

IMF 2017 Spring Meetings

3 Helpful Facts on Greece

April 2017

**Includes IMF Official Responses from
Gerard “Gerry” Thomas Rice, Director, Communications Department
(13 April 2017)**

**Fact #1: The IMF Should Correctly Calculate and Stop Overstating
Greek Government Debt**

**Fact #2: The IMF Should Acknowledge the Importance of the Greek
Programme to the IMF’s Financial Stability**

**Fact #3: The IMF Should Advise Greece that Winning the Trust &
Confidence of Taxpayers and Global Capital Markets is the Most
Important Reform**

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IMF Spring Meetings – Topics for Discussion

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Fact #1

**The IMF Should Correctly
Calculate and Stop Overstating
Greek Government Debt**

The IMF Should Follow the IMF's Own Best Practices to Correctly Calculate and **Stop Overstating Greek Debt**

- #1. The IMF should use internationally agreed upon accounting standards (IPSAS/IFRS), as recommended in the IMF's own **statistics manual (GFSM)** and as used to prepare the IMF's own **consolidated financial statements** for its own stakeholders, to report Greek government debt.
- #2. The IMF should acknowledge that **internationally agreed statistics standards (2008 SNA)**, which the IMF has endorsed for immediate implementation and is one of five signatories, are harmonized with internationally agreed upon accounting standards for restructured debt.
- #3. The IMF should acknowledge that the IMF's own latest **debt sustainability measurement publications** recommend that concessional debt be reported at present value.
- #4. The IMF should follow the IMF's own **Greece DSA conclusion** that the future face value of debt number is “not meaningful” given the massive amount of concessional debt relief, and stop using this “not meaningful” number to project interest rates, primary balance targets, and debt sustainability.
- #5. The IMF should follow **capital markets convention** to correctly define debt service as net interest expense plus debt amortization, rather than use a unilaterally determined and flawed gross financing needs metric.

Greece 2016 Balance Sheet Debt, Correctly Calculated in Accordance with International Accounting or Statistics Standards is 75% and 91% of GDP, Respectively

(€, Billions)

		Internationally Agreed Upon Standards Designed to Reflect Economic Reality			Rules Set Politically with Little to No Relation to Economic Reality		
		International Accounting Standards (IPSAS/IFRS) Balance Sheet Debt	2008 System of National Accounts (2008 SNA) Correctly Calculated	European System of Accounts 2010 (ESA 2010) Correctly Calculated	IMF Debt Sustainability Analysis (DSA) Correctly Calculated	IMF Baseline Future Face Value	Lisbon Treaty Excessive Deficit Procedure (EDP) Future Face Value
1.	Debt	€ 132	€ 161	€ 161	€ 204	€ 325	€ 317
2.	Debt % of GDP	75%	91%	91%	116%	184%	180%
3.	Net Debt	€ 84	€ 113	€ 113	€ 186	NA	NA
4.	Net Debt % of GDP	48%	64%	64%	106%	NA	NA

Debt metrics for Greece EZ member state peers are not reduced under ESA 2010, 2008 SNA, or IMF DSA as there is no qualifying concessional or reorganized debt; under IPSAS/IFRS, Portugal, Spain, and Ireland would report lower debt by approximately €22 billion, €18 billion, and €11 billion, respectively.

Notes: Based on EC AMECO, Eurostat, and Bloomberg data accessed 17 Feb 2017 with percentages based on GDP of €176 billion, except IMF Baseline from Greece Article IV (Feb 2017) with percentage based on GDP of €176.6 billion.

ESM's Regling is Correct: Greece Debt Service is Among the Lowest in Europe and Will Remain So for a Long time. Now, it's About **Winning the Trust & Confidence** of Taxpayers and Global Capital Markets

(% of GDP except Avg. Maturity of Debt; 2016 metrics)

	<u>Greece</u>	<u>Peer Average</u>	<u>Cyprus</u>	<u>Ireland</u>	<u>Italy</u>	<u>Portugal</u>	<u>Spain</u>
1. Balance Sheet Net Debt	48%	70%	47%	43%	113%	79%	70%
2. Balance Sheet Debt	75%	102%	88%	71%	133%	119%	98%
3. Cash Interest	2.5%	3.2%	2.8%	2.3%	3.9%	4.3%	2.8%
4. Debt Service	6.6%	10.3%	7.7%	5.2%	15.0%	10.6%	12.9%
5. GFN	12.7%	14.0%	7.1%	4.2%	20.6%	16.2%	22.1%
6. GFN - Adjusted	5.2%	9.6%	5.2%	3.9%	14.1%	9.6%	15.5%
7. Avg. Maturity of Debt (Yrs)	25.5	9.6	9.7	14.0	6.7	10.7	6.9
8. Interest Expense (ESA)	3.3%	3.2%	2.8%	2.3%	3.9%	4.3%	2.8%

Notes: Based on EC AMECO data accessed 13 Feb 2017. Balance Sheet Debt calculated according to international accounting standards; Balance Sheet Net Debt net of estimated financials assets based on Eurostat data accessed 13 Feb 2017.

Greece Cash Interest is AMECO less EFSF deferred (non-cash) interest of an estimated €1.2 billion and SMP/ANFA rebates of €0.4 billion. Adjusted GFN assumes T-Bills refinanced at five year market yield except Greece at ESM rate of 1% with 10 year even amortization.

Greece has a Competitive Advantage When Gross Financing Needs (GFN) is Correctly Calculated and Managed

IMF GFN definition and 15% to 20% GFN targets are not based on internationally agreed upon standards but solely set by the IMF.

