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Given Past Experience in Public Financial Management, What Future Outcomes are Possible?

Ian Ball

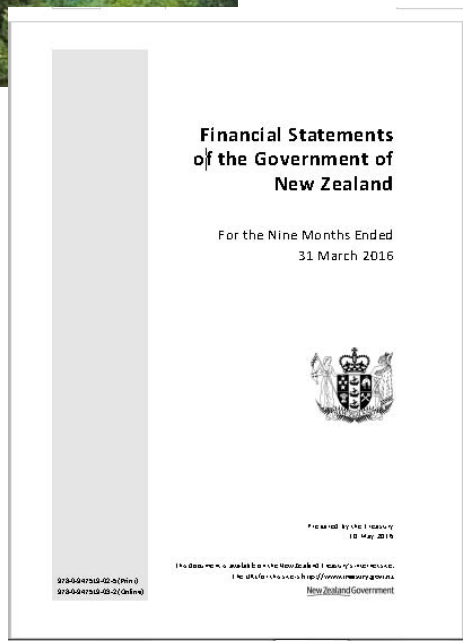
Chairman, CIPFA International

Kuala Lumpur, May 2016

performance in public services

Past Experience

- Highly Diverse
  - New Zealand
  - Greece
  - And everything in between…



Financial Statements of the Government of New Zealand

For the Nine Months Ended 31 March 2016

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May 10, 2016 6:05 pm

Creditors edge towards Greek debt relief

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Athens needs realistic fiscal targets and longer-term assistance

For something that makes such obvious sense, signs of sanity on the question of debt relief for Greece have been a long time coming. But at the meeting of eurozone finance ministers on Monday, the recalcitrant creditor governments — Germany inevitably the most important — came closer than before to acknowledging the need to write down Athens' huge burden of official debt.

The meeting reduced somewhat the gulf between the eurozone creditors and the International Monetary Fund, the other main player in Greece's bailout. The IMF

New Zealand: Finances Looking Good…

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Syndicated > New Zealand Government 9-Months Core Operating Surplus Beats Forecast

