

## Another look at Greece

By Christian Beermann | May 10, 2015 (Munich Seminar)



**The debts of the state are lower than claimed explains star investor Paul Kazarian. He bought Greek government bonds.**

Greece has a debt problem. This is commonly thought a fact. Paul B. Kazarian, founder and chief executive officer of the investment firm Japonica Partners, sees things differently. Greece sovereign debt is completely overstated, explained the man who has made a large investment in Greek government bonds, to the Munich conference, the joint lecture series of the Ifo Institute for Economic Research and the Süddeutsche Zeitung.

Kazarian had already made an international reputation since the late eighties with a talent for recognizing undervalued companies. For Greece, he says: The financial situation of Greece is currently not evaluated correctly. When applying the international accounting standards for public institutions and companies (IPSAS / IFRS) or comparable international statistics guidelines, Greece public net debt was only 33 billion euros at year end 2013 not the 319 billion euros as measured under the Maastricht Treaty gross debt of euro area countries. And, the debt ratio of Greece was in the same year not 175 percent of GDP, but only 18 percent.

195 billion euros of this difference in the evaluation is based on applying international accounting standards or statistics guidelines and the successful restructuring of Greece debt to the government debt. The aim of accounting should be to measure the economic reality, says Kazarian. Considering all the benefits that Greece has already received from the European Union, the country's debt has been actually converted into almost a gift by this assessment. The flaw in valuing debt according to Maastricht is illustrated by seeing that a billion of debt is also recognized as a billion liability even if it is never due and the country never has to pay interest.

Furthermore, at year-end 2013, noted Kazarian, according to data from the International Monetary Fund and the European Central Bank, the Greek government had approximately 91 billion euros in financial assets that need to be taken into account when calculating the net debt of the country. To understand the significant competitive advantage that results for Greece having a net debt ratio of 18 percent, one must compare to the average net debt ratio of Ireland, Spain, Italy and Portugal, which is 80 percent, he adds. Because of the low-interest loans from the European Union, Greece benefits from currently very low interest payments amounting to only 0.6 percent of its public debt. The other countries have average interest payments of 3.5 percent of debt.

With solid financial management and transparent accounting according to international standards, Kazarian forecasts, Greece could keep its debt ratio permanently below 18 percent, and even spend more money on social projects. Therefore, he argues that the European Union, as a precondition for the payment of further aid money, should demand from Greece accurate accounting of public finances based on international standards and audits. This is also in Europe's interest.

The introduction of sound financial management would cost limited hours, says Kazarian. The non-introduction has already cost hundreds of billions of euros and could cost Europe billions more in the future. Without the creation of reliable figures it is "pure garbage in, garbage out," said the investor. Europe in three years will be where it was five years ago.

The starting point for the recovery of Greece is the establishment of reliable numbers that reflects the economic reality of the country, as well as in the selection of capable government officials. Kazarian calls it the "Trinity" for prosperity in Greece: First, for prosperity in Greece, the Greece ministers' first priority is to build trust and confidence with all stakeholders. Second, to build trust and confidence, Greece ministers must make transparency and accountability of government finances their most important reform. Thirdly, the starting point for transparency and accountability in Greece is accurate government financial information obtained through international public sector accounting standards and audits. "Only with transparent accounting in terms of public finances can Greece build trust and confidence," said Kazarian.

A Brief Interview with Kazarian is available in the library of the CESifo Group Munich ([cesifo-group.de](http://cesifo-group.de))

[https://www.cesifo-group.de/ifoHome/events/seminars/Muenchner-Seminare/Archive/mucsem\\_20150427\\_Kazarian.html](https://www.cesifo-group.de/ifoHome/events/seminars/Muenchner-Seminare/Archive/mucsem_20150427_Kazarian.html)

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