

# Government Net Worth: Improving Decision-Making, Transparency, and Accountability

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1. International accounting standards to measure government net worth.

# Government Consolidated Financial Statements

- Components: Extensive granularity and comprehensive disclosure.
- Internationally comparable: benchmark to best-in-class.
- Integration: Four fully integrated financial statements.
- Verification: international audit verification.
- Transparency/accountability: plain language and public friendly.

# IMF Recommendation to Use IPSAS (IFRS) Financial Statements for Decision Making

## *IPSAS [Public Sector Version of IFRS]:*

- General purpose financial statements are used to evaluate financial performance and financial position, hold management accountable, and inform decision making by users of the general purpose financial statements. (GFSM Box A6.1 p.343)
- “IPSASs are international standards and recognized as best practice for public sector financial reporting.” (GFSM p.341)

## *Government Finance Statistics:*

- The GFS reporting framework was developed specifically for public sector input to other macroeconomic datasets. (GFSM Box A6.1 p.343)

## 2. Government net worth definition and key performance metrics (KPIs).

# International Accounting Rules and Government Benchmarks

## International Accounting Rules (Standards):

- International Public Sector Accounting Standards (IPSAS) are the only international standards developed over the past decade.
- International Financial Reporting Standards (IFRS) the predecessor of IPSAS.

**Government Benchmarks:** Australia, Austria, Canada, France, Hamburg, Hesse, Israel, New Zealand, North-Rhine-Westphalia, South Africa, Switzerland, United Kingdom, and the United States.

**Public Sector Organization Benchmarks:** European Union, IMF, OECD, United Nations, and World Bank.

**In-process Examples:** Brazil, Chile, China, Estonia, Portugal, Russia, Spain, UAE, and the Vatican.

# Governments Have A Net Worth

	<b>Australia, Commonwealth of</b>	<b>Canada, Government of</b>	<b>France, Republic of</b>	<b>Israel, Government of the State of</b>
<b>Total Assets</b>	\$532	\$411	€ 989	₪ 503
<b>Total Debts</b>	\$841	\$1,024	€ 3,759	₪ 2,229
	-\$309	-\$612	-€ 2,770	-₪ 1,727
	<b>Net Worth</b>	<b>Accumulated Deficit</b>	<b>Net Worth</b>	<b>Equity</b>
<b>GDP</b>	\$1,637	\$1,975	€ 2,132	₪ 1,094
<b>Net Worth / GDP</b>	-19%	-31%	-130%	-158%
	<b>New Zealand, Government of</b>	<b>Swiss Confederation</b>	<b>United Kingdom (Whole of Government)</b>	<b>United States Government</b>
<b>Total Assets</b>	\$279	CHF 105	£1,569	\$3,230
<b>Total Debts</b>	\$187	CHF 139	£3,189	\$21,452
	\$92	-CHF 35	-£1,620	-\$18,222
	<b>Net Worth</b>	<b>Equity</b>	<b>Net Liabilities/ Net Worth</b>	<b>Net Position</b>
<b>GDP</b>	\$244	CHF 645	£1,735	\$17,968
<b>Net Worth / GDP</b>	38%	-5%	-93%	-101%



# Net Worth Change Comparison: Select Sovereigns 2011 - 2014/15

1. Greece Net Worth increased 44% from 2011 to 2015 compared to Benchmark Median decrease of 23%.
2. Greece Net Worth as a % of GDP increased 60 percentage points compared to Benchmark Median decrease of 7 percentage points.

