



Fiscal Conference

Friday, 22nd October 2010
LSE Shaw Library, London

Conference Report

Public Financial Management in Times of Crisis: Fiscal Realities and Management Challenges in Greece and the EU

co-organized by

Hellenic Observatory
London School of Economics and Political Science

FONDAFIP

The Hellenic Observatory would also like to thank the following organizations for their support, without which the Fiscal Conference would not have been possible.



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PUBLIC FINANCIAL MANAGEMENT IN TIMES OF CRISIS: FISCAL REALITIES AND MANAGEMENT CHALLENGES IN GREECE AND THE EU

The conference on Public Financial Management in Times of Crisis held in London on 22 October 2010 attracted a large and diverse audience for a day of lively discussion and debate.

The conference focused on the financial and fiscal restraints resulting from the current crisis, which had a strong impact on the long term sustainability of public finances as well as on the current stance of fiscal policies in Member States in order to achieve a sound budgetary position.

The conference provided a forum for academics, practitioners, policy makers and the general public to discuss various fiscal issues and to make recommendations for the future.

We are particularly grateful to our conference chairs, Prof. Nicos Christodoulakis, Prof. Marie-Christine Esclassan and Prof. Kevin Featherstone for chairing the day and encouraging a vigorous and wide ranging debate on a number of issues. We are also grateful to all other speakers who supported the conference and contributed effectively to the discussion forums.

The conference was co-organized by the Hellenic Observatory and FONDAFIP (Association for the International Foundation of Public Finance). We would like to thank Ian Hawkesworth, Policy Analyst, OECD, Dr. Joachim Wehner, Senior Lecturer in Public Policy, LSE and Dr. Effie Vraniali, Program Officer, FONDAFIP and A.C.Laskaridis Research Fellow, LSE (2009-2010) for providing advice on the agenda. We are also grateful to the National Bank of Greece for its generous co-sponsorship of the event.

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Introduction - Welcome address

Professor Kevin Featherstone, Eleftherios Venizelos Professor, Director of the Hellenic Observatory, LSE, UK

Professor Marie-Christine Esclassan, University of Paris 1 Panthéon-Sorbonne, Secretary General, FONDAFIP, France

Professor Kevin Featherstone introduced the Fiscal Conference and welcomed all delegates.

He started his speech by highlighting the fact that there were a number of issues to be addressed during the day, ranging from long-term fiscal sustainability challenges, to revenue policies, debt management strategies and effective audit systems.

The variety of speakers invited and their diverse academic and professional backgrounds could in that sense contribute to a more comprehensive and integrative perspective on public financial management in times of crisis.

He thanked all delegates for their willingness to participate in the event and for the opportunity to advancing the debate.

Professor Marie-Christine Esclassan started by expressing her pleasure to co-organize this event in London, which she felt had a strong agenda and looked forward to the outcomes of the discussions.

She stated that many European countries are facing fiscal problems in this rather turbulent economic environment and noted that initiatives such as the current fiscal forum offer a unique opportunity for academics, practitioners and the wider public to better grasp the challenges ahead and to encourage an exchange of ideas and policy proposals for improved governance.

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Plenary Session I, Part I, Enhancing Fiscal Sustainability

Keynote speeches:

Ms Alexandra DROSOU, Advisor to Secretary General for Fiscal Policy, Ministry of Finance, Greece

Prof. Vasileios RAPANOS, University of Athens, Chairman of the Board, National Bank of Greece

Plenary Session I (part I) on Fiscal Sustainability issues was chaired by **Professor Nicos Christodoulakis**, (Athens University of Economics and Business, Former Minister of Economy and Finance, Greece). He began by underlining the importance of this conference and then gave the floor to the speakers.

As a representative of the Greek Ministry of Finance, **Ms Alexandra Drosou**, (Advisor to Secretary General for Fiscal Policy, Ministry of Finance, Greece) started by presenting a complete and up-to-date image of the fiscal situation in Greece.

She explained that the country has to face a triple deficit, namely a fiscal deficit as well as a lack of credibility and accountability.

This is why Greece has undertaken a large and front-loaded fiscal adjustment effort coupled with significant structural and financial sector reforms in order to safeguard long-term sustainability of public finances and to promote competitiveness and growth.

She then noted that one of the main priorities of the budget reform in Greece is the strengthening of transparency, accountability and monitoring of the budget process.

The new Budget Organic Law sets up a renewed fiscal framework aiming to regain control on government spending while raising the bar on information disclosure, medium-term planning and accounting standards.

She concluded by stating that the primary objective of these reforms is to enhance the credibility of fiscal policies vis-à-vis the markets and all other stakeholders as well as to improve the government's accountability to citizens.

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Professor Vasileios Rapanos, (University of Athens, Chairman of the Board, National Bank of Greece) elaborated on the case of Greece in shaping the relation between fiscal governance and budgetary outcomes. He was strongly motivated to examine the connection between these two elements in view of the serious fiscal imbalances facing most European countries and particularly Greece.

