

100-Day Turnaround Plan for GREECE

Led by a 5-Star Greece Finance Ministry

Measurement start date: 24 September 2015

www.MostImportantReform.info

100-Day Turnaround Plan for GREECE: **Massive Need**

There is a massive need for the turnaround of Greece led by a 5-star finance ministry.

	Greece	Peer Average	Post-Programme Countries			
			Ireland	Spain	Portugal	Italy
1. Government Credit Ratings (M/S/F/D)	Caa3/CCC+/CCC/CC		Baa1/A-/A-/AL	Baa2/BBB/BBB/AL	Ba1/BBB/BBB/BBBL	Baa2/BBB/BBB+/AL
2. Government Borrowing Cost (10-Yr YTM)	8.1%	1.9%	1.2%	2.0%	2.6%	1.7%
3. Recent Change in Equity Valuation ¹	-43%	6.0%	41%	-4.5%	-23%	11%
4. Corporate Borrowing Cost (YTM) ²	8.6%	2.4%	2.5%	2.2%	3.2%	1.5%
5. Bank Borrowing Cost (YTM) ³	45%	1.8%	1.2%	2.3%	2.8%	0.9%

Notes: Data as of 23 September 2015. (1) Stock market index change from 31 December 2013 to 23 September 2015. (2) Flagship corporations short/medium-term maturities. (3) Flagship banks short/medium-term maturities.

100-Day Turnaround Plan for GREECE: **Underperformance**

- **GDP and Debt:** Since 2001, GDP has increased by only 15% of the increase in Greece government debt, which is the smallest increase in the EU and far below the peer average of 40%.
- **GDP Per Capita:** Since 2001, Greece GDP per capita has declined from 192% of the EU bottom half country average to 119%.
- **Competitiveness:** Since 2001, Greece WEF competitiveness index ranking has fallen from 17th to 28th in the EU (last place).
- **Government Factors:** Since 2001, Greece WEF key government related factors rankings have fallen from an average of 16th to 28th in the EU.

100-Day Turnaround Plan for GREECE: PV of Net Debt

Greece Present Value (PV) of net debt to GDP was 22% of peers and PV of debt to GDP was 60% of peers when correctly calculated using international macroeconomic and accounting rules.

(€, billions; 2013 data except as noted.)

		Greece	Peer	Post-Programme Countries				
		% of Peers	Greece	Average	Ireland	Spain	Portugal	Italy
1.	Future Value of Debt/GDP		175%	120%	124%	94%	129%	133%
2.	GDP		€182		€164	€1,023	€166	€1,560
3.	Future Value of Debt		€319		€203	€961	€214	€2,069

International macro-economic and accounting rules:

4.	PV of Debt		€124		€189	€940	€185	€2,069
5.	PV of Debt/GDP	60%	68%	113%	115%	92%	112%	133%
6.	Financial Assets		€91		€65	€292	€69	€317
7.	Financial Assets/GDP		50%	32%	39%	29%	42%	20%
8.	PV of Net Debt		€33		€125	€647	€116	€1,752
9.	PV of Net Debt/GDP	22%	18%	80%	76%	63%	70%	112%
10.	PV Impact		€195		€14	€21	€29	€0
11.	PV Impact/GDP		107%	7%	8%	2%	17%	0%

GREECE PV OF NET DEBT WAS INDEPENDENTLY VERIFIED ON 15 AUGUST 2014.

Note: Future Value of Debt is synonymous with face value. Financial Assets data from Eurostat, Financial Balance Sheets 2013 data (accessed on 31 May 2014), except Ireland, Italy, and Spain (2012); Greece Financial Assets data also noted in the IMF, 5th Review for Greece, June 2014, page 51.

100-Day Turnaround Plan for GREECE: Debt Service

In 2016, Greece debt service, which is interest expense and principal payments less rebates and deferrals, as a % GDP is 47% of peers.

	Debt Service % of GDP¹	IMF Gross Financing Needs % of GDP²
1. Greece	6%	19%
2. Ireland	10%	9%
3. Italy	15%	17%
4. Spain	13%	17%
5. Portugal	11%	20%
6. Peer Average	12%	15%
7. Greece % of Peer Average	47%	123%

Notes:

1. Source: Bloomberg, EC, and IMF data. Excludes T-Bills. Greece adjusted for deferred interest and SMP/ANFA rebates.

2. Source: IMF data.

100-Day Turnaround Plan for GREECE: **Debt Relief**

Third Programme: Under the terms of the €86 billion August 2015 third programme, Greece debt relief is €64.4 billion.

Measurement Rules: International accounting rules (IPSAS/IFRS) and international macroeconomic rules (2008 SNA and 2010 ESA) have harmonized principles for measuring debt relief.

Terms: Interest expense is currently approximately 1% with maturities approaching 50 years and grace periods 20 years.

Disbursements to Date: €13 billion in August 2015.

Auditable Model: Auditable excel model documentation can be found at www.MostImportantReform.info.

