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Opinion: The irony of Greek debt and German demands

By Winnie Agbonlahor | April 6, 2015

Rob Whiteman, chief executive of the Chartered Institute of Public Finance and Accountancy (*CIPFA*), argues that German demands on Greece's finances are somewhat insincere

Rob Whiteman, CEO of CIPFA - the accountancy body for the public services

When Wolfgang Seiger wrote an open letter to Angela Merkel's CDU party he did not mince his words. Seiger is president and general secretary of the German CDU's Wirtschaftsrat – the governing party's business relations group. The letter, sent in February, was about the highly contentious issue of Greek debt and negotiations between the new Greek government and the Eurogroup. Amongst some strong language on Greek profligacy and the weakness of its tax system, was a demand which, when put in context, is both remarkable and casts the whole Greek debt negotiation in an entirely different light.

The letter argued that no one knows the true extent of Greek debt as no reliable figures are available. It stated that the Greek's debt estimation of €315.5bn – or 176% of GDP, was not realistic as this reflects nominal debt not its fair value.

Seiger's letter suggests that Greece should urgently be forced to adopt accrual accounting, or International Public Sector Accounting Standards (IPSAS), instead of cash accounting which it currently uses. This would mean that, instead of only reporting cash going in and out, Greece would also take account of assets, such as invoices raised or received but not paid; loans or debt; and liabilities – thus providing a more accurate picture of its financial standing.

The change would bring Greece in line with familiar corporate reporting, create greater financial transparency, and would ensure everybody from the so-called Troika to the German Chancellor understands Greece's proper financial position: a reasonable request, one might argue.

However, the context to this throws up the deep irony in the negotiations over Greek debt.

The German government itself has quietly refused to make any real progress towards adopting IPSAS for its own accounts for a very long time, and still accounts on a cash basis. It has shown little interest in, and even some hostility towards, the EU adopting IPSAS.

The call on Greece to become more transparent is therefore very much a 'Do as we say – not as we do' demand. The subsequent call by the Public Finance Committee to the German House of Representatives (Bundestag) on the government to make sure that both cash and accrual accounting remain optional in Germany only reinforces the apparent position that transparency is something to be required only of other governments.

What the adoption of IPSAS in Germany would show about the net worth of the German government, given their public service pension liabilities, is a matter for conjecture. It is doubtful, however, that they would be immune to the financial pressures associated with the balance sheet positions of most maturing Western democracies.

Furthermore, and as the CDU letter hints at when it describes the fair value of Greek debt as their 'competitive advantage', what would the adoption of IPSAS do to the real burden of the Greek national debt?

Put simply, it would shrink it massively. An accounting treatment could reveal that the huge capital transfer from creditors to Greece in the restructurings has been effected with reduced interest rates and exceptional extended maturities to the debt. if Greece was to adopt IPSAS, CIPFA estimates that its gross debt would drop from 176% to 68% of GDP.

However, gross debt is not the best measure of debt burden or fiscal strength. Most governments, including the German one, regard net debt as the better measure. Government net debt is debt owed by the general government minus its financial assets in the form of debt instruments – currency and deposits, debt securities, loans, insurance, pension, and standardized guarantee schemes, and other accounts receivable. Greece's net debt is only 18%. This reflects the significant financial assets held by the Greek government. On this basis the Greek debt burden is significantly lower than that of most other European countries.

There is a very big difference between 175% and 18% and no one is better placed to spot it than these German businesses leaders. Their day-to-day accounting practice – International Financial Reporting Standards (IFRS) – follows exactly the same principles as those set out in IPSAS. They know that all the debate about nominal debt is meaningless because they would never be allowed to account for their company's assets and liabilities in the same arbitrary way.

So, while there is definitely value in Greece adopting the much better accountancy standards of IPSAS, which countries like New Zealand have led the way in adopting, and being more transparent about its financial position, we must all be aware that this will have unforeseen consequences. We may well find ourselves in a world where people stop worrying about Greek debt. They will see it as affordable and start to question the financial position of other nations, as disclosed through the use of the same accounting standards they are seeking to force upon the Greeks.

This would be no bad thing. Many in the EU may benefit from worrying about the fiscal plank in their own eye rather than the sawdust in another's!

We should not pretend that the Greek government and economy does not have a problem with its finances. It has, and will for a long time continue to have a large job to do to get the country on the right fiscal track. But what we shouldn't do is use bad information and poor methodology in establishing the size and nature of the problem and, therefore, what is the best solution.

The adoption of IPSAS would be a good thing for Greece, it would provide transparency and give them the information they need to plot a steady and measured course to economic stability. It would provide the basis for more effective accountability. But the adoption of IPSAS – or EPSAS as they will be called in Europe – would also be good for the rest of the EU, including Germany. This is the case even if it paints a more painful fiscal picture for some 'maturer economies' and requires a reassessment of their fiscal policy.

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