Pericles Leadership Award

For a track record of outstanding leadership in creating value for the Hellenic Republic through professional management processes, especially building trust and confidence with internationally comparable transparency and accountability.

2015 Recipient:

George Serafeim

Jakurski Family Associate Professor of Business Administration at Harvard Business School

1 December 2015

Athens, Greece

AMERICAN-HELLENIC CHAMBER OF COMMERCE

JAPONICA PARTNERS®

Draft v.5.0

Starting a “Super Boost” of the Greek Economy within 60 Days

There are huge benefits from starting a “Super Boost” of the Greek economy within 60 days by pushing down Greece government bond yields to Portugal levels.

Three Steps:

1. Appoint a Chief Turnaround Officer immediately.
2. Report present value of net debt within 30 days.
3. Publish 2015 balance sheet within 60 days.

Benefits of a Starting a “Super Boost” from Pushing Down the Crushing Greece Government Bond Yields to Portugal Levels

1. Lowering borrowing costs for everyone.
2. Increasing value of real estate, reducing NPLs, and reawakening construction markets.
3. Increasing government revenues and asset values.
4. Boosting commerce including: small businesses, exports, FDI, and equity markets.
5. Jump starting 200,000+ sustainable new jobs within the next 24 months.
6. Saving almost €450 million annually on T-Bills.

Real Estate Values Have the Potential to Increase over 100% when Government Bond Yields Decline to Portugal, Reducing NPLs

Illustrative Example:

Recent Value	€ 145,000
Annual Rental Income	€ 16,000

	10-Year Gov't Bond Yields	Real Estate Risk Premium	Required Rate of Return (Cap Rate)	Real Estate Value	% Increase from Current Value
Recent Value	**8%**	**3%**	**11%**	**€ 145,000**	**NA**
	7%	3%	10%	€ 160,000	10%
	6%	3%	9%	€ 178,000	23%
	5%	3%	8%	€ 200,000	38%
	4%	3%	7%	€ 229,000	58%
	3%	2%	5%	€ 320,000	121%
Portugal	**2.44%**	**2%**	**4.44%**	**€ 360,000**	**148%**
	2%	2%	4%	€ 400,000	176%

Note: Real Estate Value is Annual Rental Income divided by the Cap Rate.

Focus on Pushing Down Government Yields (the “Spread”) Compared to Portugal

(As of 18 Dec 2015)

	T-Bills	2-Year	10-Year
Greece	2.97%	7.37%	7.95%
Portugal	0.00%	0.10%	2.48%
The "Spread"	2.97%	7.27%	5.47%

- Reducing the “spread” lowers everyone’s borrowing costs, increases real estate prices, and creates jobs.
- Public service announcements of spread daily in print, TV, and radio media.

Greece Government Bond Yields are 6.25% Higher than Peers (the "Spread"), Crushing the Economy

(As of 18 Dec 2015)

	10-Year Yield-to-Maturity
Greece	7.95%
Italy	1.57%
Ireland	1.06%
Spain	1.69%
Portugal	2.48%
Peer Average	1.70%
The "Spread"	6.25%

Three Steps to Starting a “Super Boost” of the Greek Economy within 60 Days by Pushing Down the Crushing Greece Government Bond Yields to Portugal Levels

Step #1: Appoint a Chief Turnaround Officer immediately: As Greece is a classic turnaround, appoint a Chief Turnaround Officer, selected because the person is the best in the world for the job, to successfully lead a “Super Boost” of the Greek economy within 60 days.

Step #2: Report present value of net debt within 30 days: As Greece government debt is often cited as a number one challenge, educate the world that, when correctly calculated, the present value of Greece net debt and its annual debt service are small fraction of Portugal.

Step #3: Publish 2015 balance sheet within 60 days: As part of regaining trust and confidence, publish a preliminary opening balance sheet for the Greece general government.

Greece Present Value (PV) of Net Debt to GDP was 22% of Peers

(€, Billions; 2013 data.)

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

International macro-economic and accounting rules:

		Greece % of Peers	Greece	Peer Average	Ireland	Spain	Portugal	Italy
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%

		Greece % of Peers	Greece	Peer Average	Ireland	Spain	Portugal	Italy
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: Japonica calculations based on EC, Eurostat, and IMF data.

