

Europe's Future and The Most Important Reform in Greece

Ask the Right Five Questions

Paul B. Kazarian
JAPONICA PARTNERS

EGPA PSG XII 2015 Spring Workshop

7-8 May 2015

Zurich-Winterthur, Switzerland

[Working Draft]

EGPA/IIAS
European Group
for Public Administration



GEAP/IISA
Groupe Européen
pour l'Administration Publique

Zürcher Hochschule
für Angewandte Wissenschaften



**School of
Management and Law**

Institut für Verwaltungs-Management

The “Trinity” for Prosperity in Greece

1. For prosperity in Greece, the Greece ministers' first priority is to build **trust and confidence** with all stakeholders.
2. To build trust and confidence, Greece ministers must make **transparency and accountability** of government finances their most important reform.
3. The starting point for transparency and accountability in Greece is accurate government financial information obtained through **international public sector accounting standards and audits**.

Ask the Right Five Questions

1. What was Greece net debt as a % of GDP ratio, and what was Greece ratio as a percentage of the peer country average ratio?
2. What is Greece cash interest payments as a % of revenue ratio, and what is Greece ratio as a percentage of peer country average ratio?
3. How much (Net Receipts and EIB loans) does Greece receive annually from the EU and how much debt has been avoided since 1996 by receiving “free” EU annual funds (Net Receipts)?
4. What was the opportunity cost of misguided financial management by the Greece government since 2012?
5. What was Greece 2014 primary balance?

Ask the Right Five Questions

1. What was Greece net debt as a % of GDP ratio, and what was Greece ratio as a percentage of the peer country average ratio?
 - A. 175% of GDP and 200% of peer country average.
 - B. 100% of GDP and 150% of peer country average.
 - C. 60% of GDP and 60% of peer country average.
 - D. 18% of GDP and 25% of peer country average.

Ask the Right Five Questions

2. What is Greece cash interest payments as a % of revenue ratio, and what is Greece ratio as a percentage of peer country average ratio?
 - A. 2% of revenue and 25% of peer country average.
 - B. 5% of revenue and 100% of peer country average.
 - C. 10% of revenue and 200% of peer country average.
 - D. 15% of revenue and 50% of peer country average.

Ask the Right Five Questions

3. How much (Net Receipts and EIB loans) does Greece receive annually from the EU and how much debt has been avoided since 1996 by receiving “free” EU annual funds (Net Receipts)?
- A. Zero and zero
 - B. Two billion euros and 50 billion euros
 - C. Five billion euros and 100 billion euros
 - D. Seven billion euros and 150 billion euros

Ask the Right Five Questions

4. What was the opportunity cost of misguided financial management by the Greece government since 2012?
 - A. 30 billion euros
 - B. 15 billion euros
 - C. Five billion euros
 - D. Zero

Ask the Right Five Questions

5. What was Greece 2014 primary balance?

- A. 0%
- B. 1.0%
- C. 2.7%
- D. -5.5%

The Focus is on the Wrong Debt Number (1/3)

Representative Quotations

Debt Ratio:

1. "Greece is in the most trouble, not only because it has a **far higher debt-to-GDP ratio than any other country** but also because its GDP is still shrinking." Forbes, November 2013
2. "**Greece's debt is expected to reach a ridiculous 176 per cent of GDP this year**" The Globe and Mail, August 2013
3. "**Greece's mountain of debt will grow by around €330 billion ...almost 180 percent of annual economic output.**" Spiegel, July 2013
4. "Greece's creditworthiness is ... impaired by its **extremely high government debt to GDP ratio.**" DBRS, August 2013

The Focus is on the Wrong Debt Number (2/3)

Representative Quotations

Debt Level:

1. **"the mountain of debt is putting the brakes on getting more foreign direct investment"** CEO of Mytilineos Holdings, February 2014
2. **" ... Greece's staggering debt ..."** The Guardian, February 2014
3. **"Everyone knows that [Greece] can never pay back its debt"** George Soros, October 2013
4. **"... Greece's massive debt pile, which despite unprecedented austerity and history's largest sovereign default has only continued to rise."** FT, September 2013