		2016 GFN <u>% of GDP</u>
1.	IMF	17.3%
2.	Correctly Calculated According to ESM Definition	12.7%
3.	Correctly Calculated According to ESM Definition - Adjusted	5.2%

Notes: Correctly Calculated based on EC AMECO and Bloomberg data accessed 13 Feb 2017; IMF from Feb 2017 Greece Article IV. Adjusted GFN assumes T-Bills refinanced at five year market yield except Greece at ESM rate of 1% with 10 year even amortization.

2060 Debt Projections Can Be Politically Driven Numbers Without Substantive Meaning

As illustrated by IMF baselines for Greece, 2060 projections can be manipulated to show debt at either a small fraction of GDP or a multiple of GDP.

	Feb 2017 Article IV <u>Baseline</u>	May 2016 DSA <u>Baseline</u>	Jun 2015 DSA <u>Baseline</u>	June 2014 Fifth Review <u>Baseline</u>
Debt to GDP - 2060	275%	250%	100%	60%
Gross Financing Needs % of GDP - 2060	62%	60%	22%	12%
<i>International Accounting Standards (IPSAS/IFRS) Balance Sheet Debt Numbers:</i>				
		<u>YE 2016</u>	<u>YE 2015</u>	<u>YE 2014</u>
Debt to GDP		75%	71%	70%

Notes: IMF data from sources as noted. International Accounting Standards (IPSAS/IFRS) Balance Sheet Debt calculated according to international accounting standards based on EC AMECO and Greece MoF data accessed 13 Feb 2017.

The IMF Should Avoid Concerns About Political Doublespeak and Not Use the Future Face Value of Greek Debt for its DSA

- IMF states that the "debt to GDP ratio is **not a very meaningful proxy** for the forward-looking debt burden" in its June 2015 Greece DSA.
- However, in 2060 DSA projections, the IMF continues to project interest rates **based on future face value** of debt to GDP, including in its February 2017 Greece DSA.
- Using a debt to GDP ratio based on future face value is a **main driver** of the IMF projected debt and GFN increases.
- If the IMF used the same debt to GDP ratio and **2060 projections** methodology for countries such as France, Italy, or Spain, the debt ratios would also be “explosive”.

Since 2010, Greece Has Received €356 Billion in Debt Relief, which is 18 Times More than the EZ Programme Country Average with Most Not Recorded as a Reduction in Debt
(€, Billions)

		Greece	Greece Multiple of Peers	Peer Average	Portugal	Ireland	Spain	Cyprus
1.	Total Debt Relief/Forgiveness % of GDP	203%	18x	12%	16%	5%	2%	23%
2.	Months in Programme(s)	81+		28	37	36	18	22
	Official Sector Debt Relief:							
3.	Pre-Third Programme	€ 182		€ 17	€ 29	€ 14	€ 21	€ 4
4.	Third Programme (to Date)	€ 25		NA	NA	NA	NA	NA
5.	Total Official Sector Debt Relief	€ 207		€ 17	€ 29	€ 14	€ 21	€ 4
6.	Private Sector Debt Forgiveness	€ 149		€ 0	€ 0	€ 0	€ 0	€ 0
7.	Total Debt Relief and Forgiveness	€ 356		€ 17	€ 29	€ 14	€ 21	€ 4
8.	Southern Axis EU Member States Contribution to Greece	€ 91						
9.	2016 GDP	€ 176		€ 396	€ 185	€ 266	€ 1,115	€ 18

Notes: Based on EC, IMF, and Bloomberg data as 17 Feb 2017. Debt relief calculated according to international accounting standards.

Illustrative Comments on Correctly Measuring Greece Debt: International

1. **European Stability Mechanism Managing Director Klaus Regling:** “the actual cost to Greece of servicing its debt is among the **lowest in Europe** and will remain so for a long time. Its gross financing needs will drop in the coming years and fall **well below those of most other eurozone countries** by 2020” (FT, 9 Feb 2017). Greece debt ratio is meaningless (WSJ, 26 Sep 2013) given very generous concessional terms on the debt, and the debt relief should be measured using net **present value**. (ESM Annual Report, 18 Jun 2015)
2. **Germany Deputy Minister of Finance Jens Spahn:** Debt burden should be assessed based on “net **present value** of debt” and “how much in fact does Greece have to pay per year”. (Bloomberg, 2 Sep 2015)
3. **Germany Chancellor Angela Merkel:** “It is rightful **that we do not ask about the 120% debt [to GDP] ratio**, but ask, what is the actual burden on Greece from its debt service.” (Axia, 1 Sep 2015)
4. **CDU Economic Council:** It is the **present value** of a loan that is decisive, **not the nominal value**. Greece debt is significantly lower than thought. This 'competitive edge' is kept quiet. (Letter to Members of the CDU/CSU Parliamentary Group, 24 Feb 2015)
5. **Former Member of German Council of Economic Experts Beatrice Weder di Mauro:** The **present value** of outstanding Greek debt is now about 100% of GDP. (Brookings, Sept 2015)
6. **IMF:** Given the extraordinarily concessional terms that now apply to the bulk of Greece’s debt, the debt/GDP ratio is **not a very meaningful proxy** (Greece Preliminary DSA 26 Jun 2015). **Present value** of debt is the appropriate measure for non-market access countries (DSA LIC Framework, 5 Nov 2013)