Greece Net Debt Service, which is Interest Expense and Principal Payments Less Rebates and Deferrals Adjusted for Financial Assets, is 27% of Peer Average

	Net Debt Service % of GDP*	Debt Service % of GDP	IMF Gross Financing Needs % of GDP
Greece	2%	6%	19%
Ireland	6%	10%	9%
Italy	13%	15%	17%
Spain	9%	13%	17%
Portugal	7%	11%	20%
Peer Average	9%	12%	15%
Greece % of Peer Average	27%	47%	123%

Notes:

*Debt service ratio converted as PV of net debt as a percentage of PV of debt.

2016 estimates based on Bloomberg, EC, and IMF data. Excludes T-Bills. Greece adjusted for deferred interest and SMP/ANFA rebates.

2015 Debt Relief of €17.3 Billion

(Point of clarification: There is no cost or loss on debt relief for Greece creditors given ESM intermediary structure.)

SN	Disbursement Date	Disbursement Amount	Present Value of Debt	Debt Relief
1	20 Aug 2015	€ 13.0	€ 2.2	€ 10.8
2	24 Nov 2015	€ 2.0	€ 0.5	€ 1.5
3	1 Dec 2015	€ 2.7	€ 0.6	€ 2.1
4	8 Dec 2015	€ 2.7	€ 0.5	€ 2.2
5	31 Dec 2015E	€ 1.0	€ 0.3	€ 0.7
	Total:	€ 21.4	€ 4.1	€ 17.3
	% of Total:		19%	81%

Notes: Calculated according to international rules; assumes interest rate of 1%, maturity schedule of bank recap funds matching cash disbursements, and disbursement of final €1 billion sub-tranche by 31 December.

Harmonized International Rules Correctly Calculate the Present Value of Net Debt and Debt Relief and Lower Government Bond Yields

The Macroeconomic Rules:

- **2008 SNA** (System of National Accounts 2008): Produced under joint responsibility of the EC, IMF, OECD, UN, and WB.
- **ESA 2010** (European System of National Accounts): Passed by EU Parliament with the force of law.

The International Accrual Accounting Rules (consistent with IPSAS/IFRS): used by 92% of the OECD non-Asia governments and public companies (by expenditures).

- **Government Entities**:
  - ➢ **Benchmark Examples**: Austria, Canada, France, Hamburg, Hesse, Israel, New Zealand, North Rhine-Westphalia, South Africa, Sweden, Switzerland, United Kingdom, and the United States.
  - ➢ **In Process Examples**: Brasil, Chile, China, Estonia, Portugal, Russia, Spain, United Arab Emirates, and the Vatican.
- **Public Sector Organizations Examples**: European Union, IMF, OECD, United Nations, World Bank.
- **Publicly Traded Companies**: All.

Examples of Recent Comments on Correctly Assessing Greece Government Debt Using PV or Debt Service and Not Future Face Value

- International accounting authorities, including IFAC, CIPFA, IPSASB
- Leading think tanks including CEPS, CESIfo, Bruegel, Peterson
- Apolitical economists / historians including DeGrauwe, Soll, Truglia, Weder di Mauro
- German Chancellor Angela Merkel and Dep. Fin. Minister Jens Spahn
- Eurogroup President Jeroen Dijsselbloem
- ESM Managing Director Klaus Regling and ESM annual report
- IMF DSA – June 2015
- Leading business groups including CDU Economic Council.
- Harvard Business School case study by George Serafeim

“Fresh Start” from a Management Perspective: HBS Case Study – 16 June 2015

HARVARD | BUSINESS | SCHOOL

N2-115-063
JUNE 16, 2015

GEORGE SERAFEIM

Greece’s Debt: Sustainable?

After six years of economic recession, substantial disagreement surrounded the level of indebtedness of Greece and whether the country had actually too much debt, which needed to be subject to a haircut, or too little debt, which actually represented a competitive advantage. The situation was further complicated by an announcement, made in May 2015 by the Greek deputy finance minister Dimitris Mardas, that Greece would adopt accrual accounting and the International Public Sector Accounting Standards (IPSAS).[a] This announcement was previously made several times since the beginning of the crisis but was never fulfilled.[1]

“**Present value** of net debt is the only debt number that is meaningful and complies with international accounting and statistics rules; future face value is a meaningless and destructive number.” George Serafeim, HBS Professor – July 2015

PERICLES
LEADERSHIP AWARD

Pericles Leadership Award

For a track record of outstanding leadership in creating value for the Hellenic Republic through professional management processes, especially building trust and confidence with internationally comparable transparency and accountability.

2015 Recipient:

George Serafeim

Jakurski Family Associate Professor of Business Administration at Harvard Business School

1 December 2015

Athens, Greece

AMERICAN-HELLENIC CHAMBER OF COMMERCE

JAPONICA PARTNERS®