Strengthening Democracy Through Government Financial Management

GREECE AND THE EU

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How Government Financial Management Can Strengthen Democracy

- Advances transparency and accountability of government financial reporting
- Wins the trust and confidence of taxpayers
- Improves government financial performance

The Status Quo: Destructive Populism

- Governments see cooking the books after the outcome as the goal, rather than better financial management.
- Fictional fabrication of government numbers is the norm.
- Media, think tanks, rating agencies, and economists have a counter-productive understanding of international accounting standards and economic reality.
- Citizens have almost zero education in understanding a balance sheet, their own or their government's.

The Alternative: Effective Management and Communication of Government Balance Sheets Prepared in Accordance with International Accounting Standards (IPSAS)

The IMF has the Tools and the Potential but Struggles with Implementation

- The Fiscal Affairs Department has the publications and technical expertise for report compilation.
- Long list of statements of support for IPSAS.
- Little evidence of assisting in using IPSAS to improve decision-making.
- Political application of rules and guidelines.
- See Appendix 2: IMF and Greece: 12 Helpful Facts to Better Understand Greece Government Debt Sustainability (Part 2 of 4)

Example 1 of 2:
Greece Government Debt and Debt Relief

Key Stakeholder Statements on Greek Government Debt and Debt Relief

- **The Greek PM:** Debt relief by year-end is an "indispensable condition" to returning to the markets. (Sept. 2016)
- **The Greek FM:** If Greece's EU partners kick the can two years down the road on debt relief, then investors will remain far away, it will be bad for the government and the country, and there should be a discussion about Greece's place in Europe. (Oct. 2016)
- **2017 Budget:** Talks on the restructuring of public debt will play a decisive role on the developments of 2017 as they are a crucial step in restoring investor confidence, the (country's) long-term credit rating and the credibility of the economy. (Oct. 2016)
- **IMF:** Greek government debt remains unsustainable and requires substantial debt relief. (Sept. 2016)
- **Rating Agencies:** S&P: Greece has the highest debt/GDP ratio of all sovereigns we rate. (July 2016). Fitch: Greece has the second highest debt/GDP ratio of all the countries we rate. (Sept. 2016)
- **International Commentators:** For example, Former Citi Vice Chairman: Greece government debt is the barrier to confidence and debt relief is essential. (Sept. 2016)

Actual Text from May 2016 EU-Greece Agreement on Short-Term Measures has No Debt Relief

- Eurogroup Statement: “For the short-term, the Eurogroup agrees on a first set of measures which will be implemented after the closure of the first review up to the end of the programme and which includes:
  - ✓ Smoothening the EFSF repayment profile under the current weighted average maturity;
  - ✓ Use EFSF/ESM diversified funding strategy to reduce interest rate risk without incurring any additional costs for former programme countries;
  - ✓ Waiver of the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme for the year 2017.”
- Dijsselbloem Statement: “The short term is basically a debt management... The possible debt relief -- mainly talking about the medium term package-- will be delivered at the end of the programme, so we are talking mid-2018.”
- Regling Statement: “Under the short-term measures, the ESM in our own responsibility will do debt management exercises.” As these measures include lengthening maturities, "in the short run, interest costs may go up.”

The Current Political Accounting for Greek Debt and Debt Relief

Background facts: Greece rated CCC and 25-year bonds YTM approximately 8%. ESM 30-year bond YTM less than 1%.

	Called Debt Relief	**Reported as Reduction in Net Debt**
1. €60 billion of 30-year below 1% loans mostly to refinance existing debt.	No	No
2. Rebates of interest and principal.	No	No
3. Concessional loans to purchase financial assets.	No	No
4. Restructured loans with lower interest, grace period, maturity extensions.	Yes	No
5. Change terms on bonds to reduce interest rates and extend maturities.	Yes	No
6. Paying more interest by using swaps to change interest rate profile.	Yes	No
7. Haircut the face value of debt.	Yes	Yes

Since 2010, Greece Has Received €354 Billion in Debt Relief, which is 17 Times More than the EZ Programme Country Average