Illustrative Comments on Correctly Measuring Greece Debt: Within Greece

- 1. New Democracy President Kyriakos Mitsotakis:** The public debt is not the most fundamental problem of the Greek economy. The problem is the reform deficit, competitiveness deficit, investment deficit, and the persistent unemployment. In other words, the denominator is the problem, the GDP. Far more than the numerator, the debt. A very interesting debate has begun on the accurate representation of the public debt in **present value** terms. (Speech in Parliament, 22 May 2016)
- 2. Former Deputy Prime Minister and Finance Minister Evangelos Venizelos:** Since the beginning of 2012, Greece has received a debt reduction of more than €200 billion: €100 billion in nominal terms, and another €100 billion in net **present value** terms. (Speech to Hellenic Republic Parliament, 4 Dec 2015)
- 3. Former Finance Minister Gikas Hardouvelis:** Greece was offered substantial debt relief through the PSI of February 2012 as well as maturity extensions, interest rate reductions and even a grace period in its interest rate obligations... The long maturities, low yields and grace period render the true **(present) value** of debt obligations very small relative to its nominal (face) value. (World Post, 29 Feb 2016)
- 4. Former Finance Minister Yannis Varoufakis:** A Misunderstanding - The misunderstanding regarding Greece solvency owes to the fact that the blunt 175% Debt-to-GDP number does not fully describe the actual burden to public debt over the economy. Indeed, if Greece's debt was calculated in **NPV** terms, say with a 5% discount rate factor, the Debt-to-GDP ratio would already be as low as 133% of GDP. (Eurogroup Non-Paper, 16 Feb 2015)
- 5. Bank of Greece Deputy Governor and Former Deputy Finance Minister Iannis (John) Mourmouras:** Greek debt should be correctly calculated using international accounting standards, based on **present value** terms, which would most accurately reflect the economic reality that most of Greek government debt is with the official sector and under concessional terms (low interest rates and long maturities). (CBS Chazen Global Insights, 26 Jul 2016)
- 6. Deputy Minister of Foreign Affairs and Former Deputy Finance Minister Dimitris Mardas:** Greece government debt would be recorded at net **present value** taking into consideration the current value of the debt discounted by their expiry date on the basis of the market. (Economist Government Roundtable Speech, 14 May 2015)
- 7. Governor of the Bank of Greece Yannis Stournaras:** The combination of these actions would amount to a net **present value** benefit of about 17% of 2015 GDP for Greece over the next 35 years, thus improving debt sustainability. (LSE Speech, 25 Mar 2015)

Fact #2

IMF Should Acknowledge the Importance of the Greek Programme to the IMF's Financial Stability

Since the Greece Programme Began in 2010, Greece has Paid the IMF Billions in Fees and, During Certain Years, has Covered Almost All of the IMF Total Organization Expenses and Provided All of its Profits

(SDRs, Millions except as indicated; IMF 30 April fiscal year end data.)

Year	IMF Revenue	IMF Expenses	IMF Net Operational Income	Greece Interest/Fees to IMF	Greece Interest/Fees as a % of Expenses	Greece Interest/Fees as a % of Net Op. Income
2009	863	707	156	0	0%	0%
2010	1043	816	227	0	0%	0%
2011	1603	823	780	116	14%	15%
2012	2328	855	1473	415	49%	28%
2013	2838	864	1974	520	60%	26%
2014	2469	945	1524	792	84%	52%
2015	3088	905	2183	803	89%	37%
2016	1436	981	455	535	55%	118%
Total (since 2010 Greece Programme)		SDR 6,189	SDR 8,616	SDR 3,182	51%	37%
				€ 3,768		

Notes: Data from IMF annual financial statements, except Greece Interest/Fees to IMF data from IMF website accessed 23 Feb 2017 (<https://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=360&endDate=2017-01-31>). Data for IMF fiscal year ending 30 April. Total Greece Interest/Fees to IMF in euros converted from SDR as of 30 Apr fiscal year end of each year. On 23 Feb 2017, to convert SDR to EUR multiply by 1.28, and to convert SDR to USD multiply by 1.35 (see IMF website).

Since the Greece Programme began in 2010, IMF Administrative Expenses and Capital Expenditures have Skyrocketed

(SDRs, Millions; 7 Years Post- and Pre-Greece Crisis)

<u>Fiscal Year</u>	<u>Administrative Expenses</u>	<u>Administrative Expenses % Change</u>	<u>Personnel Expenses</u>	<u>Personnel Expenses % Change</u>	<u>Property, Plant, and Equipment</u>	<u>PP&E % Change</u>	<u>Additions</u>
7 Years Post-Greece Crisis:							
2010 - 2016		31%		48%		50%	364
2016	951	11%	510	8%	434	14%	81
2015	857	0%	473	8%	380	9%	75
2014	861	10%	436	5%	350	16%	79
2013 (Restated)	781	27%	417	6%	303	8%	53
2012 (Restated)	613	-6%	393	7%	281	-3%	24
2011	649	-10%	369	7%	289	-0.3%	30
2010	725	36%	344	1%	290	-1%	22
7 Years Pre-Greece Crisis:							
2003 - 2009		-12%		-8%		24%	128
2009	532	-22%	341	-3%	294	-1%	22
2008	681	12%	351	-3%	296	-2%	16
2007	609	-12%	362	2%	302	-4%	11
2006	693	3%	355	3%	313	1%	20
2005	673	23%	343	2%	311	16%	59
2004	549	-10%	337	-9%	267	12%	NA
2003	607	14%	370	9%	238	0%	NA

Notes: Data from IMF annual financial statements. On 23 Feb 2017, to convert SDR to EUR multiply by 1.28, and to convert SDR to USD multiply by 1.35 (see IMF website).

