

IPSAS—And the Real Economic Burden of Greek Sovereign Debt

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One of the most important insights gained at the Chamber’s Greek Economy Conference in December relates to the key role that IPSAS can play in Greece’s public finances.



With clarity and persuasiveness, Paul Kazarian, founder and CEO of Japonica Partners, argued that by implementing International Public Sector Accounting Standards (IPSAS) Greece would improve the country’s public finances vis a vis efficiency, transparency, competitiveness, investment reliability, and sustainable growth.

In addition, IPSAS would favorably impact Greece’s sovereign debt assessment.

Indeed, Standard 29 of IPSAS, which prescribes recognition and measurement principles for financial instruments, (primarily drawn from IAS 39), shows the true financial value of Greece’s debt to be very different than that commonly cited.

In addition to Mr. Kazarian, in the course of the negotiations with the Euro Group Members, the Greek Minister of Finance, Mr. Y. Varoufakis, invoking a similar opinion of Mr. Claus Regling (CEO of EFSF & MD of ESM) according to press reports (Naftemporiki, 19/02/2015) has made it clear that the implementation of IPSAS (applying a 5% discount factor), will lead to a favorable and more fair assessment of our public debt, due to the favorable conditions outlined in the EFSF financial support and the bilateral loan agreements with EU Partners.

In other words, “technically” speaking this approach will appraise a reasonable measurement of the debt, in the form it would apply under conditions of the free market, between knowledgeable and not relayed counter parties (arm’s length criteria).

It implies a more fair and more rational assessment than the one stipulated by the legal terms of the Maastricht Key Performance Metric, which confusingly measures Greece’s sovereign debt higher than 175% of GNP.

The benefit emerges as the debt assessment is measured in terms of Net Present Value (NPV), which IPSAS follow, a process that, in addition to considering the time value of money, for such a long-term loan agreement with EU Partners, enhances the ability to assess the economic importance of specific, contractual modifications, subsequent to the original agreements, of the loan with our European Partners.

These favorable provisions of the loan agreements refer to prolonged borrowing terms, reduced interest rates, capital and interest grants, and grace periods over the time of capital payments.

Such provisions are crucial elements factored in by money markets, banks, and investment funds, when they assess the solvency, creditworthiness, and risk profile of a country, in making financial investment choices.

Even the Troika relies, for instance, on the evaluations of international rating agencies.

Other voices, including that of Professor Jacob Soll, of the University of Southern California, in a New York Times OpEd article (21-1-2015) stated that "Greek Debt is not what it seems," in the way it is assessed, under the Maastricht definition of public debt.

At the end of the day, as Mr. Kazarian pointed out, the option of adopting IPSAS principles can be a huge hidden competitive advantage for Greece.

More important, it would be a strong negotiation "trump" card, via-a-vis Greece's EU Partners and the markets, in the critical area of evaluating the sustainability of Greek sovereign debt.

In light of these arguments, merits, and advantages, there is no reason for the Greek authorities not to reclaim this significant benefit and upgrade the classification of Greece to the top, among the 12 countries of Eurozone, with the highest sovereign debt ratings, at the same time sending a strong message to the markets, potential investors and, of course, to European leaders.

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