector's competitive advantages, as well as highlighting the importance of the geo-strategic position of the country.