	Greece	Benchmark Median	Australia	Canada	France	Israel	New Zealand	Swiss	UK	US
1. Net Worth - 2011	-415		-103	-550	-2,149	-1401	81	-40	-986	-14,785
2. Net Worth - 2014/15	-231		-309	-612	-2,770	-1727	92	-38	-1,620	-18,222
3. Net Worth % Change	44%	-23%	-200%	-11%	-29%	-23%	14%	5%	-64%	-23%
4. Net Worth % of GDP - 2011	-200%		-7%	-33%	-104%	-150%	39%	-6.4%	-57%	-95%
5. Net Worth % of GDP - 2014/15	-131%		-19%	-31%	-130%	-158%	38%	-5.8%	-87%	-102%
6. NW/GDP % Point Change	69	-7	-12	2	-26	-8	-1	0.6	-30	-6

*Notes:* Data from respective government financial statements, EC AMECO, Eurostat, and IMF. France and Switzerland Net Worth adjusted for pension commitments. UK Net Worth adjusted for undervaluation of infrastructure assets. UK and Canada GDP data is prior year due to 31 March fiscal year end. For back-up on 2015 Greece government working draft balance sheet, see USC Global Leadership Summit presentation titled "Greece Government Working Draft Balance Sheet and Analysis of Third Programme Debt Relief" ([mostimportantreform.info/uscs Summit.html](http://mostimportantreform.info/uscs Summit.html)). Greece 2011 figures are backwards developed estimates, which is an economics methodology (not a methodology based on international accounting or audit standards).

# Return on Assets Ratio

*(Change in Net Worth as a Percentage of Assets)*

**There is a wide performance gap on net worth return of assets ratios.**

	Historical	2011-2014
Global Benchmark	Average	Average
New Zealand, Government of	4%	-2%
Swiss Confederation	1%	0.3%
Canada, Government of	-1%	-6%
Australia, Commonwealth of	-4%	-13%
United Kingdom <i>(Whole of Government)</i>	-10%	-10%
Israel, Government of the State of	-16%	-23%
France, Republic of	-18%	-18%
United States Government	-38%	-37%

Notes: Net worth and asset data from respective government financial statements. France and Swiss Net Worth adjusted for pension commitments. UK net worth adjusted for undervaluation of infrastructure assets. Historical average from oldest available data point (since 2001) to newest data point: Australia 2001-2015, Canada 2001-2015, France 2006-2014, Israel 2006-2014, NZ 2001-2015, Switzerland 2010-2014, UK 2011-2014, US 2001-2015.

# 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 <i>(Whole of Government)</i>	-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.

# Net Worth Annual Percentage Change

SN	Global Benchmark	2014	2013	2012	2011	2011-2014 Average	Historical Average
1	Australia, Commonwealth of	-26%	18%	-149%	-91%	-62%	14%
2	Canada, Government of	-0.4%	-4%	-6%	-6%	-4%	-1%
3	France, Republic of ( <i>Central Government</i> )	-16%	7%	-20%	-3%	-8%	-8%
4	Israel, Government of the State of	-10%	-5%	-7%	-9%	-8%	-6%
5	New Zealand, Government of	15%	17%	-26%	-15%	-2%	19%
6	Swiss Confederation	-4%	6%	10%	-8%	1%	3%
7	United Kingdom	-13%	-24%	-16%	3%	-13%	-13%
8	United States Government ( <i>Central Government</i> )	-5%	-5%	-9%	-10%	-7%	-8%

Notes: 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. Historical average from oldest available data point (since 2001) to newest data point: Australia 2001-2015, Canada 2001-2015, France 2006-2014, Israel 2006-2014, NZ 2001-2015, Switzerland 2010-2014, UK 2011-2014, US 2001-2015.