100-Day Turnaround Plan for GREECE: **Goals**

Greece 5-star finance ministry must manage with and report timely internationally comparable government financial statements, especially a balance sheet, to achieve the following goals:

1. Build trust and confidence
2. Combat inefficiency and corruption
3. Increase asset values
4. Lower borrowing costs
5. Increase government and private access to domestic and international capital
6. Improve credit ratings
7. Reduce non-performing loans (NPLs)

Without an opening balance sheet for the Greece government, the finance ministry cannot know the starting point; and, because what is not accurately measured cannot be properly managed, Greece needs government financial statements.

100-Day Turnaround Plan for GREECE: **Milestones**

Milestones	Day 30	Day 60	Day 100
1. International Accounting Standards (IAS)	PV of net debt	Change in net worth for major decisions	Preliminary balance sheet
2. 10-Year GGB Borrowing Cost	6.0%	5.0%	3.0%
3. Athens Stock Market Value Increase*	15%	25%	40%
4. GGB New Issues	-	€2 billion	€3 billion
5. Better Credit Ratings	-	B	BB
6. IMF DSA IAS Precision	-	PV of net debt	Debt service
7. ECB Treatment of GGBs	-	Programme eligible	QE eligible

*Cumulative.

100-Day Turnaround Plan for GREECE: Major Financial Decisions

Almost a trillion euros in financial decisions made without a 5-star finance ministry dwarf all other reform decisions.

Debt and debt relief decisions:	
May 2010 programme	€110 billion
March 2012 programme	€165 billion
December 2012 restructuring	€232 billion
2015 programme	€86 billion
Financial sector recapitalization decisions:	
May 2010 recapitalization	€10 billion
March 2012 recapitalization	€50 billion
2015 recapitalization	€25 billion (Est.)
Liability Management Exercises:	
March 2012 Private sector involvement (PSI)	€197 billion
December 2012 GGB Buyback	€32 billion
Total:	€907 billion

Note: Amounts shown at future face value at time of decision.

100-Day Turnaround Plan for GREECE: **Technical Expertise Checklist**

Finance Ministry Technical Expertise		YES	NO
1. Present Value of Net Debt: Correctly calculates Greece present value (PV) of net debt to GDP at 22% of peers and PV of debt to GDP at 60% of peers, which include EU post-programme countries.			
2. Debt Service: Correctly calculates Greece debt service as a percentage of GDP at 47% of peers, which include EU post-programme countries.			
3. Debt Relief: Correctly calculates debt relief from the third program is €64.6 billion.			
4. Primary Balance: Correctly calculates Greece Q1 2015 primary balance was not the positive 3.9% of GDP initially touted but closer to negative 14% of GDP.			
5. Asset Valuation: Correctly calculates and compares to benchmarks the quarterly and annual change in value of government financial and fixed assets, especially as related to government decisions.			
6. Single-entry: Understands that the Greece government's current financial management system is comparable to single-entry cash-basis accounting (Ottoman era), which cultivates corruption and inefficiency; especially in a country that has one of, if not the worst corruption index ratings in the EU.			
7. Balance Sheet: Understands that the Greece government does not currently have an internationally comparable audited balance sheet and can quickly build a preliminary opening balance sheet based on currently available information.			
8. Financial Statements: Understands that the Greece government does not provide internationally comparable financial statements to the IMF for use in DSA, or to the credit rating agencies for use in rating evaluations, and will quickly rectify the situation.			
9. Net Worth: Correctly calculates a current estimate of the Greece government consolidated net worth and can calculate changes in net worth for a reporting period and for specific financial decisions.			
10. 100-Day Plan: Publicly shares a 100-day plan (with 30-60-100 day milestones) with quantifiable financial impact goals during the selection process, and avoids promises of easily circumvented legislation and vote buying.			

100-Day Turnaround Plan for GREECE: 5-Star Finance Ministry

Greece's first step in a turnaround is to build a 5-star finance ministry based on meritocracy with the necessary technical expertise and MACC skills.

Meritocracy: Use a merit-based process for ALL finance ministry appointments, hires, and promotions, and allocate 5% of annual hours to expertise and skills education.

Expertise: Use expertise in finance, accounting, and turnaround management. No amount of clever is a substitute for experience and judgment.

Skills (MACC): Use skills in measuring, analyzing, creating value, and communicating.

100-Day Turnaround Plan for GREECE: **Management Limitations**

- The centre of the Greek government contains virtually no permanent civil servants in its ranks.
- There has been an underlying continuity of weak performance in the essential tasks of managing government that prevents change.
- Staffing resources have often been used to serve other, party political needs, rather than the operational effectiveness of the government.
- Without external pressure, reform will be too weak to deliver significant and broad reform, but to date success in substantive shifts unclear.
- Public administration is the foundation of the inefficient, nepotistic political system that is a poor manager of its own resources.
- Change is not taken seriously with almost no process management capacity to guide change.
- A near-universal absence of KPIs, leadership development programmes, continuing education, or performance audits.
- External assistance from bureaucrats - not change managers - focusing on symptoms and not causes with little interest in improving public administration.

Suggested reading:

- “Prime Ministers in Greece: The Paradox of Power.” Kevin Featherstone and Dimitris Papadimitriou. Oxford University Press. 2015.
- “Public Administration and Greece’s ‘Tragic Trident.’” Michael G. Jacobides. MIT Press. 2015 (forthcoming).