USC Global Leadership Summit 2016

Ten IMF Best Practices Yet to be Applied to the Greece Program

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Overview

I. Background

II. Ten IMF Best Practices Yet to be Applied to the Greece Program

I. Background

The Role of the IMF as Trusted Advisor

- "First off: The IMF must always be a trusted advisor."
  (The Managing Director's Annual Meetings Speech, Tokyo, October 12, 2012)
- Another challenge facing the Fund is improving the value-added and relevance of Fund advice.
- Managing Director's Management Implementation Plan on two aspects of the Fund's institutional culture:
  1. Breaking down silos with <u>more departmental collaboration</u> and accountability on priorities.
  2. Promoting diverse views and candor by (i) <u>accessing outside perspectives</u> to avoid "groupthink"…

Source: Independent Evaluation Office of the IMF Evaluation Report: The Role of the IMF as Trusted Advisor (2013)

Greece is a Valued Partner to the IMF as Indicated by its Substantial Profit Contribution During the Past Six Years

(€, millions)

YEAR	REVENUE	EXPENSES	NET OPERATIONAL INCOME	GREECE PROFIT CONTRIBUTION	GREECE PROFIT CONTRIBUTION AS A % OF NET OP. INCOME	NET OP. INCOME AS A % OF REVENUE
2008	€ 981	€ 1,104	(€ 122)	€ 0	0%	-12%
2009	€ 973	€ 797	€ 176	€ 0	0%	18%
2010	€ 1,184	€ 926	€ 258	€ 70	27%	22%
2011	€ 1,747	€ 897	€ 850	€ 385	45%	49%
2012	€ 2,724	€ 1,000	€ 1,723	€ 589	34%	63%
2013	€ 3,264	€ 994	€ 2,270	€ 813	36%	70%
2014	€ 2,765	€ 1,058	€ 1,707	€ 938	55%	62%
2015	€ 3,860	€ 1,131	€ 2,729	€ 764	28%	**71%**
Total since 2010 Program:			€ 9,537	**€ 3,558**	**37%**	

Notes: IMF fiscal year end is 30 April; Greece profit contribution is calendar year. Conversion rates as of 30 April to conform with IMF fiscal year.

IMF's High Value Add is Illustrated by a Gross Margin that is a Multiple of the World's Leading Investment Banks

IMF vs. Major Bank Profit Margin Comparison 2015:

(Currency as indicated in billions except per employee.)

BANK	REVENUE	NET INCOME	PROFIT MARGIN	NET INCOME PER EMPLOYEE
IMF	€ 3.9	€ 2.7	**71%**	€ 1,024,690
JP Morgan	$93.5	$24.4	26%	$104,008
Citi Bank	$76.4	$17.2	23%	$74,459
Goldman Sachs	$33.8	$6.1	18%	$165,761
Morgan Stanley	$35.2	$6.1	17%	$108,506
Deutsche Bank	€ 37.0	-€ 6.8	-18%	-€ 67,257

Notes: SDR converted to euros as of 30 April 2015 (IMF fiscal year end).

II. Ten IMF Best Practices Yet to be Applied to the Greece Program

Ten IMF Best Practices Yet to be Applied to the Greece Program

1. Make government financial transparency and accountability a top priority, and produce a full balance sheet.
2. Emulate IMF use of IFRS for its financial statements.
3. Follow GFSM recommendation to use IPSAS (IFRS) financial statements.
4. Request IMF IPSAS technical support similar to other successful countries.
5. Use IPSAS (IFRS) to correctly calculate Greece government debt burden metrics, which are much lower than peers, and debt relief.
6. Recognize present value of debt for measuring concessional financing.
7. Having admitted that future face value of debt is not meaningful, stop using for DSA primary balance targets.
8. Use net debt, in addition to gross debt, as an important metric.
9. Correctly calculate debt service and not confuse with gross financing needs.
10. Understand that 2008 SNA, to which IMF is a signatory, provides debt rescheduling and refinancing rules harmonized with IPSAS/IFRS.

Best Practice #1: Make Government Financial Transparency and Accountability a Top Priority and Produce a Full Balance Sheet (1 of 2)

New Rules for Global Finance Coalition Report on the Civil Society (Fourth Pillar) Consultations with the IMF on Reform of IMF Governance (August 2010):

- Transparency and accountability are essential to the centrality of IMF governance.

IMF Fiscal Transparency, Fiscal Performance and Credit Ratings (June 2012):

- We find that fiscal transparency has a positive and significant effect on ratings.

Fiscal Transparency, Accountability, and Risk (7 Aug 2012):

- "The degree of fiscal transparency has been shown to be an important predictor of a country's fiscal credibility and performance."
- The IMF has produced over 111 Fiscal Transparency Reports on Observance of Standards and Codes (ROSC).