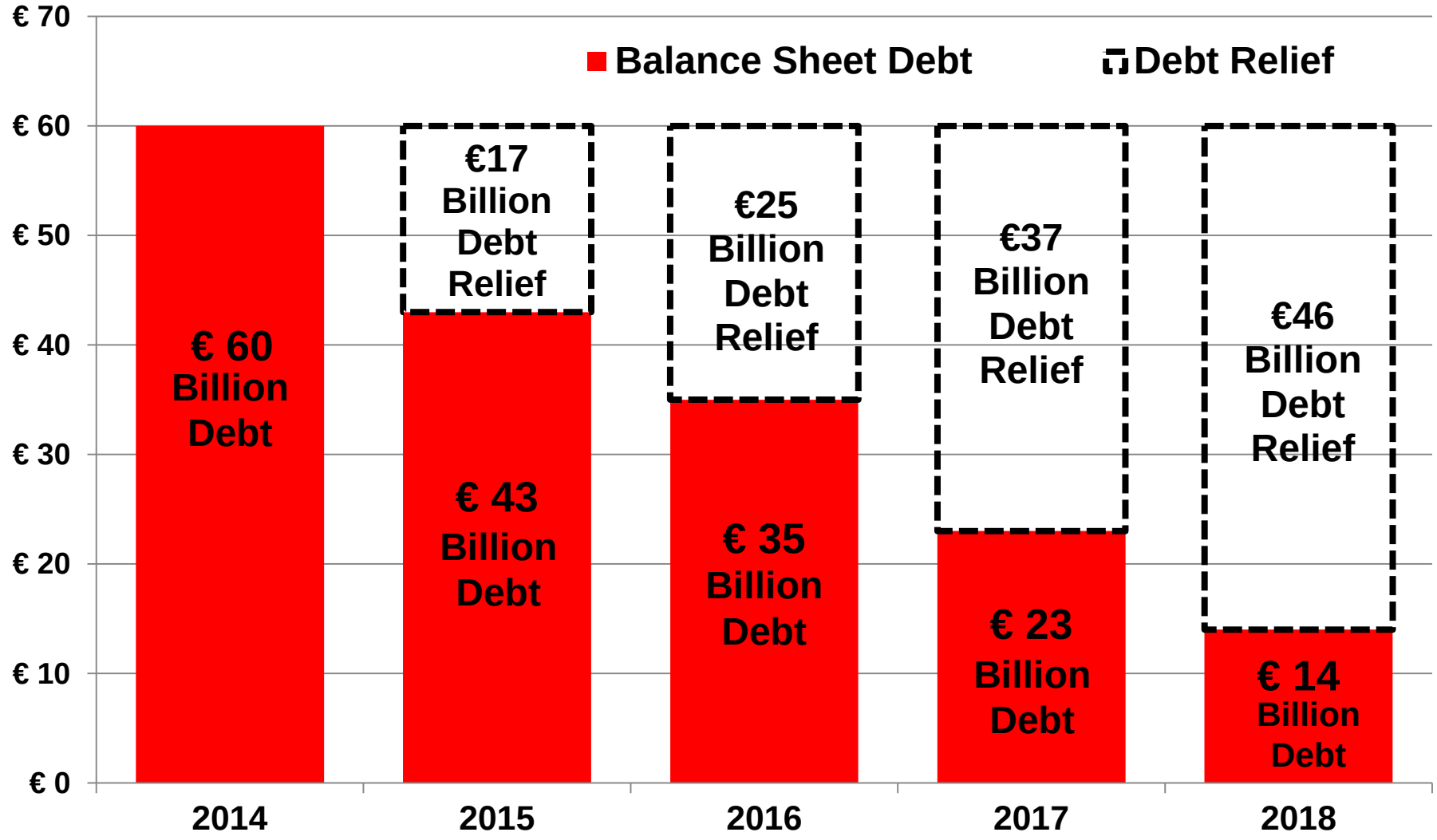
(€, Billions)

SN		Greece	Greece Multiple of Peers	Peer Average	Portugal	Ireland	Spain	Cyprus
1.	Total Debt Relief/Forgiveness % of GDP	201%	**17x**	12%	16%	7%	2%	24%
2.	Months in Programme(s)	75+		28	37	36	18	22
	Official Sector Debt Relief:							
3.	Pre-Third Programme	€ 182		€ 17	€ 29	€ 14	€ 21	€ 4
4.	Third Programme (to Date)	**€ 23**		NA	NA	NA	NA	NA
5.	Total Official Sector Debt Relief	€ 205		€ 17	€ 29	€ 14	€ 21	€ 4
6.	Private Sector Debt Forgiveness	€ 149		€ 0	€ 0	€ 0	€ 0	€ 0
7.	Total Debt Relief and Forgiveness	**€ 354**		€ 17	€ 29	€ 14	€ 21	€ 4
8.	Southern Axis EU Member States Contribution to Greece	**€ 91**						
9.	2015 GDP	€ 176		€ 373	€ 179	€ 215	€ 1,081	€ 17

Notes: Japonica Partners collaborative analysis. Based on EC, IMF, and Bloomberg data. Debt relief calculated as of 3 August 2016 according to IPSAS/IFRS.