Sustainability:

1. **"It now stands at roughly 180 percent of gross domestic product. This is plainly unsustainable."** Bloomberg, February 2014
2. **"Our base case is that the current dynamics of Greek debt/growth are unsustainable ..."** BAM Merrill Lynch, November 2013
3. **"The overall point is the Greek debt situation is completely unsustainable."** Columbia Business School, August 2013

The Focus is on the Wrong Debt Number (3/3)

- **DBRS**: First factor that continues to materially constrain ratings, Greece's elevated debt level. The government's still very elevated level of public sector debt is likely to weigh negatively on investor sentiment. (7/14)
- **Fitch** : First weakness listed: Despite both private and public debt restructuring in recent years, general government debt of 175% of GDP far exceeds 'B' and 'BB' medians. Debt sustainability remains far from secure. (6/14)
- **Moody's** : First line is Greece's government **debt** is one of the highest in our rated sovereign universe... First bullet point cites how debt metrics have deteriorated over past two years. (9/14)
- **S&P**: Our long-term rating on Greece balances our view of the government's high (albeit long-dated) **debt** burden and the country's onerous external **debt** position... Six of 16 key statistics relate to **debt**. (3/14). Greece's gen gov debt stock will remain among the highest [177%] of all the sovereigns we rate. Would lower rating if not successful in stabilizing debt to GDP ratio. (9/14).

Greece Net Debt to GDP Using International Accounting Standards is 1/4 of Peers

(€, billions; 2013 data except as noted.)

		Greece	Peer Average	Post-Programme Countries			
				Ireland	Spain	Portugal	Italy
1.	Maastricht Debt/GDP	175%	120%	124%	94%	129%	133%
2.	GDP	€ 182		€ 164	€ 1,023	€ 166	€ 1,560
3.	Maastricht Debt (EDP)	€ 319		€ 203	€ 961	€ 214	€ 2,069

IPSAS/IFRS:

4.	Gross Debt	€ 124		€ 189	€ 940	€ 185	€ 2,069
5.	Financial Assets	€ 91		€ 65	€ 292	€ 69	€ 317
6.	Net Debt	€ 33		€ 125	€ 647	€ 116	€ 1,752
7.	Net Debt/GDP	18%	80%	76%	63%	70%	112%

8.	IAS Impacted Debt	€ 275		€ 62	€ 41	€ 72	€ 0
----	-------------------	-------	--	------	------	------	-----

GREECE IPSAS/IFRS NET DEBT HAS BEEN INDEPENDENTLY VERIFIED ON 15 AUGUST 2014.

Note: Financial Assets data from Eurostat, Financial Balance Sheets 2013 data (accessed on 31 May 2014), except Ireland, Italy, and Spain (2012); Greece data also noted in the IMF, 5th Review for Greece, June 2014, page 51.

Ask the Right Net Debt Integrity Question

Did the Net Debt number earn the following Expert's Opinion statement by a Big Four accounting/auditing firm whose independence is beyond question?

“Nothing has come to our attention that causes us to believe that the calculations of Greece financial liabilities as reported to us as of December 31, 2013 have not been, in all material respects conducted reasonably in accordance with IAS 39 and IFRS 13, which are deemed an appropriate approximation of IPSAS 29, applicable for Greece.”