IMF Financial Conundrum: The IMF's Three Main Sources of Operational Income are Evaporating While the IMF's Administrative Expenses are Skyrocketing

IMF 2016 - 2015 and 2009 Income Statement Comparison

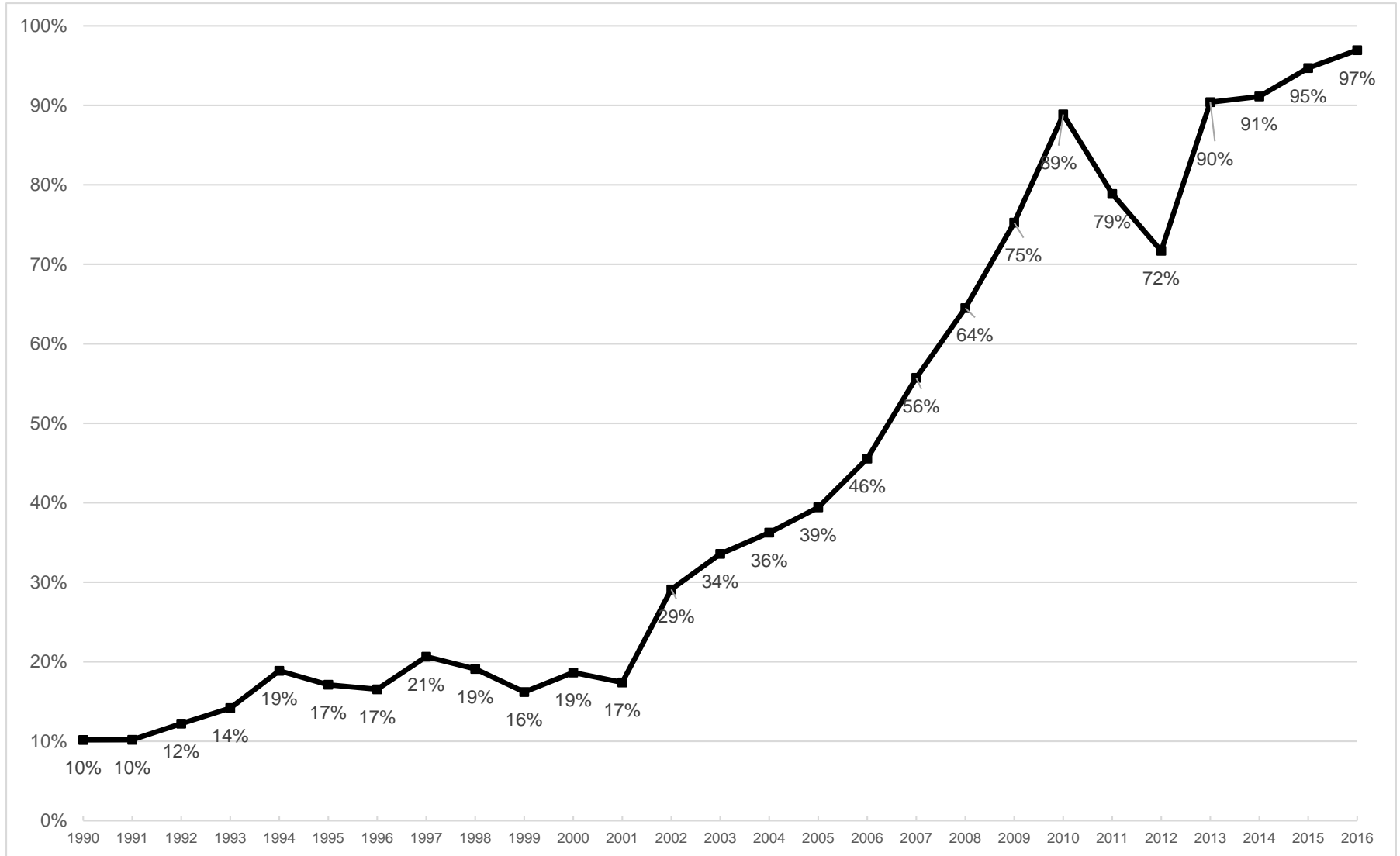
(SDRs, Millions; Fiscal years ending 30 April)

SN		2016	2015	2016 vs. 2015		2009
				SDR Change	% Change	
	Operational income					
1.	Charges	1,327	2,250	(923)	-41%	367
2.	Service charges and commitment fees	120	565	(445)	-79%	85
3.	Net (loss)/income from investment	(20)	265	(285)	-108%	377
4.	Interest on SDR holdings	9	8	1	13%	34
5.	Subtotal	1,436	3,088	(1,652)	-53%	863
	Operational expenses					
6.	Remuneration	12	20	(8)	-40%	175
7.	Interest expense on borrowings	18	28	(10)	-36%	0
8.	Administrative expenses	951	857	94	11%	532
9.	Subtotal	981	905	76	8%	707
10.	Net Operational Income	455	2,183	(1,728)	-79%	156
11.	Operating Margin	32%	71%	-39%		18%
	Interest and Charges (GRA Charges)					
12.	Greece	535	803	(268)	-33%	0
13.	Ireland	68	637	(569)	-89%	0
14.	Portugal	617	776	(159)	-21%	0
15.	Total	1,220	2,216	(996)	-45%	0
16.	Operational income excl. GR/IE/PT	216	872	(656)	-75%	863
17.	Net Operational Income excl. GR/IE/PT	(765)	(33)	(732)	-2205%	156
18.	Operating Margin excl. GR/IE/PT	-355%	-4%	-351%		18%

Notes: Data from IMF annual financial statements. 2016: <http://www.imf.org/External/Pubs/FT/quarter/2016fy/043016.pdf>

2009: <http://www.imf.org/External/Pubs/FT/quarter/2009fy/043009.pdf>

IMF Administrative (“Fixed”) Expenses as a Percentage of Operating Expenses have Increased to 97% from 10% (1990 – 2016)