ESM 3rd Programme Debt Relief Will Increase Greece Net Worth by €46 Billion

(€, Billions)



Note: Estimate as of 31 December 2015.

Greece 2015 YE Balance Sheet Net Debt, Correctly Calculated in Accordance with International Accounting or Statistics Rules is 41% and 58% of GDP, Respectively: Summary

(€, Billions)

1.	Rules:	International Accounting Standards (IPSAS/IFRS)	2008 System of National Accounts (2008 SNA)	European System of Accounts 2010 (ESA 2010)	IMF Debt Sustainability Analysis (DSA)	Lisbon Treaty Excessive Deficit Procedure* (EDP)	
						FFV	PV
2.	**Gross Debt**	€ 125	€ 155	€ 155	€ 203	€ 311	€ 155
3.	**Gross Debt % of GDP**	71%	88%	88%	116%	177%	88%
4.	**Net Debt**	€ 72	€ 102	€ 102	€ 183	NA	NA
5.	**Net Debt % of GDP**	**41%**	**58%**	**58%**	104%	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; and under IPSAS/IFRS, Portugal, Spain, and Ireland would report lower debt by approximately €23 billion, €18 billion, and €12 billion respectively.

Notes: Japonica Partners collaborative analysis. *EC 479/2009 "Whereas (4)" states "The definition of 'debt' laid down in the Protocol on the excessive deficit procedure needs to be amplified by a reference to the classification codes of ESA 95". 2015 GDP of €176 billion from EC AMECO database and financial asset data from Eurostat (accessed 19 July 2016).

Greece Has Been Given a Significant Debt Competitive Advantage, with a Debt Burden of About 50% of Investment Grade EZ Member State Peers, but Earns Worse Ratings and Higher Borrowing Costs

(% of GDP, except as otherwise indicated)

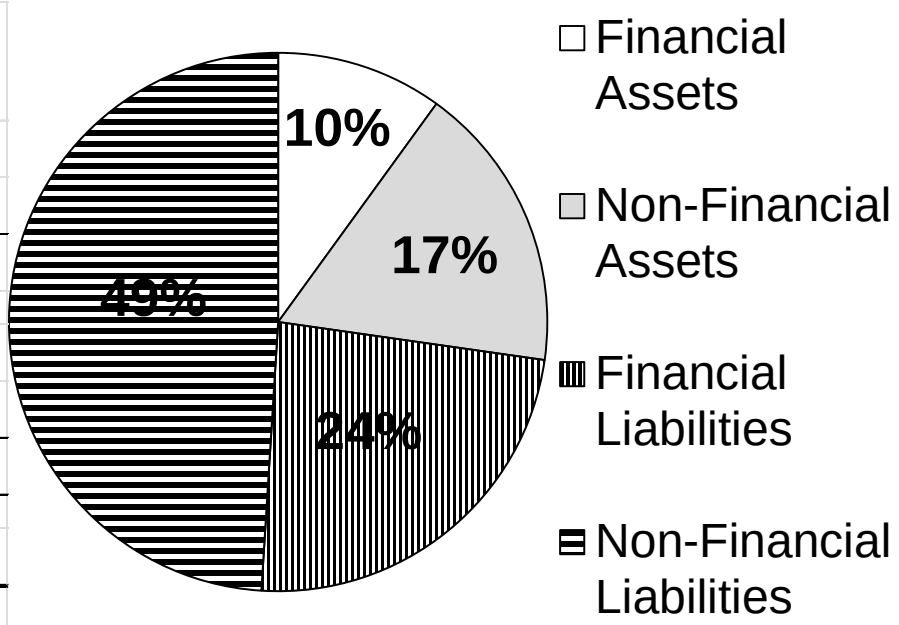
	August 2016 Credit Ratings *(M/S&P/F/D)*	2015 Balance Sheet Net Debt	2016 Annual Debt Service	2016 Net Cash Interest	Next 5-Years Unfunded Debt Service	3-Year Govt Bond Yields *(YTM)*
						Delta vs. Peer Avg.:
Greece as % of Peers		**52%**	**50%**	**57%**	**27%**	**8.56%**
Greece	Caa3/**B-**/ CCC/CCCH	**41%**	**6%**	**2.0%**	**16%**	**8.68%**
Ireland	A3**/A+**/ A/AH	54%	9%	2.8%	46%	-0.43%
Spain	Baa2/BBB+/ BBB+/**AL**	69%	13%	2.9%	58%	-0.09%
Italy	Baa2/BBB-/ BBB+/**AL**	113%	15%	4.0%	74%	0.03%
Portugal	Ba1/BB+/ BB+/**BBBL**	80%	11%	4.6%	61%	0.98%