# Value Creation Ratio:

## Increase in GDP per Citizen as % of Change in Net Worth per Citizen

(Local Currency, Billions)

<u>Global Benchmark</u>	Value Creation Ratio	Increase in GDP per Citizen	Decrease in Net Worth per Citizen	Beginning Year
New Zealand, Government of	<b>Net Worth Increased 69% of GDP</b>	25,652	Increased 17,609	2001
Swiss Confederation	<b>Net Worth Increased 9% of GDP</b>	7,160	Increased 617	2009
Canada, Government of	<b>10.1x</b>	24,704	-2,451	2001
Australia, Commonwealth of	<b>3.3x</b>	38,559	-11,568	2001
Israel, Government of the State of	<b>0.6x</b>	49,512	-77,317	2006
United States Government	<b>0.6x</b>	23,021	-36,863	2001
United Kingdom (Whole of Government)	<b>0.4x</b>	3,860	-9,426	2010
France, Republic of	<b>0.2x</b>	4,366	-19,343	2006

Notes: Nominal GDP from EC AMECO and IMF World Economic Outlook (Oct 2015) databases. Net worth data from respective government financial statements. France and Swiss liabilities adjusted for pension commitments. UK assets adjusted for undervaluation of infrastructure assets. Canada and United Kingdom based on prior year GDP due to 31 March fiscal year end.

### 3. Debt relief impact on net worth.

## In 2015, Greece Net Worth Increased €17 Billion from Third Programme Debt Relief on €21.4 Billion of Loans

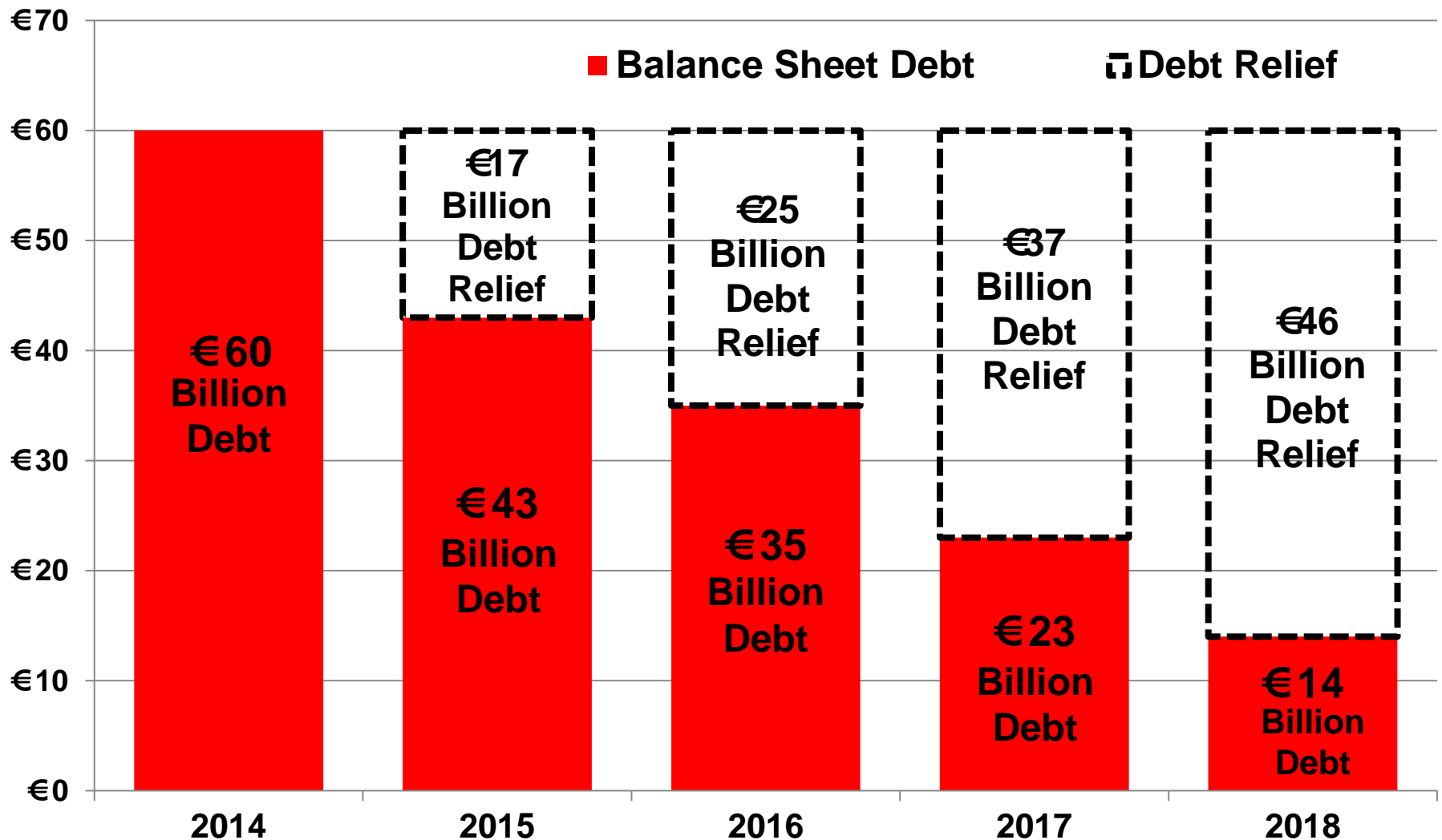
*During 2015, ESM made five concessionary loans to the CCC-rated Greece government for a total of €21.4 billion. The loans have an interest rate equal to AAA/Aa1-rated ESM cost of funds, which is less than 1%, not the yield-to-maturity of 7% to 8% on the longest maturity publicly traded Greece government bond. The loans have maturities out to 2059, 18-year grace periods, and weighted average lives of 32.5 years. Approximately, €16 billion of the proceeds were used to repay maturing debt and €5.4 billion to purchase financial assets of domestic banks, most of which was invested in 8% interest CoCos.*