IMF Select Historical Financial Information: 1990 – 2016

(SDR, Millions; Fiscal Year ending 30 April)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
1. Operating Income	1,436	3,088	2,469	2,838	2,328	1,603	1,043	863	939
2. Operating Expense*	981	905	945	864	855	823	816	707	1,056
3. Net Op. Income	455	2,183	1,524	1,974	1,473	780	227	156	-117
4. Interest Charges	1,327	2,250	2,329	2,235	1,945	1,234	697	367	512
5. Administrative Expenses	951	857	861	781	613	649	725	532	681
6. % of Operating Expenses	97%	95%	91%	90%	72%	79%	89%	75%	64%
7. Personnel	510	473	436	417	393	369	344	341	351
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000**</u>	<u>1999</u>
8. Operating Income	1,021	1,801	2,373	2,380	2,516	2,317	2,388	2,671	2,857
9. Operating Expense*	1,093	1,521	1,707	1,515	1,808	1,825	2,213	2,403	2,421
10. Net Op. Income	-71	280	666	865	708	492	176	536	436
11. Interest Charges	687	1,672	2,270	2,232	2,295	1,986	2,207	2,499	2,657
12. Administrative Expenses	609	693	673	549	607	531	385	448	392
13. % of Operating Expenses	56%	46%	39%	36%	34%	29%	17%	19%	16%
14. Personnel	362	355	343	337	370	338	302	300	259
	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
15. Operating Income	2,094	1,780	1,911	1,770	1,759	1,928	1,991	1,930	1,940
16. Operating Expense*	1,930	1,535	1,822	1,685	1,686	1,858	1,901	1,860	1,855
17. Net Op. Income	164	246	89	85	74	71	90	70	86
18. Interest Charges	1,853	1,525	1,491	1,283	1,173	1,392	1,654	1,825	1,825
19. Administrative Expenses	369	317	301	288	318	263	232	189	189
20. % of Operating Expenses	19%	21%	17%	17%	19%	14%	12%	10%	10%
21. Personnel	244	247	233	218	239	190	172	140	142

Notes: Data from IMF financial statements. Most recent data if restated. *All years include Administrative Expenses in Operating Expense for historical comparability; prior to FY2002, IMF reported Administrative Expense separate from Operating Expense. **FY2000 Net Operating Income includes Cumulative Effect of Change in Accounting Method of SDR268 million; Net Operating Income was SDR267 million before Cumulative Effect of Change in Accounting Method.

Operating Income from the IMF Greek Programme has Helped the IMF Net Income per Employee Become a Multiple of the Most Profitable Investment Banks in the World

IMF vs. Major Bank Profit Margin Comparison 2015

(Currency as indicated in billions except per employee.)

Bank	Revenue	Net Income	Net Income per Employee	Profit Margin
IMF	€ 3.9	€ 2.7	€ 1,024,690	71%
JP Morgan	\$93.5	\$24.4	\$104,008	26%
Citi Bank	\$76.4	\$17.2	\$74,459	23%
Goldman Sachs	\$33.8	\$6.1	\$165,761	18%
Morgan Stanley	\$35.2	\$6.1	\$108,506	17%
Deutsche Bank	€ 37.0	-€ 6.8	-€ 67,257	-18%

Since the Greece Programme began in 2010, the IMF has Started an Extensive Renovation of One of its Two DC Headquarters Buildings and is Massively Over Budget

- **In 2013**, the IMF started an extensive renovation (the “HQ1 Renewal Program”) of one of two headquarters buildings (HQ1) in downtown Washington, DC.
- As of January 2016, the total cost of the renovation reached **US\$562 million**, including a **31%** cost overrun from the initial budget.

Fact #3

The IMF Should Advise Greece that Winning the Trust & Confidence of Taxpayers and Global Capital Markets is the Most Important Reform

Greece and the EU have Paid the IMF Very Generously and Should Receive Best Practice Advice on the **Most Important Reform which, for Greece, is **Winning the Trust & Confidence** of Taxpayers and Global Capital Markets with **Four (4) Actions****

- #1. Start reporting **correctly calculated ("true and fair") Greece debt metrics**.
- #2. Advise Greece to follow **global benchmark governments as role models** for public financial turnaround management and reporting.
- #3. Support the appointment by Greece of a best in world **financial management professional** individual.
- #4. Recommend as a top priority the publication of a Greek government **consolidated balance sheet** with timeline milestones.

Appendix 1: IMF Responses (13 April 2017) to “IMF Spring Meeting 2017 3 Helpful Facts on Greece” Slides and Japonica Partners Responses (17 April 2017) (1 of 7)

Japonica Introduction paragraph: As we (Japonica Partners) agreed with the IMF, we have attached the IMF responses to our slides as well as offered additional input on IMF best practices to help educate senior decision makers at the IMF. In sum, the IMF responses go against the IMF current best practices and reflect siloed thinking within the IMF. Accordingly, we provide specific reference to the IMF’s most current best practices across the entire spectrum of IMF resources. As for IMF comments, we’ve numbered them to help discussion.

Our helpful comments also respond to Ms. Lagarde’s statements on Greece where she said on 14 April that she wishes to use IMF’s rules and that the value the IMF offers the Europeans is “our discipline, our integrity, and our expertise generated over so many years.”

Before addressing the 12 points in the IMF responses, it is important to note that the following slides were not addressed, and therefore, are deemed valid.