Notes: Japonica Partners collaborative analysis. Future Face Value of Debt (Maastricht) as a percentage of GDP: Greece 177%, Ireland 94%, Spain 99%, Italy 133%, Portugal 129% (EC AMECO data accessed 3 August 2016). Based on EC, Eurostat, IMF, Member State MOFs, and Bloomberg data (Govt Bond Yields as of 4 October 2016).

At Year-End 2015, the Greece Government had Over ½ Trillion Euros in Assets and Liabilities to Manage or Mismanage, which is €48,060 per Citizen

(€, Billions; as of 31 December 2015)

SN	Balance Sheet Item	Amount
1.	Financial Assets	€ 52
2.	Non-Financial Assets	€ 90
3.	Total Assets	€ 142
4.	Financial Liabilities	€ 125
5.	Non-Financial Liabilities	€ 255
6.	Total Liabilities	€ 380
7.	Net Worth	-€ 238
8.	Total Assets and Liabilities	**€ 522**



Notes: Japonica Partners collaborative analysis. Working draft balance sheet. For additional details, see Japonica Partners 30 April 2016 USC Global Leadership Summit presentation: mostimportantreform.info/MAGARIAN_USC_20160430.pdf.

Analysis Indicates that €69 Billion, or on Average €625 Million Per Week, of Greece Government Asset Value was Lost from 2014 to August 2016

				Identified Value Lost	
SN	**Greek Government**	**2014**	**2016**	**Amount**	**Percentage of 2014**
1	Financial Assets	€109 Billion	€71 Billion	€40 Billion	37%
2	Non-Financial Assets	€115 Billion	€86 Billion	€29 Billion	25%
3	Total Assets	€224 Billion	€157 Billion	**€69 Billion**	**31%**
4	Value Lost Per Week			**€625 Million**	
5	Value Lost Per Greek Citizen			**€ 6,275**	

Notes: Japonica Partners collaborative analysis. Identified Value Lost may differ from change in Financial Assets due to additions and disposals. From 30 June 2014 to 3 August 2016 or closest date of data available. Per week calculation based on 109 weeks. Based on population of 10.9 million from EC AMECO database and unconsolidated general government financial asset data from Eurostat (accessed 3 August 2016). Non-Financial Assets estimate based on data from Japonica Partners 30 April 2016 USC Global Leadership Summit presentation: mostimportantreform.info/MAGARIAN_USC_20160430.pdf.

Example 2 of 2:
The EU CEPS Balance Sheet Task Force

EU General Government are a Very Significant Part of the Economy with Total Expenditures an Average 46% of GDP

SN	Country	Total Expenditure % of GDP	SN	Country	Total Expenditure % of GDP
1	Finland	58%	15	Germany	44%
2	France	57%	16	Malta	43%
3	Denmark	56%	17	Spain	43%
4	Greece	55%	18	United Kingdom	43%
5	Belgium	54%	19	Czech Republic	43%
6	Austria	52%	20	Luxembourg	42%
7	Hungary	51%	21	Poland	41%
8	Italy	51%	22	Bulgaria	40%
9	Sweden	50%	23	Cyprus	40%
10	Portugal	48%	24	Estonia	40%
11	Slovenia	48%	25	Latvia	37%
12	Croatia	47%	26	Romania	36%
13	Slovakia	46%	27	Ireland	35%
14	Netherlands	45%	28	Lithuania	35%
				Average:	**46%**

Source: EC AMECO database; 2015 data (5 July 2016).

