Greece: Fiscal stability, debt relief and public financial management reform

Summit on Government Financial Accountability and the European Economic Crisis: Paths to Prosperity

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Overview

- In January 2015 a coalition government led by the left-wing SYRIZA party took office in Greece. A political earthquake breaking a 40-year-old "duopoly" of the two major parties.
- Ambitious agenda: End austerity, roll-back wage and pension cuts and achieve debt forgiveness.
- Reality: A country under extreme liquidity pressure, without market access and therefore totally depended on concessional lending by the institutions (EC, ECB, IMF, ESM)
- Long negotiations and agreement: Did it worth it?

Less austerity

Table: Primary Balance Targets (%GDP)

	2015	2016	2017	2018
Previous program	3	4.5	4.2	4.2
Current Program	**-0.25**	**0.5**	**1.75**	**3.5**

- Equivalent to lower fiscal effort of 10.4 pp of GDP, or €19b ($21b) in cumulative terms for the 4-year period
- More realistic and therefore more credible
- The "permanent" primary balance of 2018 is also lower (implying additional debt relief)

Debt Relief

- The paradox of an overdebted island in a sea of extremely low interest rates. Many problems would be solved if we had market access with normal interest rates. How we get there?
- Classic sustainability: The necessary primary surplus given the current debt stock, the interest rate, the growth rate and the inflation rate.
- Different approach to sustainability: Gross financial needs as percentage of GDP. Not the stock of debt that matters but the flow of repayments. Hence the maturity profile becomes crucial.

Debt Relief - What we need

- Not nominal haircut or anything that would impose losses on the taxpayers of our creditors
- Extension of maturities
- Take advantage of historically low interest rates - even indirectly through the ESM borrowing cost.
- This rate should be fixed: Reassurance to private creditors that Greece will be able to meet its financial obligations in the long run.
- This arrangement could be our ticket to financial markets

Honouring the agreement?

- Greece: Overshot the 2015 primary balance target by almost 1 pp of GDP. Official Eurostat result surplus 0.7% Vs target of deficit -0.25%
- Message: the Greek government has both the technical capacity as well as the political responsibility to achieve and safeguard fiscal stability
- Instead of endorsing this message, the institutions understated it. Too far from the IMF estimation of deficit -0.6% of GDP!
- IMF: The fiscal package is not sufficient to reach the fiscal target of 3.5% in 2018 but only 1.5%. Need for additional measures of 2 pp of GDP.
- European institutions: Accept anything in order to get the IMF on board.

Another delay?

- Further delays to the completion of the first review maintain uncertainty for the prospects of the Greek economy.
- There is no time to lose. Greece has met all the requirements as described in the current agreement (income tax reform, pension reform, NPLs, fiscal package, etc).
- If we all share the same objectives the review must be completed as soon as possible. Cannot add new terms and redraft the agreement at this time.

PFM Reform Agenda

- In the context of the adjustment program, Greece introduced a series of reforms in Public Financial Management.
- Our government shares the vision of full transparency and accountability in public financial management and is willing to continue and accelerate the reforms. Not an obligation but a principle: Respect for public money.
- Problem: Externally imposed reforms, legislated in haste, without any serious discussion. Never gained endorsement. Challenge to change the mindset.
- Pragmatically, under constant liquidity pressures, the focus is on short-term cash accounting. In-depth reforms such as accrual accounting seem a luxury.

Reforms in the pipeline

- Creation of a new, comprehensive Chart of Accounts for all entities of the General Government, following international accounting standards.
- Reconfiguration of the Fiscal Management Information System (FMIS) on the basis of the structure and the layout of the new chart of accounts.
- Decentralization of fiscal responsibility, through phasing-out of ex-ante audits by the General Accounting Office and The Court of Audit and transition to ex-post audits.
- Pool together the monetary reserves of all entities of the General Government into the Treasury Single Account (TSA)
- Proceed with a thorough Spending Review to evaluate the efficiency of state expenditure and identify fiscal space for reallocation and savings.

Epilogue

- Greece: An excellent case study for the political economy of debt crisis and extreme austerity: Rapid extinction of the traditional political establishment, a chance for Greece to get rid of a 40-year old regime of corruption and clientelism that led the country to bankruptcy.
- Transparency in public accounting is a most crucial requirement for political accountability. Still, a necessary but not sufficient condition for good political decisions.
- European Union in front of historical decisions that are strictly political: Stand up as a union of nations confident to their own common institutions, or just kick the can following the same failed recipes of the past.