Wednesday, May 11, 201

New Zealand Government 9-Months Core Operating Surplus Beats Forecast

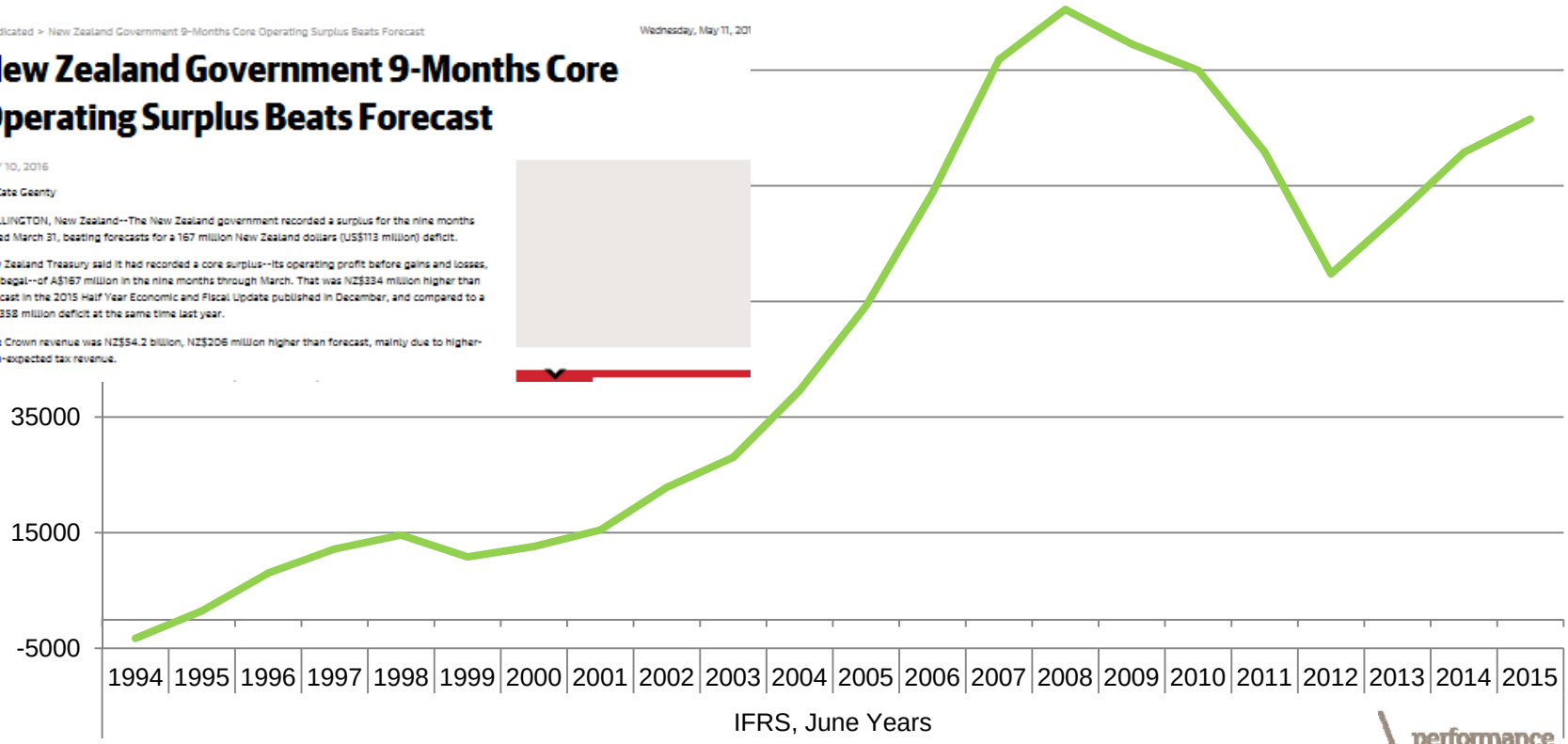
MAY 10, 2016

By Kate Geenty

WELLINGTON, New Zealand--The New Zealand government recorded a surplus for the nine months ended March 31, beating forecasts for a 167 million New Zealand dollars (US$113 million) deficit.

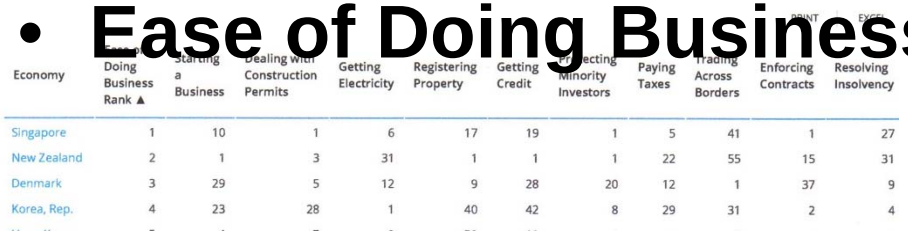
New Zealand Treasury said it had recorded a core surplus--its operating profit before gains and losses, or Obegal--of A$167 million in the nine months through March. That was NZ$334 million higher than forecast in the 2015 Half Year Economic and Fiscal Update published in December, and compared to a NZ$358 million deficit at the same time last year.

Core Crown revenue was NZ$54.2 billion, NZ$206 million higher than forecast, mainly due to higher-than-expected tax revenue.



Good Fiscal Management: At What Cost?

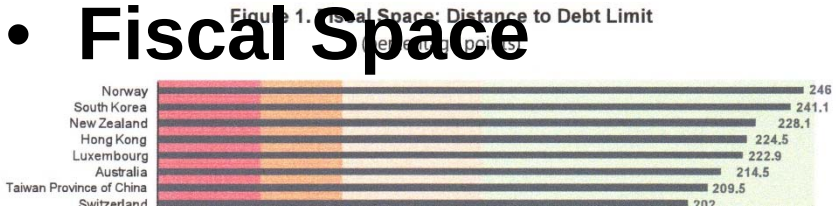
- Economic Freedom



Economy	Ease of Doing Business Rank ▲	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	10	1	6	17	19	1	5	41	1	27
New Zealand	2	1	3	31	1	1	1	22	55	15	31
Denmark	3	29	5	12	9	28	20	12	1	37	9
Korea, Rep.	4	23	28	1	40	42	8	29	31	2	4

- Ease of Doing Business

- Social Progress



- Fiscal Space

Rank	Country/territory	2015 Score
1	Denmark	91
2	Finland	90
3	Sweden	89
4	New Zealand	88
5	Netherlands	87
5	Norway	87

- Corruption

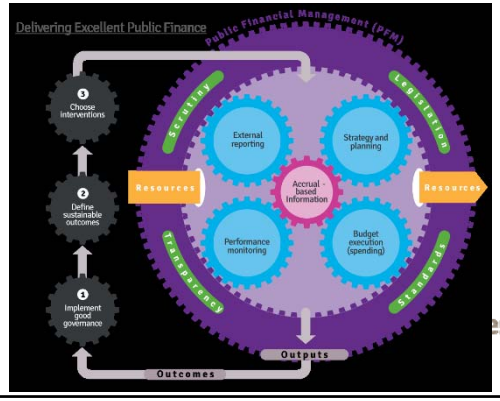
COUNTRY	SCORE	GLOBAL RANKING
Denmark	0.87	1
Finland	0.85	4
Netherlands	0.83	5
New Zealand	0.83	6
Austria	0.82	7
Germany	0.81	8

COUNTRY
Croatia
South Africa
Hungary
Senegal
Malaysia
Bosnia and Herzegovina
Jordan
Jamaica

- Rule of Law

Why Did It Work?

- Political commitment
- Context
  - Accounting/PFM/PSM/Microeconomic reform
- Rationale
  - Government performance
- Coherence in PFM system
  - Definition and specification of performance
  - Accrual concept
  - PFM as a system within a system
    - A “Whole System Approach”
- Quid pro quo
  - <u>Real</u> managerial discretion



And Greece?