Government Balance Sheet Status in the EU

1. Consolidated balance sheets are the exception not the rule.
2. Single-entry accounting (in contrast to double-entry) is the most common.
3. Knowledge of consolidated financial statements as a management tool to improve performance and minimize risk is almost non-existent.
4. Limited management capability exists to realize better balance sheet performance.
5. Significant performance gaps exist between potential balance sheet performance and current status.

Examples of Government Actions Designed to Misrepresent Reporting Economic Reality

1. Concessional loans without recognition
2. Expensive PPPs to avoid budget costs
3. Sale and leasebacks
4. Government employee pensions non-reporting
5. Impaired financial and fixed assets
6. Primary balance illusions
7. Delayed payments on asset procurement of defense assets
8. Excluding capital grants from expenses
9. Excluding new borrowing to fund “temporary” investments
10. Issuing premium bonds and booking at par.

Key Balance Sheet Metrics for Global Benchmarks Highlight Wide Performance Gap

(2001 to 2015)

		Rank #1	Rank #8	Median	Definition
1.	**Value Creation Ratio**	NWI 70% of GDP	0.3x	2.0x	Change in GDP per unit change in Net Worth start point to end point.
2.	**Return on Assets (ROA)**	4%	-38%	-7%	Average annual change in net worth as a % of total assets.
3.	**Net Worth % of GDP - Latest**	38%	-158%	-66%	Latest period end net worth as a % of latest year GDP.
4.	**Net Worth Annual % Change**	19%	-13%	-4%	Average annual percentage change in net worth during period.
5.	**GDP Change to Debt Change Ratio**	651%	53%	147%	GDP increase per unit of debt increase start point to end point.
6.	**Net Debt % of GDP - Latest**	3%	64%	30%	As reported balance sheet net debt as a % of GDP.

Notes: 2001 to 2015 data or all available data from this period.

Value Creation Ratio: Full period change in GDP divided by change in Net Worth.

Return on Asset (ROA): Change in net worth as a percentage of assets.

Net Worth as % of GDP - Latest: Latest period end (2014 or 2015) net worth divided by corresponding year GDP.

Net Worth Annual Percentage Change: Annual change in year end net worth.

GDP Change to Debt Change Ratio: GDP increase as a % of debt increase.

Net Debt % of GDP - Latest: Latest period end (2014 or 2015) net debt (debt less financial assets) derived from respective government balance sheets divided by corresponding year GDP.

Value Creation Ratio:

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

(Local Currency, Billions)

Global Benchmark	Value Creation Ratio	Increase in GDP per Citizen	Decrease in Net Worth per Citizen	Beginning Year
New Zealand, Government of	**Net Worth Increased 70% of GDP**	25,000	Increased 17,609	2001
Swiss Confederation	**Net Worth Increased 4% of GDP**	6,543	Increased 247	2009
Canada, Government of	**10.1x**	24,704	-2,451	2001
Australia, Commonwealth of	**3.3x**	38,559	-11,568	2001
Israel, Government of the State of	**0.6x**	49,512	-77,317	2006
United States Government	**0.6x**	23,021	-36,863	2001
United Kingdom *(Whole of Government)*	**0.4x**	5,132	-13,132	2010
France, Republic of	**0.3x**	5,180	-20,407	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.

Return on Assets Ratio (ROA)

(Change in Net Worth as a Percentage of Assets)

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

Global Benchmark	Historical Average	2011-2014 Average
New Zealand, Government of	**4%**	**-2%**
Swiss Confederation	**0.46%**	**0.52%**
Canada, Government of	**-1%**	**-6%**
Australia, Commonwealth of	**-4%**	**-13%**
United Kingdom *(Whole of Government)*	**-11%**	**-10%**
Israel, Government of the State of	**-16%**	**-23%**
France, Republic of	**-17%**	**-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.

A Framework to Understand How Knowledge and Management of a Government Balance Sheet Improves Financial Performance and Risk

	Financial Performance	Risk
Knowledge	**Q1**:To have true and fair internationally comparable knowledge of government financial performance, the balance sheet, the supporting consolidated financial statements, and notes are the starting point for decision-making and accountability.	**Q3:** The balance sheet at the core of consolidated financial statements provides standardized and quantified knowledge of risks (especially large, complex, and expanding liabilities) and helps expose masking of financial risks.
Management	**Q2:** Capable management using three balance sheet related decision-making tools (modified T-accounts, financial statements, and performance gaps) can improve financial performance and changes in net worth, and minimize errant decisions.	**Q4:** Early risk management of potential asset impairment or opaque liabilities is an effective process to reduce costs by limiting or avoiding the materialization of these risks and strengthens accountability.