Before Third Programme				Post-Third Programme			
Assets		Liabilities / Net Worth		Assets		Liabilities / Net Worth	
Financial Assets	€0.0	Debt	€16.0	Financial Assets	€5.4	Debt	€4.4
		Total Liabilities	€16.0			Total Liabilities	€4.4
		Net Worth	-€16.0			Net Worth	€1.0
Total Assets	€0.0	Total Liabilities and Net Worth	€0.0	Total Assets	€5.4	Total Liabilities and Net Worth	€5.4

*Note:* The €21.4 billion of ESM loans are reported on the balance sheet at initial recognition value (also known informally as present value) which is amortized cost under international accounting rules and increase (accrete) to maturity value (known informally as future face value) each accounting period. The subsequent accretion impact to net worth is reduced by appreciation in the financial assets and debt relief from inflows of ESM funds.

# ESM 3rd Programme Debt Relief Increased Greece Net Worth by €46 Billion

(€, Billions)



Note: Estimate as of 31 December 2015.



4. Importance of correctly measuring balance sheet net debt.

# Greece and Peer Balance Sheet Debt and Net Debt: 2013-2015

Greece and Peer 2015 Data:								
	<u>Greece</u>	<u>Greece % of Peer Avg.</u>	<u>Peer Average</u>	<u>Portugal</u>	<u>Ireland</u>	<u>Spain</u>	<u>Italy</u>	
1. Balance Sheet Debt	€ 118			€ 206	€ 192	€ 1,070	€ 2,175	
2. Financial Assets	€ 50			€ 63	€ 76	€ 267	€ 390	
3. <b>Balance Sheet Net Debt</b>	<b>€68</b>			<b>€144</b>	<b>€116</b>	<b>€803</b>	<b>€1,786</b>	
4. GDP	€ 173			€ 179	€ 205	€ 1,079	€ 1,635	
5. Balance Sheet Debt / GDP	68%	62%	110%	115%	94%	99%	133%	
6. Financial Assets / GDP	29%	96%	30%	35%	37%	25%	24%	
7. Balance Sheet Net Debt / GDP	<b>39%</b>	<b>49%</b>	<b>80%</b>	<b>80%</b>	<b>57%</b>	<b>74%</b>	<b>109%</b>	
8. Future Face Value of Debt	€ 309			€ 229	€ 204	€ 1,088	€ 2,175	
9. <b>Future Face Value / GDP</b>	<b>178%</b>	<b>154%</b>	<b>115%</b>	<b>128%</b>	<b>100%</b>	<b>101%</b>	<b>133%</b>	
<b>Greece Historical Data:</b>								
	<u>2013</u>	<u>2013 Revised</u>	<u>2014</u>	<u>2015</u>	<u>2013 Revised - 2015</u>			
					<i>Delta</i>	<i>% Change</i>		
10. Balance Sheet Debt	€ 124	€ 124	€ 124	€ 118	-€ 6	-5%		
11. Financial Assets	€ 91	€ 97	€ 71	€ 50	-€ 47	-48%		
12. <b>Balance Sheet Net Debt</b>	<b>€33</b>	<b>€27</b>	<b>€53</b>	<b>€68</b>	€ 41	155%		
13. GDP	€ 182	€ 180	€ 178	€ 173	-€ 7	-4%		