- (i). Slide 5 that provides the correctly calculated Greek debt numbers at 75% of GDP under IPSAS/IFRS, 91% of GDP under SNA 2008 and ESA 2010, and 116% of GDP under the IMF DSA guidelines. Of note, for governments, the global best practice for measuring debt and net debt is the internationally agreed upon, and IMF recommended, International Public Sector Accounting Standards (IPSAS).
- (ii). Slide 6 that shows Greece debt service at 6.6% compared to peer average of 10.3%. As can be seen on slide 5, all of Greece debt metrics (balance sheet net debt, balance sheet debt, cash interest, debt service, GFN, GFN-adjusted, and average maturity of debt) are much better than its peers (Cyprus, Ireland, Italy, Portugal, and Spain).
- (iii). Slide 7 that shows the correctly calculated adjusted Gross Financing Needs (GFN) ratio at 5.2%, not the IMF stated 17.3%.
- (iv). Slide 8 that shows how the 2060 debt projections are politically driven numbers without substantive meaning. As shown on the slide, in June 2014, the IMF projected Greece 2060 debt to GDP to be 60% and GFN to be 12%. Only about two years later, the IMF then projected Greece 2060 debt to GDP to be 275% and the GFN to be 62%.
- (v). Slide 10 that shows Greece has received €356 billion in debt relief, which –importantly- results in a reduction in balance sheet debt.
- (vi). Slides 11 and 12 that list comments by highly recognized international and Greece leaders about how Greece debt needs to be correctly calculated with present value.
- (vii). Slide 20 that notes that the IMF headquarter building number one (HQ1) is now 31% over budget at a staggering cost of \$562 million.
- (viii). Slide 22 that states that Greece and the EU have paid the IMF very generously and should receive best practice advice on the most important reform which, for Greece, which is winning the trust & confidence of taxpayers and global capital markets with four (4) actions. The global best practice for the full system of public financial management (PFM) is New Zealand and the accounting standards is the internationally agreed upon, and IMF recommended, International Public Accounting Standards (IPSAS).

Appendix 1:IMF Responses (13 April 2017) to “IMF Spring Meeting 2017 3 Helpful Facts on Greece” Slides and Japonica Partners Responses (17 April 2017) (2 of 7)

IMF Introduction paragraph: This note responds to a presentation in circulation that focuses on the IMF’s debt sustainability analysis for Greece and on IMF finances. At the outset, it is important to recognize that the presentation originates from vested financial interests, as it was prepared by an affiliate of Japonica Partners, an investment firm known in the market for holding sizable amounts of Greece debt. This company has been promoting its views on Greece debt for the last few years. The IMF’s position on Greece is well documented. A few facts are set out below to address some of the more egregious points in the presentation.

Japonica response: As noted on the cover slide of the presentation, Japonica is a long-term investor in Greece government bonds and has been called the best friend of Greece in advocating that the Greece government adopt the world’s most highly successful public financial management system (the New Zealand model) in order to win the trust and confidence of taxpayers and the global capital markets. See slide 21 with the four actions recommended by Japonica. At the opposite end of the spectrum, the IMF is a lender of last resort whose vested interests are to maximum its revenues and credit standing which both benefit when Greece remains in financial turmoil and with little to no access to the capital markets at reasonable rates.

Section A: Greece’s Debt Sustainability

IMF Response #1. The Fund’s views on Greece’s debt sustainability have been widely and consistently communicated for the last few years. The IMF stands firmly by its analysis that Greece’s need to gradually **replace a large amount of concessional lending with financing at market rates** will cause debt and gross financing needs to become explosive in the long run. The most recent detailed discussion of these issues is in the IMF’s 2017 Article IV consultation [staff report](#) for Greece.

Japonica Response #1. In fact, the IMF position on Greece debt has not stayed the same but has essentially shifted 180 degrees. As you may not be aware, the IMF in its June 2015 report on Greece for the first time called the debt to GDP ratio meaningless given the large amount of highly concessional debt. (See June 2015 Greece DSA page 11 point seven.) However, the IMF projections use this very same "not meaningful" debt number to project Greece future interest rate with a formula that would dramatically increase the debt to GDP ratio of many solid major investment grade countries. (See May Greece DSA page 5 point eight and page 16 Box 3.) Please see again slide 8. Furthermore, the IMF has recently migrated to a unilaterally defined ratio called gross financing needs (GFN) in order to take the headline focus away from a debt to GDP ratio that the IMF has now concluded to be “not meaningful”. See page citations below.

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IMF Response #2. The IMF’s debt sustainability analysis is based on a publicly-available methodology ([Debt Sustainability Analysis for Market-Access Countries](#)) first developed in 2002, and reviewed periodically by the institution’s Executive Board. (See also this blogpost for a summary of the IMF’s perspective on [dealing with sovereign debt](#).)

Japonica Response #2. This IMF response is obsolete and contrary to the IMF best practice as the IMF has issued more recent DSAs that specifically call for the present value of debt to be used in DSAs when there is official sector concessional financing. This point is repeated consistently over the past years and most recently in the latest update. One of the many examples of more recent IMF papers is the June 2015 Staff Guidance Note on the Implementation of Public Debt Limits in Fund-Supported Programs. As a start, see page 4, point 2 and page 5 point 6, which specifically state that the present value approach is used in “countries where official external financing on concessional terms is a key source of public external financing.” The guidelines are very detailed and in fact require that at least 35% of the debt be official sector concessional debt in order to qualify for the present value calculation in the DSA. Clearly, Greece well exceeds the 35% test. See page 27.

IMF Response #3. Alternative approaches such as net present value (NPV) and marking-to-market valuations **do not apply to Greece's current situation**, because its debt is largely in official hands and non-marketable. This makes it difficult to apply market-based discount rates to calculate the NPV of debt, or value the debt at market prices. Indeed, the IMF’s [Government Finance Statistics Manual](#) and *Public Sector Debt Statistics* recommend **nominal valuation of non-marketable instruments**.

Japonica Response #3A. The best practice advice is totally the opposite. A series of DSA reports make clear that official sector debt is the main focus of the present value calculation. Not allowing a debtor who has restructured its debt to report the debt as extinguished and replaced at the new value is a highly predatory lender tactic. In fact, in enlightened countries, such as the USA, debtors are specifically given "fresh start" accounting standards that require that a restructured debt be a true and fair reflection of economic reality. This protects the debtor from predatory lenders who want to hold them captive and continue to extort fees and high interest rates. See Japonica responses #2 and #3B.