Greece Cash Interest is 1/4 of Peers

(€, Billions; 2015, except Debt)

		Greece	Peer Average	Post-Programme Countries			
				Ireland	Spain	Portugal	Italy
1.	Revenue	€84		€65	€411	€78	€772
2.	Interest Expense	€7.3		€7.4	€35.0	€8.7	€70.0
3.	Interest Expense % of Revenue	8.7%	10.0%	11.3%	8.5%	11.2%	9.1%
4.	EFSF Non-Cash Interest	€1.4					
5.	ANFA/SMP Rebates	€3.9					
6.	Cash Interest Payments	€2.0		€7.4	€35.0	€8.7	€70.0
7.	Cash Interest Payments % of Revenue	2.4%	10.0%	11.3%	8.5%	11.2%	9.1%
8.	Cash Interest Payments % of Debt (2014)	0.6%	3.5%	3.6%	3.4%	3.9%	3.3%
<i>Potential Better Financial Asset Management</i>							
9.	Other Interest Income on Fin. Assets	TBD					
10.	Cash Net Interest Expense	TBD					

Note: AMECO 2015 data except Debt, 2014.

Greece 2015 Cash Interest Rate is Less than 1%

S/N	Debt Type	Nominal Interest Rate	Cash Interest Rate
1	EU - EFSF	1.6%	0.0%
2	EU - EFSF Co-Financing	1.6%	1.6%
3	EU - GLF	0.6%	0.6%
4	ECB and NCBs - SMP GGBs	5.2%	-7.6%
5	NCBs - ANFA GGBs	4.7%	-7.7%
6	IMF	3.0%	3.0%
7	GGBs	3.7%	3.0%
8	T-Bills	2.5%	2.5%
9	Government Bond Holdouts	3.8%	3.8%
10	Other GGBs	3.9%	3.9%
11	Other Debt	4.5%	4.5%
12	Weighted Average Interest Rate	2.3%	0.6%



Turning Greece Debt Into a Gift

Time value of money is considered “the first law of finance” and the “rock upon which much of finance rests”.

Start: Extend the maturities a few years

Then:

- Extend out to almost 50 years
- Lower the interest rate
- Defer the interest expense
- Rebate the interest expense
- Rebate the principal

And:

Annual average €5.4 billion of “free” EU annual funds

Overview of Greece Government Debt (1 of 2)

(Euros, Billions)

	<u>Maastricht</u>	<u>IPSAS/IFRS</u>
Concessionary Loans	€ 212	€ 60
Rescheduled Securities	63	20
Non-Revalued Debt	44	44
Gross Debt	<u>€ 319</u>	<u>€ 124</u>
Financial Assets	NA	91
Net Debt	NA	<u>€ 33</u>
Percent of GDP	175%	18%

Source: EC AMECO Online and Eurostat databases. Net Debt calculated as Maastricht debt, adjusted according to IPSAS/IFRS which were required for concessionality and rescheduling, less all financial assets which excludes receivables.

Overview of Greece Government Debt (2 of 2)

1. 86% of Greece debt requires **IPSAS** revaluation.
2. €63 billion in **rescheduled debt**.
 - €26 billion of government bonds were issued with discount factors of almost 75%.
 - €37 billion of government bonds have interest and/or principal rebates.
3. €212 billion of debt has **concessionary loan** terms.
 - Below market interest rates, extended maturities, and grace periods.
 - €134 billion of Greece debt pays zero cash interest for ten years.
4. €35 billion of official sector borrowings invested in **cash or publicly traded equities**.

Note: Data estimated as of December 31, 2013.

International Accounting Standards

Debt Measurement Highlights

Objective: Improve decision-making, increase transparency, strengthen accountability, and facilitate global comparability.

1. Initial Recognition

- **Fair value** of debt is market value (confirming arm's length) at date of event.
- **Market price/YTM** or most comparable market price/YTM.
- **If necessary**, PV with maximum use of observable/prevaling market YTM.

2. Substantial Modification (Restructured Debt)

- If PV of cash flows is at least 10% different from PV of original financial liability.
- All financial liabilities utilize the **same market based principles**.

3. Concessionary Loans and Grants

- **Fair value** measurement.
- Recognized existence of **non-exchange transaction** as a subsidy.