14. <b>Balance Sheet Debt / GDP</b>	<b>68%</b>	<b>69%</b>	<b>70%</b>	<b>68.4%</b>	0%			
15. Financial Assets / GDP	50%	54%	40%	29%	-25%			
16. <b>Balance Sheet Net Debt / GDP</b>	<b>18%</b>	<b>15%</b>	<b>30%</b>	<b>39%</b>	<b>25%</b>			
17. Future Face Value of Debt	€ 319	€ 319	€ 317	€ 309	-€ 11	-3%		
18. <b>Future Face Value / GDP</b>	<b>175%</b>	<b>177%</b>	<b>179%</b>	<b>178%</b>	<b>1%</b>			

**GREECE 2013 BALANCE SHEET NET DEBT WAS INDEPENDENTLY VERIFIED BY A BIG-FOUR ACCOUNTING FIRM ON 15 AUGUST 2014.**

# Clarification of Maastricht Debt Measurement Rules

- **Treaty of European Union, Article 104c.:** Debt means total gross debt at nominal value outstanding. 7 Feb 1992.
- **ESA 2010:** ESA 2010 was adopted in the form of a regulation to be adopted by the European Parliament to give it a solid legal basis. From the Forward page iii.
- **EC No. 479/2009, EC Article 17:** Amendments to ESA provided for to modify treaty. 25 May 2009.
- **EC No. 479/2009, Article 1.5, Definitions:** The nominal value of a liability outstanding at the end of the year is the face value. 25 May 2009.
- **ESA 2010, Section 20.236:** Debt rescheduling is considered extinguished and replaced at new transaction value.
- **ESA 2010, Section 5.19 – 5.21:** Transactions valued at market value on basis of commercial considerations.

# Greece Government: National Wealth Methodology versus Reported Numbers

	<b>National Wealth Methodology<sup>1</sup></b>		<b>Reported<sup>2</sup></b>	<b>Difference</b>
1. Financial Assets	€ 295	Financial Assets	€ 106	€ 190
2. Non-Financial Assets	€ 225	Non-Financial Assets	NA	--
3. Total Assets	€ 520	Total Assets	NA	--
4. Liabilities	€ 404	Financial Liabilities	€ 301	€ 103
5. Non-Financial Liabilities	€ 0	Non-Financial Liabilities	NA	--
6. Government Wealth	€ 116	Net Worth	NA	--
7. GNI / GDP	€ 192	GDP	--	--
8. Government Wealth / GNI	60%	Net Worth / GDP	NA	--

Notes: 1. "Towards a Theory on the Causes of the Greek Depression: An Investigation of National Balance Sheet Data (1974-2014)". Hyppolite, Paul-Adrien. Ecole normale superieure (Paris). Graduate paper produced with "valuable guidance all throughout the preparation of the paper by" Thomas Piketty and Gabriel Zucman. March 2016. 2. Eurostat data accessed 10 April 2016. Financial Assets and Liabilities data excludes Other Accounts Payable.