After a short reference to the history of the recent fiscal setting in Greece since 1999 and the annual changes in the general government balance, he outlined the necessary link between the importance of all these fiscal data and the disclosure of relevant information to the Parliament.

He then examined the deviations regarding targets, within-year estimates and final outcomes. Budget balance targets in Greece were missed but this was not due to optimistic assumptions on GDP growth and unrealistic forecasts for public revenue and expenditures. However, according to him, the main reason for these discrepancies lied in the weak fiscal framework governing the whole budget process.

This is why improving transparency, budget procedures and organization of the entire system could boost the effectiveness of fiscal policy making in Greece.

Some recent efforts for reforms were also discussed and especially the new Law on Fiscal Management and Responsibility voted in August 2010.

Finally, he proceeded to an assessment of the setting-up of an independent fiscal authority and the possible role of a Parliamentary Budget Office.

As a concluding remark, he stated that institutional weaknesses compromise the ability of the government to plan and monitor the budget process and highlighted the fact that much progress is still required.

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Plenary Session I, Part II, Enhancing Fiscal Sustainability Expert Panel and Discussion

Plenary Session I (part II) on Fiscal Sustainability issues was equally chaired by **Professor Nicos Christodoulakis**, (Athens University of Economics and Business, Former Minister of Economy and Finance, Greece).

Professor Marie-Christine Esclassan, (University of Paris 1 Panthéon-Sorbonne, France), opened the floor by making note of the fiscal situation in France and the relevant fiscal challenges posed by the current crisis. She then described the basic fiscal regulations and budget processes in France and pointed out the main advancements in the field.

However, in light of the critical fiscal problems at European level, she argued that all countries should work effectively to resolve with the least cost possible the serious long-term sustainability issues.

Professor Stanisław OWSIAK, (Cracow University of Economics, Poland), discussed the fiscal challenges in Poland. He noted that Poland was not so seriously affected by the current crisis as most other EU countries.

Nevertheless, a strong commitment for an overview of the budget system is he felt much needed as well as a social pact between the government and the society in such difficult times.

Dr. Efi VRANIALI, (Program Officer, FONDAFIP, Researcher on Public Finance), commented on the need for Greece to embark on a sustainable path of development and growth.

Fiscal legacies in Greece have seriously undermined current fiscal policies and urgent action is required to reverse this critical situation. The use of a fiscal rule in Greece, as a permanent constraint on budget action could offset undesirable results and help the country return to a sound fiscal course.

Mr. Carsten ZINKAN, (Fiscal Policy Division, Federal Ministry of Finance, Germany), elaborated on German fiscal policy and relevant action taken by the authorities in order to face the long-term fiscal challenges. He commented on the new Constitutional budget rule and underlined the need for the credibility of the German and EU exit strategy.

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Plenary Session II, Fiscal Consolidation Strategies: Public Revenue and Debt Management Policy Changes

Keynote speeches:

Prof. Nicos Christodoulakis, Athens University of Economics and Business, Former Minister of Economy and Finance, Greece

Dr. Vassilis Manessiotis, Advisor to the Governor of the Bank of Greece, Former Head of the Central Bank's Fiscal Affairs Division, Greece

Plenary session II on fiscal consolidation strategies was chaired by **Professor Marie-Christine Esclassan** (University of Paris 1 Panthéon-Sorbonne, France). She highlighted the need for fiscal consolidation and opened the floor to the speakers.

Professor Nicos Christodoulakis, (Athens University of Economics and Business, Former Minister of Economy and Finance, Greece), examined the case of Greek indebtedness and proceeded to various proposals on the ways that Greece can regain fiscal credibility and avoid the recessionary debt-trap.

He argued that Greece had a long history of economic turbulence but recent problems outpaced the potential and dynamics of the Greek economy. Hence, growth vanished in 2009 and 2010 and the ratio of debt-to-GDP exploded after 2008, whereas until that point it had gradually been following a downward trend.

Against this backdrop he pointed out the risks of misdiagnosing debt distress, such as interpreting illiquidity as insolvency and vice versa. At the wake of the crisis Greece faced higher spreads, as many other EU countries, and markets translated that into a liquidity shock, not a solvency problem.

In order to reverse the current critical fiscal set-back, he proceeded to some suggestions regarding debt management, fiscal austerity management, constitutional constraints ahead of the coming EU reforms in the SGP and growth.

Either way, a prerequisite for supporting these recommendations is the preservation of political stability as well as the establishment of a consensus and the legal enforcement to prevent speculation on policy changes in the future.

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Dr. Vassilis Manessiotis, (Advisor to the Governor of the Bank of Greece, Former Head of the Central Bank's Fiscal Affairs Division, Greece), discussed all issues regarding tax administration in Greece.

He started by stating the importance of tax administration in determining the level of tax revenue as well as tax policy. Efficiency in that sense is translated in low administrative and compliance costs.

However, in Greece for several decades no proper attention had been given to the improvement of the current system, leading to a situation of poor assessment and collection mechanisms. These problems coupled with a high tax evasion rate and very low voluntary compliance have contributed immensely to the deterioration of both revenue forecasts and outcomes.