Three Basic Decision-Making Tools

1. Modified T-Accounts
2. Financial Statements (Four)
   - Balance Sheet
   - Performance Statement
   - Cash Flow Statement
   - Statement of Changes in Net Worth (Taxpayers' Equity)
3. Performance Gap

Tool 3 - Performance Gap Framework: EU Summary

(€, billions)

	Value Creation Ratio KPI		Return on Asset (ROA) KPI	
	Ratio	**GDP Increase**	**Ratio**	**Net Worth Change**
EU Current (Est.)	0.3x	€ 309	-8%	-€ 1,212
Benchmark KPI	0.8x	€ 825	-5%	-€ 757
Performance Gap	0.5x	€ 516	3%	€ 454
Performance Gap % of GDP		4%		3%

Best - Worst Practices Performance Gap: Illustrative Balance Sheet Line Items (1 of 2)

	Best Practice	Worst Practice
	Financial Assets:	
1.	Internal cost of capital allocation.	Ignore existence of working capital and its cost.
2.	Benchmarking to achieve top quartile performance.	Bottom quartile performance or no benchmarking or management of financial assets.
3.	Better returns and minimized risk exposure on politically influenced loans.	Opacity and large losses on politically influenced loans.
4.	Full disclosure of financial assistance to and returns on SOEs.	Hidden SOE economic burden and risk.
	Non-Financial Assets:	
5.	Optimal re-investment in and use of real estate assets.	Chronic mismanagement of potentially high value commercial real estate assets.
6.	Low and declining single digit percentage fraud in accounts receivable.	Double digit percentage fraud in accounts receivable payments.
7.	Projects built based on lowest cost to financial metrics.	Public private partnerships with private party has required double digit rate of return, including sale-and-leasebacks.
8.	Concessions that both maximize long term value creation and improve value for the money in delivery of services.	Front-end load inflows to fund exiting (or even worse, new promises) annually recurring operating expenditures.
9.	Asset depreciable lives that encourage high ROI program maintenance.	Unrealistically long depreciation lives that short change program maintenance and create larger replacement costs in the future.
10.	Measure and report real estate tax basis appreciation in areas surrounding government infrastructure investments.	Ignore reporting and accountability for impact of infrastructure investments.
11.	Annual impairment reviews of tangible and intangible assets create discipline to protect asset value.	No balance sheet and/or no proper annual review hides asset value destruction.

Best - Worst Practices Performance Gap: Illustrative Balance Sheet Line Items (2 of 2)

	Best Practice	Worst Practice
	Financial Liabilities:	
12.	International standards and audits.	Incorrectly calculating balance sheet debt.
13.	Report pro-forma impact on financial statements.	Ignoring quantification of debt relief impact on net worth.
14.	Use all three tools to understand economic impact of liability management exercises.	Liability management without consideration of financial statement impact.
	Non-Financial Liabilities:	
15.	Payables paid on exact date due.	Incur and not report interest penalties on arrears.
16.	Disclose impact on financial statements of change in government employee pension terms.	Non-quantification of balance sheet impact of change in government employee pension terms.
17.	Quantifies and proactively manages litigation risk.	Ad hoc post-event handling.

Proposed Sovereign Index

Total Ranking: 0-20 (Poor), 20-30 (Fair), 30-40 (Good), 40+ (High)

		Weighting	Ranking
Qualitative Factors		50%	
	Rankings: 0 (Worst), 1 (Poor), 2 (Fair), 3 (Good), 4 (Best)		
1.1	Accounting Principles	7%	
1.2	Audit	7%	
1.3	Budget	7%	
1.4	Financial Statements	7%	
1.5	Fiscal Management	7%	
1.6	Fiscal Oversight	7%	
1.7	Human Capital	7%	
Quantitative Factors		50%	
	Quartile Rankings: 1 (Bottom), 2 (Second), 3 (Third), 4 (Top)		
2.1	Net Worth Value Creation Ratio	7%	
2.2	Net Worth Return on Asset Ratio	7%	
2.3	Net Worth % of GDP - Latest	7%	
2.4	Net Worth Annual % Change	7%	
2.5	Total Liabilities Value Creation Ratio	7%	
2.6	GDP Change to Debt Change Ratio	7%	
2.7	Net Debt % of GDP - Latest	7%	
Total:		100%	