4. Subsequent Measurement: At amortized cost using **EIR method** accretion.

Progression of Maastricht Gross Debt to IPSAS Net Debt

(Euros, Billions)

		Maastricht	IPSAS Adjustments (Includes Accretion)					IPSAS			
	Type of	Debt	OSI #1:	OSI #1:	OSI #2/PSI #1	OSI #3/PSI #2		Net Debt			
SN	Debt/Asset	(Face Value)	Loans	Loan Modification	Extensive Restructuring	Modification/Buyback	Total	(Fair Value)	SN		
		31 Dec 2013	May 2010	June 2011	Feb/Mar 2012	December 2012	Adjustments	31 Dec 2013			
1.	Modified Securities	€ 63	€ 0	€ 0	€ 36	€ 6	€ 42	€ 20	1.		
2.	Modified/Concessionary Loans	€ 212	€ 11	€ 6	€ 85	€ 51	€ 153	€ 60	2.		
3.	Non-Revalued Debt	€ 44	€ 0	€ 0	€ 0	€ 0	€ 0	€ 44	3.		
4.	Adjustments		€ 11	€ 6	€ 121	€ 57	€ 195		4.		
5.	Total Gross Debt	€ 319	€ 308	€ 302	€ 181	€ 124		€ 124	5.		
6.	GDP	€ 182						€ 182	6.		
7.	Debt/GDP	175%						68%	7.		
8.	Financial Assets Funded w/ Loans		Concessionary Terms and Modifications: Highlights					€ 34	8.		
9.	Other Financial Assets		EU Loans: 3M Euribor plus 300-400 bps. Maturities: 5 yrs. Grace period: 1.5 yrs.	EU Loans cut to 3M Euribor plus 200-300 bps. Maturities up to 10 yrs. Grace period up to 4.5 yrs.	EU Loans cut to 3M Euribor plus 150bps. Maturities up to 15 yrs. Grace period up to 10 yrs.	EU Loans cut to 3M Euribor plus 50bps. Maturities extended to 30 yrs.		€ 57	9.		
10.	Total Financial Assets							€ 91	10.		
11.	Net Debt							€ 33	11.		
12.	Net Debt/GDP							18%	12.		
					EFSF Loans: Cost-of-funding plus 200-300bps. Maturities: 30 yrs.	EFSF Loans cut to cost-of-funding. Interest deferred for 10 yrs. Maturities extended to maximum 45 yrs.					
					ANFA bonds issued on extant terms with interest and partial principal rebate.						
					SMP bonds issued on extant terms.	SMP interest and partial principal rebate.					
					GGBs start at 2% coupon with maturities up to 30 yrs.						
			Most Comparable Debt Instrument								
			~400 bps below market YTM's.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.					
Maastricht Debt - Cumulative Face Value Adjusted			€ 71	€ 71	€ 275	€ 275					

Note: Simplification for presentation purposes.

Debt Measurement Frameworks

INTERNATIONAL ACCOUNTING STANDARDS

IPSAS

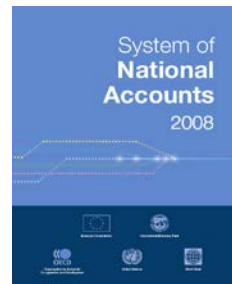
IPSAS 29 –
FINANCIAL
INSTRUMENTS:
RECOGNITION AND
MEASUREMENT

IFRS

IAS 39 –
FINANCIAL
INSTRUMENTS:
RECOGNITION AND
MEASUREMENT

INTERNATIONAL STATISTICS GUIDELINES

SNA 2008



ESA 2010



MGDD

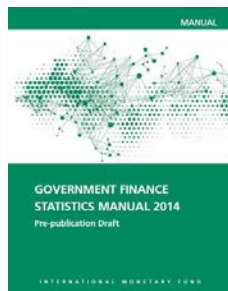


NET DEBT



INTERNATIONAL STATISTICS LENDER COVENANT GUIDELINES

GFSM 2014



PSDS



EDS



**Maastricht
Treaty**

Economic Reality is the Goal

All statistics systems have the same goal as international accounting standards, IPSAS and IFRS: financial information that best reflects economic reality.