Among the causes of poor tax administration he distinguished some lack of accountability, low motivation, a very complex tax system which changes frequently, inappropriate computerization as well as very mild disciplinary treatment.

In light of the current fiscal distress and the smooth implementation of the fiscal consolidation program, authorities in Greece proceeded to some significant reforms aiming at a thorough overhaul of tax administration.

He finished by making various important suggestions for the improvement of the current practices, relying mainly on the use of modern information technology, the amelioration of services to taxpayers, the development of internal audit and improved and shortened legal procedures.

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Plenary Session II, Fiscal Consolidation Strategies: Public Revenue and Debt Management Policy Changes

Expert Panel and Discussion

Mr. Philippe AUBERGER, (Member of the General Council, Bank of France, Former Rapporteur General of the Budget at the National Assembly, France), commented on the financing of debt in times of crisis.

He underscored the importance of a European solidarity mechanism which would ensure the long-term financing of public debt. Since the financial crisis of 2008-2009, public debt management has become extremely difficult for all countries.

A new type of governance should thus be envisaged as well as a convergence of policies and instruments for a better and more comprehensive assessment and comparison of revenues, expenditure and deficits at EU level.

Ms. Beata FURMANEK-KOSELKA, (Program Officer, FONDAFIP, Researcher on Public Finance, Poland), made a short and concise presentation on the relevant fiscal consolidation efforts undertaken in Poland.

She discussed the critical fiscal challenges posed for Poland as well and gave a concrete image of the current problems, focusing on the main advantages and drawbacks of the relevant fiscal framework. She concluded that there are many steps yet to be taken in order for Poland to achieve its program for fiscal consolidation.

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Plenary Session III, The Role of Audit and Accountability Systems in Improving Fiscal Performance

Keynote speech:

Dr. Ioannis Sarmas, Member of the European Court of Auditors, Luxembourg

Plenary session III on the audit and accountability systems was chaired by **Professor Kevin FEATHERSTONE**, Eleftherios Venizelos Professor, Director of the Hellenic Observatory, LSE, UK. He stressed that effective audit and accountability systems play an important role in these tough times and opened the floor to the speakers.

Dr. Ioannis Sarmas, (Member of the European Court of Auditors, Luxembourg), examined the evolution and scope of audit in modern public financial management systems.

He started by stating that effective and efficient audit of public funds can contribute substantially in preventing major fiscal crises like the current one, as long as it is carried out with respect to modern standards.

The organizational basis for Supreme Audit Institutions may vary but the Greek Court of Audit is probably the echo of the traditional model according to which an institution, preferably of judicial nature, audits the accounts of public accountants and authorizes orders of payment.

This type of audit reflects an equally traditional public financial management system. However, the intensity and urgency of current fiscal problems as well as their complexity and interconnection require a significant change of perspective.

In that sense, he continued, the control of legality and irregularity which was predominant so far should be accompanied by the introduction of an instrument panel that evaluates performance and results as well. The evolution of control implies therefore enhanced accountability for public actors, the use of up-to-date management tools and a supporting fiscal framework.

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Plenary Session III, The Role of Audit and Accountability Systems in Improving Fiscal Performance

Expert Panel and Discussion

Mr. Patrick Lefas, (Supreme State Auditor at the Court of Auditors, France), elaborated on the French audit and accountability system. He examined the limits of the personal responsibility of public accountants and made a special reference to the 2001 Constitutional by law in France (LOLF).

After this significant reform, the fiscal framework in France adopted a new and forward-looking orientation. The accounting reform and the establishment of a certification process for the legality and regularity of public accounts improved substantially this process as well as the accounting quality.

However a better assessment of sustainability is needed coupled with improved transparency for the whole General Government sector.

Mr. Jean-François BERNICOT, (Supreme State Auditor at the Court of Auditors, Former Member of the European Court of Auditors, France), discussed the scope and limits of current audit and accountability systems both in France and at EU level.

He noted that audit systems should be front-loaded and flexible enough to follow the complexity and multidimensionality of current fiscal issues.

Dr. Joachim WEHNER, (Senior Lecturer, London School of Economics, UK), elaborated on the role and importance of parliamentary control over the state's finances.

He commented on the connection between legislative institutions and fiscal policy outcomes by making a special reference to the various systems and organizational nature of national legislatures in their approach towards fiscal control. He explained briefly how the conflict between legislative authority and fiscal discipline can be resolved.

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Closing remarks

Professor Kevin FEATHERSTONE, (Eleftherios Venizelos Professor, Director of the Hellenic Observatory, LSE, UK), thanked Fondafip for co-organizing the event and all delegates for taking part in the open discussion forums, which raised a number of key issues.

He underlined the importance of such initiatives in shaping a better and more comprehensive image of the current fiscal landscape and in contributing to an enrichment of the current debate on future fiscal challenges.

He finally thanked all those involved in the organization and support of the conference, which provided a useful platform for sharing information and coordinating work.