Appendices

Appendix 1: The Facts on Greek Government Financial Sustainability and Stability (Part 1 of 4)

Appendix 2: IMF and Greece: 12 Helpful Facts to Better Understand Greece Government Debt Sustainability (Part 2 of 4)

Appendix 3: Additional Readings

Appendix 1: The Facts on Greek Government Financial Sustainability and Stability (Part 1 of 4)

1. **Greek Government Received Massive EZ Debt Relief:** The southern axis countries have given Greece €128 billion in highly concessional loans with an opportunity cost to southern axis taxpayers of €8 billion per year. Since 2010, Greece has received €354 billion in debt relief, which is 17 times more than the EZ programme country average. The 3rd programme has already provided €23 billion in debt relief. Additionally, Greece receives on average €6.6 billion per year in EU funds which is 251% of comparable size Portugal and Ireland.
2. **Greek Government Significant Debt Competitive Advantage:** The Greek government has been given a significant debt competitive advantage, with a debt burden of about 50% of investment grade EZ member state peers, but earns worse ratings and higher borrowing costs. Greece 2015 YE Balance Sheet Net Debt, correctly calculated in accordance with international accounting or statistics rules is 41% and 58% of GDP, respectively. Greece will save €10 billion from a lower cash interest burden compared to the southern axis from 2016 to 2020. Greece debt service is 50% of EZ peers versus a gross financing needs of 123%. Greece floating rate debt is only 17% of total debt, not the 69% reported.

Appendix 1 (Con't): The Facts on Greek Government Financial Sustainability and Stability (Part 1 of 4)

3. **Greek Government High Capital Spending:** The Greek government spent on average €364 million per week on capital spending from 2013 to 2015, which is 297% of comparable size Portugal and Ireland.
4. **Greek Government Total Balance Sheet of ½ Trillion Euros:** At year-end 2015, the Greek government had over ½ trillion euros in assets and liabilities to manage or mismanage, which is €48,060 per citizen.
5. **Greek Government €69 Billion Asset Value Lost:** Analysis indicates that €69 billion, or on average €625 million per week, of Greek government asset value was lost from 2014 to August 2016. From 2001 to 2015, Greece added only 10 cents in GDP for each additional euro of debt, compared to EZ peer average 45 cents.
6. **Greek Government Little Progress in Financial Transparency:** Little progress on Greek government financial transparency and accountability processes to win the trust and confidence of taxpayers. No opening balance sheet. No senior level ministers with professional turnaround, financial, or accounting experience.

Appendix 2: IMF and Greece: 12 Helpful Facts to Better Understand Greece Government Debt Sustainability (Part 2 of 4)

On 23 September 2016, the IMF released a Greece Article IV Mission Staff Concluding Statement, a useful complement to its May 2016 Debt Sustainability Analyses. The headline message is that Greece government debt is unsustainable, further debt relief is required, and debt continued to rise reflecting shortfalls between economic outcomes and Greece's ambitious targets. (Article IV, page 3)

The following are **12 Helpful Facts to Better Understand Greece Government Debt Sustainability**:

1. **Trust and confidence:** Contrary to the IMF's long-standing tradition, the Statement does not acknowledge building trust and confidence as a cornerstone of government responsibility and omits from its recommendations a most important reform for Greece, which is transparency and accountability of financial information. Despite IMF advocating IPSAS for transparency and accountability of government financials, especially balance sheets, in numerous publications, the Statement makes no mention of these reforms for Greece exposing the IMF to criticism for showing creditor bias in not wanting to report the correct value of Greece government 2015 net debt/GDP of 41%, thereby advancing the IMF's economic interests. Of note, the IMF uses similar rules (IFRS) for its own balance sheet.
2. **Debt relief:** The DSA acknowledges the "very large NPV (net present value) relief" provided by the EU to Greece, but does not report the impact on Greek balance sheet debt. (DSA May 2016, page 1)