SNA 2008 – Section 1.4. SNA depends on economic reasoning and principles which should be universally valid and invariant to the particular economic circumstances in which they are applied.

ESA 2010 – Section 20.164. Reporting the economic reality where it is different from the legal form is a fundamental accounting principle to give consistency and to make sure that transactions of a similar type will produce similar effects on the macroeconomic accounts, irrespectively of the legal arrangements. This is of particular importance for transactions involving the general government.

GFSM 2014 – Section 1.5. Based on economic principles that should be universally valid regardless of the circumstances in which they are applied.

Debt Measurement Principles: Summary

S/N	Debt Principle	International Accounting (IPSAS and IFRS)	International Statistics (ESA, SNA, GFS*)	Maastricht
1.	Restructured debt	YES	Yes	NO
2.	Concessionary debt	YES	Acknowledged but under development	NO
3.	Net Debt	YES	YES	NO
4.	Audit integrity	YES	NO	NO
5.	Fair value at initial recognition	YES	YES	NO
6.	Hierarchy of valuation	YES	YES	NO
7.	Arm's length valuation	YES	YES	NO
8.	Ongoing market prices	NO	Varies	NO

** IMF has principles that are generally consistent with other statistics guidelines but differs in areas where its conflicting role as a lender asserts priority.*

Debt Measurement Principles: Statistics Supplement*

1. Restructured Debt Acknowledged: IPSAS/IFRS extensive details with SNA and ESA compatible. GFS discusses but deviates from basic principles, even citing policy exemptions.
2. Concessionary Debt Acknowledged: IPSAS extensive details and IFRS consistent. Statistics acknowledge but not “fully developed” and “not fully evolved” (disclosure in notes).
3. Net Debt: All recognize and provide data for net debt, but the focus and the definitions appear to be based on policy not basic principles.
4. Audit Integrity: IPSAS/IFRS require independent audits. None of the three statistics systems require independent audits based on internationally recognized auditing standards.
5. Market Value at Time of Initial Recognition: All use fair value for debt that is traded, including discount debt. Non-traded debt, e.g. private placements and loans, varies.
6. Hierarchy of Valuation: All use the same hierarchy of valuation, which are (1st) market prices/YTMs, (2nd) market prices/YTMs of most comparable, and (3rd) market yield-to-maturity of most comparable to determine a present value.
7. Arm’s Length Valuation: ESA uses the phrase “market transaction between two parties”. SNA and GFS specifically use the IPSAS/IFRS term arm’s length as a part of market valuation.
8. Ongoing Market Price Changes: Unlike IPSAS/IFRS, all three statistics systems revalue debt that is traded at the date of each balance sheet.

** IMF has principles that are generally consistent with other statistics guidelines but differs in areas where its conflicting role as a lender asserts priority.*

Two Examples of the Flawed and Damaging Maastricht Debt Definition

1. Under Maastricht, €100 billion of debt with a perpetual maturity date (i.e. the debt never matures) and with zero interest payment (i.e. no interest payments ever) is recorded as a €100 billion liability when, in reality, it is a €100 billion gift.
2. Under Maastricht, a debtor is considered to have the same financial debt burden on a €100 billion of borrowing regardless of whether the money is totally depleted by spending on consumables or invested in AAA-rated one week T-bills.

Debt Revaluation Unacceptable Practices

- Don't use market prices/YTMs
- Don't use most comparable prices/YTMs
- Use date(s) other than date of event
- PV not used as last alternative
- Use single rate rather than date of event and instrument specific
- Insufficient independently sourced market data
- Process violates independent audit verification

Caution: Do not allow the use of the so-called discount rate as it creates inevitable exposure to nefarious consequences, especially on concessional loans.

Manual on Government Deficit and Debt (MGDD): Misinterpretations

The MGDD, which claims to provide “necessary clarification” and “useful practical guidance” for national accountants in the context of calculating restructured and concessional debt, misinterprets ESA 2010 and SNA 2008 and should be corrected. (See MGDD 2014 page 354.)