Stock-Flow Adjustments, Government's Integrated Balance Sheet and Fiscal Transparency (7 Mar 2013):

- The stronger determinant of fiscal transparency scores appears to be the actual reporting of fiscal data covering general government, especially a full financial balance sheet.

Best Practice #1: Make Government Financial Transparency and Accountability a Top Priority and Produce a Full Balance Sheet (2 of 2)

IMF Fiscal Transparency Code (2014):

- In 2014, the IMF produced the Fiscal Transparency Code with four transparency pillars.
- IMF has completed almost a dozen Fiscal Transparency Evaluations (FTEs).

Fiscal Transparency and the Performance of Government Financial Assets (22 Jul 2015):

- The performance of government equity portfolios correlates with fiscal transparency to the extent that fully transparent governments are expected to generate between 6 and 8 percent higher returns on their equity portfolios than others.

Best Practice #2: Emulate IMF Use of IFRS for its Financial Statements

"The [IMF] consolidated financial statements of the General Department are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)." (IMF 2015 Financials Statements p.9)

IMF Financial Statements externally audited by PricewaterhouseCoopers (PwC) to be in compliance with IFRS. (IMF 2015 Annual Report p.70)

Best Practice #3: Follow GFSM Recommendation to Use IPSAS (IFRS) Financial Statements

IPSAS [Public Sector Version of IFRS]:

- General purpose financial statements are used to evaluate financial performance and <u>financial position</u>, hold management accountable, and inform decision making by users of the general purpose financial statements. (GFSM Box A6.1 p.343)

- "IPSASs are international standards and recognized as best practice for public sector financial reporting." (GFSM p.341)

Government Finance Statistics:

- The GFS reporting framework was developed specifically for public sector input to other macroeconomic datasets. (GFSM Box A6.1 p.343)

Best Practice #4: Request IMF IPSAS Technical Support Similar to Other Successful Countries

Portugal: Fiscal Transparency Evaluation (October 2014) notes “remarkable progress”. IMF on site for technical assistance.

Ireland: Favorable Fiscal Transparency Assessment (July 2013) notes significant percentage of IPSAS standards existing or near compliance.

Iceland: Technical Assistance Report (December 2014) notes trial financial statements to be prepared to 2014 and 2015. Significant technical assistance.

Other Countries: Long list of countries receiving IMF technical assistance on IPSAS.

Best Practice #5: Use IPSAS (IFRS) to Correctly Calculate Greece Government Debt Burden Metrics, Which Are Much Lower than Peers, and Debt Relief

(% of GDP)

	2015 Balance Sheet Net Debt	2016 Annual Debt Service	2016 Net Interest Payments	Next 5-Years Unfunded Debt Service	Debt Relief through 2015
Greece as % of Peers	**49%**	**43%**	**25%**	**23%**	**34x**
Greece	39%	5%	0.9%	14%	212%
Portugal	80%	11%	4.5%	61%	16%
Spain	74%	13%	3.0%	58%	2%
Ireland	57%	9%	3.0%	49%	7%
Italy	109%	15%	4.1%	75%	0%

Sources: EC AMECO, Eurostat, IMF, Member State MOFs, Bloomberg, MostImportantReform.info.

Best Practice #6: Recognize Present Value of Debt for Measuring Concessional Financing

IMF Staff Guidance Note prepared by the IMF and the World Bank (April 2007):

1. Countries that primarily rely on concessional financing, the net present value (NPV) of debt is needed to be informative as a measure of a country's effective debt burden. (p.25)
2. This [debt] burden is best measured using the net present value (NPV) of debt to capture the concessionality of outstanding debt. (p.7)
3. NPV debt ratios are summary indicators of the burden represented by the future obligations of a country and thus reflect long-term risks to solvency. (p.7-8)

DSA LIC Framework (5 Nov 2013):

Debt stock indicators in the DSF are in present value rather than nominal terms. (p.12)

IMF Factsheet (7 Apr 2016):

Discusses use of present value of debt. (p.1)

Best Practice #7: Having Admitted that Future Face Value of Debt is Not Meaningful, Stop Using for Primary Balance Targets

"Given the extraordinarily concessional terms that now apply to the bulk of Greece's debt, the debt/GDP ratio is **not a very meaningful proxy** for the forward-looking debt burden." (IMF Greece DSA, 26 June 2015, p.11)

The IMF should stop using a **future face value of debt to GDP target of 110%** by 2022 (IMF Greece DSA, 26 June 2015, p.1 and IMF Greece DSA Update, July 2015, p.1) and requiring a **3.5% primary balance policy target** (IMF Greece DSA, 26 June 2015, p.4 and IMF Greece DSA Update, July 2015, p.2).