Appendix 2 (Con't): IMF and Greece: 12 Helpful Facts to Better Understand Greece Government Debt Sustainability (Part 2 of 4)

3. **DSA on PV:** Although the IMF's guidelines for highly concessional loans recommend the present value of debt be reported in debt sustainability analyses, present value is not reported for Greece. (Public Debt Limits June 2015, page 27) Using the IMF guidelines and public information, Greece 2015 gross debt/GDP was 116% and net debt was 104%.
4. **Debt/GDP:** The IMF states clearly that Greece's "debt/GDP ratio is not a very meaningful proxy for the forward-looking debt burden", but continues to make it a headline target for decision-making. (Preliminary DSA June 26, 2015, page 11)
5. **Concessional debt:** Replacing debt that matures at face value with highly concessional debt with a present value as low as 20% of future face value is recorded as no change in Greece government debt by the IMF rather than reflecting the economic reality that debt actually declined by up to 80%. Recording restructured debt at present value, also known as initial recognition value, is a global best practice for independently developed international rules, such as IPSAS, IFRS, 2008 SNA, and ESA 2010.

Appendix 2 (Con't): IMF and Greece: 12 Helpful Facts to Better Understand Greece Government Debt Sustainability (Part 2 of 4)

6. **Restructured debt:** The IMF GFSM guidelines are the only internationally applied rules that do not seek to report the economic reality that rescheduled debt is extinguished and recorded at fair value on the date of rescheduling. Sections A3.12-13 are superficially harmonized with the international consensus saying that "rescheduled debt is considered repaid and replaced with a new debt instrument created with new terms and conditions" and recorded at the "value of the new debt". However, inserted parentheses directly undermine the harmonized text and defy economic reality by adding, "which, under a debt rescheduling, is the same value as the value of the old debt". Furthermore, the GFSM again favors creditors by diverging from international standards and economic reality in section A3.15 requiring debt refinancing in the replacement of existing debt to be recorded at the value of the new instrument by inserting the text, "except for nonmarketable debt (e.g., a loan) owed to official creditors".
7. **Use of proceeds:** Incurring highly concessional debt to invest in financial assets is reported as a debt increase by the IMF. In economic reality, receiving highly concessional loans and investing in financial assets decreases Greece government net debt as the asset value exceeds the initial value of debt.
8. **Interest rates:** There is an irreconcilable *non sequitur* between the Statement concluding that the debt stock number is not "meaningful" and using that same number to project interest rates in the DSA.

Appendix 2 (Con't): IMF and Greece: 12 Helpful Facts to Better Understand Greece Government Debt Sustainability (Part 2 of 4)

9. **Asset losses:** The Statement does not mention the tens of billions of euros in Greece government asset value lost as the main cause for the increase in Greece net debt, a key metric used in other DSAs. Our estimate of government asset value lost is €69 billion or €625 million per week.
10. **GFN:** Gross financing needs should not replace debt service as a key metric, as about 75% of projected GFN components are not conventional debt service but IMF discretionary assumptions. Conventional debt service for Greece would be approximately 50% of peers.
11. **Projections:** Half-century projections are not credible. Assumptions for Greece on growth, interest rates, and fiscal balances if applied to many EU member states would show similarly unsustainable debt metrics.
12. **Loan profitability:** Greece has paid over €3.5 billion in interest payments and fees to the IMF, averaging 37% of IMF total net income, and covering 79% of IMF total administrative expenses. Over the past five years, the IMF had an average operating margin of 63%, a multiple of major banks.

Appendix 3: Additional Readings

"Greece's New Agreement with Europe: This Time Different?" Intereconomics. September/October 2015. **Pelagidis, Theodore and Kazarian, Paul B.**

"Greece's Debt: Sustainable?" Harvard Business School Case Study. June 2015. **Serafeim, George**

"The Curious Case of the Rules for Calculating Debt Relief: A Technical Note on EU Accounting for Debt, Especially Restructured and Concessional Debt." September 2015. **Ball, Ian**

"Greece Needs to Be Honest About the Numbers." Harvard Business Review. September 2016. **Jacobides, Michael**

"Greece's Bailout Package: Missing IPSAS?" The Accountant. September 2015. **Tornero, Carlos**

"What if Greece got massive debt relief but no one admitted it? (Part 2)" Financial Times. 9 June 2016. **Klein, Matthew C.**

See also: www.MostImportantReform.info