The misinterpretations lead to incorrect accounting for Greece restructured and concessional debt.

A comparison of the MGDD interpretation of the sections cited with the actual section text confirms the misinterpretations and the importance of correcting the text.

ESA 2010 and SNA 2008 are harmonized.

MGDD vs ESA: Rescheduling

Manual on Government Deficit and Debt

Implementation of ESA 2010

VII.3.3.2 Rescheduling of a loan

22. There is no real guideline for treating such a case in ESA 2010. Mention is only made of debt restructuring in ESA 2010 20.236 which states the same principle related to the difference in value (without specifying that it is in nominal terms). It is mentioned in 2008 SNA but in a rather descriptive way indicating only in 20.107 b that it "may or may not result in a reduction in present value terms" whereas there is no mention of a possible capital transfer. Therefore, this manual brings a necessary clarification and in useful practical guidance for national accountants.

ESA 2010

Debt operations

- 20.221 Debt operations can be particularly important for the general government sector, as they often serve as a means for government to provide economic aid to other units. The recording of these operations is covered in Chapter 5. The general principle for any cancellation or assumption of debt of a unit by another unit, by mutual agreement, is to recognise that there is a voluntary transfer of wealth between the two units. This means that the counterpart transaction of the liability assumed or of the claim cancelled is a capital transfer. No flow of money is usually observed, this may be characterised as a capital transfer in kind.

Other debt restructuring

- 20.236 Debt restructuring is an agreement to alter the terms and conditions for servicing an existing debt, usually on more favourable terms for the debtor. The debt instrument that is being restructured is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions. If there is a difference in value between the extinguished debt instrument and the new debt instrument, it is a type of debt cancellation and a capital transfer is necessary to account for the difference.



Chapter 5: Valuation

- 5.19 Financial transactions are recorded at transaction values, that is, the values in national currency at which the financial assets and/or liabilities involved are created, liquidated, exchanged or assumed between institutional units, on the basis of commercial considerations.
- 5.20 Financial transactions and their financial or non-financial counterpart transactions are recorded at the same transaction value. There are three possibilities:
- (c) neither the financial transaction nor its counterpart transaction is a transaction in cash or via other means of payment: the transaction value is the current market value of the financial assets and/or liabilities involved.
- 5.21 The transaction value refers to a specific financial transaction and its counterpart transaction. In concept, the transaction value is to be distinguished from a value based on a price quoted on the market, a fair market price, or any price that is intended to express the generality of prices for a class of similar financial assets and/or liabilities. However, in cases where the counterpart transaction of a financial transaction is, for example, a transfer and therefore the financial transaction may be undertaken other than for purely commercial considerations, the transaction value is identified with the current market value of the financial assets and/or liabilities involved.

MGDD vs SNA: Rescheduling

Manual on Government Deficit and Debt
Implementation of ESA 2010

VII.3.3.2 Rescheduling of a loan

22. There is no real guideline for treating such a case in ESA 2010. Mention is only made of debt restructuring in ESA 2010 20.236 which states the same principle related to the difference in value (without specifying that it is in nominal terms). It is mentioned in 2008 SNA but in a rather descriptive way indicating only in 20.107 b that it "may or may not result in a reduction in present value terms" whereas there is no mention of a possible capital transfer. Therefore, this manual brings a necessary clarification and in useful practical guidance for national accountants.

System of
National
Accounts
2008

Debt reorganization

22.106 There are four main types of debt reorganization:

b. Debt rescheduling or re-financing. A change in the terms and conditions of the amount owed, which may result or not in a reduction in burden in present value terms.

Debt rescheduling and refinancing

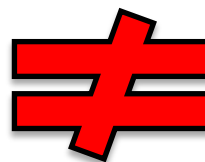
22.109 Debt rescheduling (or refinancing) is an agreement to alter the terms and conditions for servicing an existing debt, usually on more favourable terms for the debtor. Debt rescheduling involves rearrangements on the same type of instrument, with the same principal value and the same creditor as with the old debt. Refinancing entails a different debt instrument, generally at a different value and may be with a creditor different than that from the old debt.