Best Practice #8: Use Net Debt, in Addition to Gross Debt, as an Important Metric

IMF Staff Guidance Note (May 2013):

1. Staff should consider three important issues including gross versus net debt. (p.8)
2. Complementary analysis based on net debt presented to show the impact of risk-mitigating factors. (p.8)
3. The use of a standard statistical definition of net debt in line with the Public Sector Debt Statistics Guide is recommended. (p.9)

Best Practice #9: Correctly Calculate Debt Service and Not Confuse with Gross Financing Needs

- IMF Staff Guidance Note (5 Nov 2013), p.11: "the evolution of debt-service ratios provides an indication of the likelihood and possible timing of liquidity problems." Debt service defined as principal and interest payments.
- IMF Factsheet (7 Apr 2016) discusses use of debt service.
- Greece 2016 Debt Service, which is interest expense and principal payments less rebates and deferrals, is 43% of peers:

	Debt Service % of GDP	IMF Gross Financing Needs (GFN) % of GDP
Greece	5%	19%
Portugal	11%	20%
Ireland	9%	9%
Spain	13%	17%
Italy	15%	17%
Peer Average	12%	14%
Greece % of Peer Average	43%	135%

Notes: Debt Service is 2016 estimate based on Bloomberg, EC, and IMF data; Greece adjusted for deferred interest, SMP/ANFA rebates, and interest savings related to 2016 ESM funding.

Best Practice #10 (1 of 2): IMF is a Signatory to 2008 System of National Accounts (2008 SNA)

At its fortieth session, the Statistical Commission unanimously adopted the 2008 SNA as the international statistical standard for national accounts. We encourage all countries to compile and report their national accounts on the basis of the 2008 SNA as soon as possible.

BAN Ki-moon
Secretary-General
United Nations

José Manuel Barroso
President
European Commission

Angel Gurría
Secretary-General
Organisation for Economic Co-operation and Development

Dominique Strauss-Kahn
Managing Director
International Monetary Fund

Robert B. Zoellick
President
The World Bank Group

Best Practice #10 (2 of 2): Understand that 2008 SNA Provides Debt Rescheduling and Refinancing Rules Harmonized with IPSAS/IFRS

- 22.106(b): Debt rescheduling and refinancing will result in a debt burden reduction when the present value is lower.
- 22.109: Debt rescheduling (or refinancing) is an agreement to alter terms and condition for servicing existing or new debt on more favorable terms to debtor.
- 22.110 and 22.112: Under both arrangements, the debt instrument that is to be rescheduled is considered to be extinguished and replaced with new instrument and difference in value is a type of debt forgiveness.
- 22.113: The transaction is recorded at the value of the new debt.

IMF Resource Materials (1 of 2)

1. "Evaluation Report: The Role of the IMF as Trusted Advisor", Independent Evaluation Office of the IMF (2013).
2. "Factsheet: The Joint World Bank–IMF Debt Sustainability Framework for Low-Income Countries", IMF (7 Apr 2016).
3. "Fiscal Transparency, Accountability, and Risk", IMF (7 August 2012).
4. "Fiscal Transparency and the Performance of Government Financial Assets", IMF Working Paper (22 July 2015).
5. "The Fiscal Transparency Code", IMF (2014).
6. "Fiscal Transparency, Fiscal Performance and Credit Ratings", IMF Working Paper (June 2012).
7. "Government Finance Statistics Manual 2014", IMF (2014).
8. "Greece: An Update of the IMF Staff's Preliminary Public Debt Sustainability Analysis", IMF (July 2015).
9. "Greece: Preliminary Draft Debt Sustainability Analysis", IMF (26 June 2015).
10. "Iceland: Technical Assistance Report - IPSAS in Iceland - Towards Enhanced Fiscal Transparency", IMF (30 December 2014).

IMF Resource Materials (2 of 2)

11. “IMF Annual Report 2015: Tackling Challenges Together”, IMF (2015).
12. IMF Financial Statements for the financial years ended April 30, 2008 – 2015.
13. “Ireland: Fiscal Transparency Assessment”, IMF (16 July 2013).
14. “Portugal: Fiscal Transparency Evaluation”, IMF (6 October 2014).
15. “Report on the Civil Society (Fourth Pillar) Consultations with the IMF on Reform of IMF Governance”, New Rules for Global Finance Coalition (August 2010).
16. “Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries”, IMF and the World Bank (16 April 2007).
17. “Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries”, IMF (5 November 2013).
18. “Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries”, IMF (9 May 2013).
19. “Stock-Flow Adjustments, Government’s Integrated Balance Sheet and Fiscal Transparency”, IMF Working Paper (7 March 2013).
20. “System of National Accounts 2008” (2009).