Japonica Response #3B. The IMF’s GFSM is not the IMF’s best practice for calculating debt. The GFSM is a lender covenant manual that seeks to maximize the value of the IMF loan by not using the internationally agreed upon debt measurement standards to report the true and fair economic reality of the debt. To reinforce the importance of the international standards, the GFSM recommends IPSAS for government financial reporting and endorsed the internationally agreed upon statistics standards (SNA 2008), both of which report restructured debt at the true and fair economic reality and NOT the future value (aka nominal value or face). See the Foreword of SNA 2008 for IMF signature and section 22.109-110 for the economic reality of debt. See GFSM Box A6.1 on page 343 and page 341 for the IMF recommendation to use IPSAS, which is recognized as the best practice for public sector reporting. As an aside, ESA 2010 section 20.236 contains SNA 2008 harmonized accounting for restructured debt, which is to be considered “extinguished and replaced by a new debt instrument” at the present value/ commercial market consideration value at the time of the event.

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IMF Response #4. It is also **difficult to estimate Greece’s net debt**, as Greece’s assets are difficult to value, and highly liquid assets are very limited. Moreover, **Greece’s financial accounts have not been validated by Eurostat** and, therefore, are not published by either Eurostat or the IMF’s [Government Finance Statistics](#).

Japonica Response #4A. This statement is contrary to the best practice as the best practice is to net financial assets as universally defined from debt. The standards are clear on how to value financial assets on the balance sheet. Valuation of most difficult financial assets has decades of precedent. The focus on only highly liquid financial assets is destructive as it ignores other government financial assets, which are the bulk of government financial assets, and quite candidly is a typical predatory lender tactic or a tactic of those seeking to show a more negative picture with no regard to the damage this causes on government financial performance and financial position (i.e., the government balance sheet and its taxpayers' net worth)

Japonica Response #4B. Contrary to the IMF statement, Greece’s financial assets are published by Eurostat on both an interim and annual basis and on both a consolidated and non-consolidated basis. Furthermore, the Eurostat database provides granularity of financial assets in the several classification categories. The categories include among others, short-term debt securities, long-term debt securities, short-term loans, long-term loans, listed shares, unlisted shares and other equity, and investment fund shares. See the following Eurostat URL: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nasa_10_f_bs&lang=en

Section B: IMF Finances

IMF Response #5. It is not logical to link the IMF’s assessment of Greece debt sustainability with the IMF’s financial position. The IMF is a **not-for-profit institution** that, among other roles, helps its member countries resolve their economic problems by providing financing. The IMF’s financing reduces the extent of the economic adjustment that countries would otherwise need to undertake. The Fund’s **interest charges are standardized and typically below market rates for countries facing financial difficulties** (for low-income countries, the interest rate has been zero since 2009).

Japonica Response #5A. The comment that the IMF's financial position should not be assessed because it is a non-profit is contrary to decades of past IMF financial management reviews and to the advice the IMF gives to government (which are non-profits) worldwide. The IMF has in the past faced financial trauma and concerns of survival, which have forced painful financial decisions such as gold sales and rightsizing.

Japonica Response #5B. The comment that IMF loans are typically below market and can even be zero only highlights the concern that the IMF is feeding the insatiable bureaucratic desire for more money and using Greece, Portugal, and Ireland as cash cows.

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IMF Response #6. Greece has been the largest borrower ever from the Fund in terms of credit outstanding. As with other large borrowers, the interest it has paid is commensurate with the size of its exposure.

Japonica Response #6: The facts need to be assessed from a common sense perspective. Greece was paying the IMF 3.6% for a super senior risk free medium term loan at a point in time when non-investment grade EZ countries have a ten-year (more junior) government borrowing cost of about 3% and high investment grade sovereigns at less than 1%. And, the more junior ESM money is loaned to Greece at around 1%. The IMF profitability on these loans is clearly too high when operating profit per employee is over one million and three times that of major investment banks like Goldman Sachs. And, the IMF’s profit margin hit 71%. See slide 19.

IMF Response #7. The amounts lent by the IMF fluctuate substantially, reflecting periods of financial turbulence. The recent decline in lending income is not a reason for concern as the presentation argues, but rather a welcome sign that IMF members have successfully resolved their economic problems and no longer need Fund financing.

Japonica Response #7: The facts stand that IMF fixed expenses as a percentage of total expense have increased from 10% to 97% in 2016. See slide 17. And, as slide 16 indicates, the loss of revenue from the Greece, Portugal, Ireland would have resulted in a 765 million loss in 2016 or an operating margin loss of 355%.

IMF Response #8. Comparing the Fund’s income per employee with investment banks’ as the presentation does is completely inappropriate. Unlike investment banks, IMF staff does not receive bonuses or any other financial incentives linked to the Fund’s net income. The IMF runs a lean operation that relies on a small number of staff to provide a wide range of financial and other services to its 189 member countries.

Japonica Response #8: As slide 19 indicates, the IMF operating profit per employee was over one million dollars, which was more than three times larger than the major global investment banks, such as Goldman Sachs and JP Morgan. The slide also indicates a 71% operating margin three times larger than these investment banks. The point is not to say that the IMF employees get the profit but to show the extraordinary level of IMF profitability, the role of Greece, Portugal, and Ireland, and –more importantly- to provide some perspective to help bring some common sense to high rate charges by the IMF, as well as to show the risks to IMF financial stability when these revenues are lost and at a time when 97% of IMF costs are essentially fixed. As for assessing the claim of an IMF small number of staff, it is helpful to know that according to an IMF August 2016 output and budget paper, the number of staff has increased from 2,100 in 2009 to almost 2,600 in 2016, an increase of 24%. See page 12, Figure 11 of FY2016: Output Cost Estimates and Budget Outturn Paper.

