Greece Has Earned the Right to Compete Fairly

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Greece has earned the right to compete fairly in the capital markets. However, a counterproductive ECB policy—the so-called “57% penalty”—mandates an excessive collateral requirement on Greek government bonds that inhibits capital market activities and stands in the way of sustainable growth.

In December 2012, the ECB mandated a suffocating collateral penalty on Greek Government bonds, purportedly as retribution for non-compliance with the reform program. The “57% penalty” necessitated a Greece-specific provision, even though the regulations allow an EU country with a below investment-grade rating to have a collateral rate of 13%, or even 5%. The repercussions are felt throughout the economy. Bank liquidity suffers, restricting access to, and increasing the cost of capital for SMEs. In addition, Greek corporations competing internationally borrow from the markets at 3.5-4.5 percentage points higher than those of their international competitors.

Central to the assessments of sovereign credit risk by rating agencies is a country’s debt, which is usually calculated on a non-economic, legal basis, ignoring the effects of debt restructuring on the fair value of debt and on financial assets. Debt is much lower when measured accurately using internationally-accepted accounting standards.

Large Greek corporations (including banks) have adopted the International Financial Reporting Standards (IFRS) and are familiar with true and fair accounting. The adoption of IFRS was imposed by investor requirements for internationally-comparable financial reporting and modern management techniques. IFRS for the public sector are called International Public Sector Accounting Standards (IPSAS). Over 40 countries have adopted IPSAS, and many others are in the process of doing so. European experts recommend IPSAS for better decision-making, more transparency, and stronger accountability. Until this happens, the EU will continue to measure sovereign debt in non-economic and legal terms, ignoring the time value of money. Eurostat’s figure for Greece’s debt-to-GDP is based on legal definitions not designed to provide a true and fair view of debt that is comparable internationally. The many concessions Greece obtained when restructuring its debt are totally ignored in the calculations. This is out of line with the practice in the business world.

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Using internationally-accepted accounting standards, Greece’s net debt-to-GDP is one-third of that of its peers. This is the true and fair debt level and can be accurately displayed using IPSAS. Based on the experience of other adopters, IPSAS may take up to 2.5 years to be implemented fully, but is often adopted in phases with debt and financial assets completed in 6 months or less.

For Greece to compete in the capital markets it must have internationally-accepted accounting standards and financial reports. Greece has paid a hefty price to earn the right to compete fairly. The facts are clear and undeniable. Our net debt calculated under IPSAS is one-third of that of its peers. Our cash net interest expense is a fraction of that of the peers. And, our debt maturity profile is significantly better than peers. An ECB collateral rate between 5% and 13%, comparable to Greece’s peers, could double Greece’s desperately needed liquidity. The “57% penalty” should be removed now.