22.110 Under both arrangements, the debt instrument that is being rescheduled is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions. If there is a difference in value between the extinguished debt instrument and the new debt instrument, part of the type of debt forgiveness by government and a capital transfer is necessary to account for the difference.

22.111 *Debt rescheduling* is a bilateral arrangement between the debtor and the creditor that constitutes a formal deferment of debt-service payments and the application of new and generally extended maturities. The new terms normally include one or more of the following elements: extending repayment periods, reductions in the contracted interest rate, adding or extending grace periods for the repayment of principal, fixing the exchange rate at favourable levels for foreign currency debt, and rescheduling the payment of arrears, if any.

22.112 The treatment for debt rescheduling is that the existing contract is extinguished and a new contract created. The applicable existing debt is recorded as being repaid and a new debt instrument (or instruments) of the same type and with the same creditor is created with the new terms and conditions.

22.113 The transaction is recorded at the time both parties record the change in terms in their books, and is valued at the value of the new debt.



MGDD vs ESA: Concessional Loans

Manual on Government Deficit and Debt

Implementation of ESA 2010

V.6.1 Background of the issue

1. As a part of public policy activities, governments provide loans at a lower interest rate than the market rate observed at the time of loan issuance (sometimes called "concessional loans").

V.6.2 Recording of low interest rate loans at inception

6. In this context, the interest has to be recorded on the basis of the contractually agreed interest rate. Consequently, no implicit benefit for the debtor is recorded in national accounts.

ESA 2010

20.241 Debt issued on concessional terms. There is no precise definition of concessional loans, but it is generally accepted that they occur when units of the general government sector lend to other units in such a way that the contractual interest rate is intentionally set below the market interest rate that otherwise would apply. The degree of concessionality can be enhanced with grace periods, frequencies of payments, and a maturity period favourable to the debtor. Since the terms of a concessional loan are more favourable to the debtor than market conditions would otherwise permit, concessional loans effectively include a transfer from the creditor to the debtor.



20.242 Concessional loans are recorded at their nominal value just as other loans, but a capital transfer is recorded as a memorandum item at the point of loan origination equal to the difference between the contract value of the debt and its present value using a relevant market discount rate. There is no single market interest rate that should be used to measure the capital transfer. The commercial interest reference rate published by the OECD may be applicable when the loan is issued by one of its member countries.

MGDD vs SNA: Concessional Loans

Manual on Government Deficit and Debt

Implementation of ESA 2010

MGDD 2014 Comment on SNA 2008: [Contains **no comment** on SNA.]

System of
National
Accounts
2008



22.123 Debt issued on concessional terms. There is no precise definition of concessional loans, but it is generally accepted that they occur when units lend to other units and the contractual interest rate is intentionally set below the market interest rate that would otherwise apply. The degree of concessionality can be enhanced with grace periods, frequencies of payments and a maturity period favourable to the debtor. Since the terms of a concessional loan are more favourable to the debtor than market conditions would otherwise permit, concessional loans effectively include a transfer from the creditor to the debtor.

22.124 Loans with concessional interest rates to a foreign government could be seen as providing a current transfer equal to the difference between the actual interest and the market equivalent interest. If such a transfer were recognized, it would usually be recorded as current international cooperation, and the interest recorded would be adjusted by the same amount. However, the means of incorporating the impact within the SNA and international accounts have not been fully developed, although various alternatives have been advanced. Accordingly, until the appropriate treatment of concessional debt is agreed, information on concessional debt should be provided in supplementary tables.

The “Trinity” for Prosperity in Greece

1. For prosperity in Greece, the Greece ministers' first priority is to build **trust and confidence** with all stakeholders.
2. To build trust and confidence, Greece ministers must make **transparency and accountability** of government finances their most important reform.
3. The starting point for transparency and accountability in Greece is accurate government financial information obtained through **international public sector accounting standards and audits**.