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IMF Response #9. Contrary to the presentation’s assertion, Fund administrative expenses have not skyrocketed in recent years. In fact, the Fund has long maintained a prudent stance—for example, in constant dollars, the Fund’s administrative **budget has been flat since fiscal year 2012.**

Japonica Response #9: As slide 15 shows, IMF personnel expenses have increased massively by 48% since 2010 compared to a decline of 12% in the prior seven-year period. As for seeking to justify the 48% by using constant dollars, aside from the comment being factually wrong, (in fact, in constant dollars, the Fund’s Personnel Expenses has risen substantially since 2010) this is clearly a worst practice as it ignores best practice financial management practices of using the audit financial performance statements to assess trends. It should go without saying that revenue is not calculated using constant dollars, the IMF Net operational income is not calculated in constant dollars, and neither are the annual spending obligations paid in constant dollars. It is helpful to remember (see Japonica response #8 above) that according to an IMF August 2016 output and budget paper, the number of staff has increased from 2,100 in 2009 to almost 2,600 in 2016, an increase of 24%. See page 12 Figure 11 of FY2016: Output Cost Estimates and Budget Outturn Paper.

IMF Response #10. Similarly, **the rising share of administrative expenses in total operating expenses largely reflects the steep decline in the SDR interest rate** the IMF pays to creditor members for using their currencies (operating expenses comprise both administrative and funding costs). This lower funding cost, in turn, is passed on to the IMF’s borrowers in the form of a lower interest rate.

Japonica Response #10: It is agreed that the total operating expenses from SDR payments have declined, but the fixed expenses have increased and thus the mathematical conclusion that fixed expenses have increased from 10% in 1990 to 97% in 2016. These essentially fixed expenses now have put the IMF in a financial squeeze as the revenue declines and there are no variable expenses to reduce. See slide 17.

IMF Response #11. **The figures described in the presentation as capital expenditures are actually the Fund’s assets,** consisting of land, building, equipment, and software.

Japonica Response #11: Most respectfully, this is a misreading of the slide heading where there is no mention of capital expenditures, as the column heading is Property, Plant, and Equipment. Property, Plant, and Equipment is the exact wording on the IMF balance sheet for these assets. The matrix shows the change in these assets, which are up 50% since 2010. (See page five of the IMF 2016 Financial Statements.)

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Section C: Conclusion

IMF Response #12. Ultimately, the so-called “facts” in the presentation, taken together, contradict each other. If the intention were to maximize profits by lending more to Greece, then the Fund would simply find Greece’s debt to be sustainable (as Japonica would like the IMF to do), which would pave the way for more IMF lending. But lending in these circumstances would not help Greece or its people; it would simply compound the country’s already very difficult economic problems. By insisting on debt sustainability, the IMF is carrying out its mandate to help Greece, as best it can, to resolve its economic difficulties.

Japonica Response #12: The above observation is counter-intuitive. If the IMF found Greece debt to be sustainable, Greece would have support to regain access to the capital markets and no longer need to rely on and could possibly repay the IMF. There are not better examples of this than Portugal and Ireland. Labeling Greek debt “explosive” creates unfounded market fear and thus keeps Greece out of the capital markets, and captive of the IMF, and thus provides the IMF with much needed revenue in order to delay its financial turmoil.

**Appendix 2:
Zettelmeyer et al April 2017 Call for
Greece Debt Relief Illustrates the
Destructive Output of Siloed
Thinking and Inexperience in
Public Financial Management
Global Best Practices**

Zettelmeyer et al April 2017 Call for Greece Debt Relief Illustrates the Destructive Output of Siloed Thinking and Inexperience in Public Financial Management Global Best Practices (1 of 2)

“Does Greece Need More Official Debt Relief? If So, How Much?” (Working Paper 17-6, April 2017) authored by Zettelmeyer et al and published under the Peterson Institute ignores facts and international standards resulting in a political document with major flaws, including:

1. Ignores the existence of international accounting and statistics standards in measuring highly concessional debt:
 - Both private and public sectors have agreed to measure debt with standards; yet, no mention in paper.
 - Accounting standards (IPSAS/IFRS) are used by the leading best practice nations and all publicly traded companies worldwide.
 - Statistics standards are harmonized with the accounting standards and endorsed by the IMF, EC, UN, World Bank, and OCED
 - These standards would report Greece debt not at €317 billion future value but today’s value of €132 billion with net debt of only €84 billion.
 - Standards provide a true and fair view of economic reality; future value is a highly misleading political number that should have been discredited long ago.

Zettelmeyer et al April 2017 Call for Greece Debt Relief Illustrates the Destructive Output of Siloed Thinking and Inexperience in Public Financial Management Global Best Practices (2 of 2)

2. Ignores the existence of full government balance sheet:
 - Highly siloed and flawed assessment of only the debt number as if full government balance sheet of the government does not exist.
 - Demonstrates that authors have no experience in the essential components of public financial management (PFM): pretends that financial assets, fixed assets, non-financial liabilities, and net worth do not exist.
 - In the case of most governments, debt is a fraction of the total balance sheet.

3. Cites distant projections that can be subject to political manipulation and numerical flaws:
 - Projections as far out as 2080.
 - Projections without consideration of the entire balance sheet are reckless and in many professions would result in financial or professional sanctions.
 - Governments are highly complex organizations with wide cyclical patterns.
 - Projections out beyond several years are not helpful and often counterproductive.
 - Similar assumptions applied to many major investment grade countries would show similar negative trends.