Progression of Maastricht Gross Debt to IPSAS Net Debt (2 of 2)

(Euros, Billions; as of 31 December 2013)

SN	Type of Debt/Asset	Maastricht Debt (Face Value) 31 Dec 2013	IPSAS Adjustments (Includes Accretion): OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012	Total Adjustments	IPSAS Net Debt (Fair Value) 31 Dec 2013	SN
1.	Modified Securities	€ 62.8	€ 0.0	€ 0.0	€ 36.7	€ 5.8	€ 42.5	€ 20.3	1.
2.	Modified/Concessionary Loans	€ 212.4	€ 11.0	€ 5.7	€ 84.9	€ 51.3	€ 152.9	€ 59.5	2.
3.	Non-Revalued Debt	€ 43.5	€ 0.0	€ 0.0	€ 0.0	€ 0.0	€ 0.0	€ 43.5	3.
4.	Adjustments		€ 11.0	€ 5.7	€ 121.6	€ 57.1	€ 195.4		4.
5.	Total Gross Debt	€ 318.7	€ 307.7	€ 302.0	€ 180.4	€ 123.3		€ 123.3	5.
6.	GDP	€ 182.0						€ 182.0	6.
7.	Debt/GDP	175%						68%	7.
8.	Financial Assets Funded w/ Loans		Concessionary Terms and Modifications: Highlights					€ 33.6	8.
9.	Other Financial Assets							€ 57.1	9.
10.	Total Financial Assets							€ 90.7	10.
11.	Net Debt							€ 32.6	11.
12.	Net Debt/GDP							18%	12.
			EU Loans: 3M Euribor plus 300-400 bps. Maturities: 5 yrs. Grace period: 1.5 yrs.	**EU Loans** cut to 3M Euribor plus 200-300 bps. Maturities up to 10 yrs. Grace period up to 4.5 yrs.	**EU Loans** cut to 3M Euribor plus 150bps. Maturities up to 15 yrs. Grace period up to 10 yrs.	**EU Loans** cut to 3M Euribor plus 50bps. Maturities extended to 30 yrs.			
					EFSF Loans: Cost-of-funding plus 200-300bps. Maturities: 30 yrs.	**EFSF Loans** cut to cost-of-funding. Interest deferred for 10 yrs. Maturities extended to maximum 45 yrs.			
					ANFA bonds issued on extant terms with interest and partial principal rebate.				
					SMP bonds issued on extant terms.	**SMP** interest and partial principal rebate.			
					GGBs start at 2% coupon with maturities up to 30 yrs.				
			Most Comparable Debt Instrument						
			~400 bps below market YTMs.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.			
	Maastricht Debt - Face Value Amount Adjusted		€ 70.8	€ 70.8	€ 275.2	€ 275.2			

Note: Simplification for presentation purposes.

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Draft v.4.4

Mr Schäuble called the debt relief issue a distraction from the need for other tough reforms and said it was “not necessary”. “That is indisputable,” he said on Friday. “That is an attempt not to do what irrefutably must be done.”

Some Tentative Conclusions…

1. Multiple factors determine "success"
   - Capacity – within and outside government
   - Political (and finance ministry) support
2. Best can be the enemy of the good
   - Persistence is essential
   - Pace can vary
3. Each case is different, but;
4. Good decisions rely on good information

Martin Wolf Sums It Up…..

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April 15, 2016 5:42 am

Public sector needs to do a better job with assets

Martin Wolf

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Professional management might raise an annually

What is not measured does not count. This is dramatically true in discussion of the public sector. A few numbers – the annual financial deficit and the stock of debt – dominate the debate. The result is chronic mismanagement. The current UK debate, for example, largely ignores assets and makes little distinction between current and capital spending. The present focus also ignores many liabilities and pays little attention to management of assets.

Future Outcomes?

- Great diversity here too….
- Increasing recognition of the role of governance, including PFM
- But low levels of political commitment and public awareness
- International institutions inconsistent
- Fiscal policy based on poor information, and …
- Highly risky fiscal setting.

So What Can We Hope For?

- Continued, progressive PFM improvement
- In the absence of shocks, no coordinated system-wide improvement
- Increasing use of IPSAS as a bench-mark
- Greater integration of accounting into fiscal management?
- And, who knows?....

New Performance Metrics?

Net Worth as a Percentage of GDP

Global Benchmark	Latest
New Zealand, Government of	38%
Swiss Confederation	-5%
Australia, Commonwealth of	-19%
Canada, Government of	-31%
United Kingdom *(Whole of Government)*	-93%
United States Government	-101%
France, Republic of	-130%
Israel, Government of the State of	-158%

Notes: Latest available (2014 or 2015) data. Nominal GDP from EC AMECO and IMF World Economic Outlook (Oct 2015) databases. Net worth data from respective government financial statements. France and Swiss Net Worth adjusted for pension commitments. UK net worth adjusted for undervaluation of infrastructure assets. Canada and United Kingdom as a percentage of prior year GDP due to 31 March fiscal year end.

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