INTERVIEW

"The government's miscalculation of fixed debt versus floating rate debt is prompting them to seek higher cost borrowing, which will take a bigger portion of taxpayer revenues."

Paul B. Kazarian

The founder, Chairman and CEO of Japonica Partners and Charles & Agnes Kazarian Foundations talking to 'N'

Debt Competitive Advantage of Greece

In the proposal to change the reporting of Greek government debt, Paul Kazarian stressed in an interview with "Naftemporiki" that the current value of debt as a percentage of GDP is not in the stratospheric levels mentioned, but only 41% net and 71% on a gross basis.

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Offering advice that will facilitate the government's return to the markets and will boost economic recovery. Mr. Kazarian's advice for the government: to appoint in key government positions competent professionals with knowledge and experience in finance and accounting.

Under EU accounting standards, what is the Greece government debt number when correctly calculated?

The EU accounting rules are ESA 2010. Debt is measured differently depending on the type of debt. In sum, almost all government debt throughout Europe is valued at market value; Greece government net debt as a percentage of GDP at year-end 2015 was 58% and gross debt was 88%. Specifically, government debt securities are measured at current "market value" (Section 7.67). Government "restructured debt is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions" (Section 20.236) and such debt operations (Section 20.221) are valued at "market value" at the time of transaction as if taken for purely commercial consideration (Sections 5.20-21). Section 20.236 is a very important section and appears to have been neglected in the government reported calculation. Other debt such as non-restructured loans is at nominal value (Section 7.70). To calculate net debt, which is debt less financial assets, most assets are valued at market values. The market value rules do not have a material impact other EZ government debt numbers, as they do not have restructured debt.

Do the EU treaties allow or require the Greek government to report the present value (today's value) of its debt?

EU treaties have several rules for measuring debt, including ESA 2010 (described above), Excessive Deficit Procedures, and the EDP semi-annual form. EDP requires debt to be reported at future face value with the well-known 60% of GDP ratio maximum; however, this maximum has long ago been passed by many nations and has effectively become political window dressing. EDP semi-annual form Table 4, Item 4 requires disclosure of a government present value of debt when different from future face value. This is an excellent opportunity for Greece to comply with the rules and tell the world the present value number; however, the government continues to refuse to provide a number in the space provided. The government apparently is aware of the importance of the present value of debt as a non-paper submitted to the EU working group calls the often reported future face value of Greece government debt a "misunderstanding" and attempts to calculate a very rough estimate of present value. See http://mostimportantreform.info/Varoufakis_Eurogroup_Letters_NonPaper_20150216.pdf for non-paper.

Who else in the EU and globally publish government financial statements using international accounting standards?

Financial statements are published by those governments in Europe most respected for their financial transparency and accountability. These governments realize they must win the trust and confidence of their citizens. Correctly calculated

under international accounting standards (public or private), Greece government net debt as a percentage of GDP at year-end 2015 was 41% and gross debt of 71%. European benchmarks governments include the UK, France, Switzerland, and Sweden. Others who have recently published or are in the process include: Austria, Portugal, Spain, Estonia, Lithuania, Latvia, and Malta. Smaller countries can use internationally compliant financial statements to level the playing field and compete against the most powerful nations in the world.

Let's say, that Greece is allowed to report its debt in the present value according to your proposal. How will this affect the on going negotiations with the other European countries and the IMF for the Greek debt relief?

To be clear, Greece is required to report the present value under both ESA 2010 and in the EDP form Table 4. Reporting the present value of debt is not an issue of being allowed, but rather a requirement to report the present value. The government has chosen for Byzantine political reasons not to report the present value of the debt or report the present value of the debt less financial assets (net debt), so as not to give credit to prior governments. As for the impact on so-called negotiations of upcoming debt relief, all should know that debt relief in 2016 is not a topic provided for in the Eurogroup official documents agreed by the Greek government (see http://mostimportantreform.info/Eurogroup_statement_on_Greece_20160525.pdf) but is a political fabrication within Greece with no basis in fact. The only items to be discussed in the short-term are smoothing the maturity curve and allowing Greece to pay more interest on its debt if it wishes to lock in interest rates longer than the ESM average of about seven years, which also is about the same as other EZ countries. Neither smoothing nor increasing Greece borrowing costs qualifies as debt relief. In fact, the government's incorrect calculation of the amount of fixed versus floating rate debt has prompted the government to seek higher borrowing cost that will take a bigger portion of taxpayer revenue. Greece floating rate debt is, when correctly calculated, only 17%, not the reported 69%.

When do you think it will be possible for Greece to borrow money directly from the markets?

Until the Greece government names at least one senior minister with internationally highly respected experience in turnaround management, finance, and accounting, any amounts required to be paid in the markets will be too high and yet another waste of taxpayer money. Paying anything over 3% for long-term debt is throwing hard-earned taxpayer money down the drain in the name of Byzantine political optics. In fact, the unnecessary and excessive interest paid on government T-bills is costing taxpayers about 300 million euros per year. This taxpayer money is being thrown down the drain.

Why do you say it is essential that the government have senior ministers with extensive experience in turnaround management, finance, and accounting?

It's totally essential for the government to have at least one senior minister with internationally highly respected experience in turnaround management, finance, and accounting. The government has tried at least seven times over the past two decades to implement financial statements including a balance sheet and has failed. Without transparency and accountability of government financials the government will not be able to win the trust and confidence of taxpayers. Furthermore, a professional senior minister can jump start the economy by: (1) helping stop the massive and ongoing loss of Greek government assets and help recover some of the €69 billion lost since 2014, (2) helping drive down borrowing costs in the public markets, (3) attracting new international investments, and, importantly, (4) publish a government balance sheet with correctly calculated net debt numbers.

How does the government improve its progress on transparency of government financials?

There is one massive obstacle to government financial transparency and accountability with financial statements, which is a refusal to hire an internationally respected and successful professional with experience in turnaround management, finance, and accounting. There will be only more destructive results from continuing to appoint individuals whose backgrounds are so absent of successful experience that the number of errant decisions and mistakes will grow larger by the day and continue to suffocate Greece. From a global perspective, you'll see the first step of a government seeking to emerge from an economic crisis is to appoint a world-class finance team. For example, both Argentina and Brazil are credited with building the best finance teams in the region, reducing government bond yields. Implementation is 95% of success. Legislation and theoretical solutions are not going to drive change. What will put Greece on the path to economic prosperity is appointing to senior minister positions the world's most experienced and highly regarded professionals. To date, there has not been a single appointment that the international community would say is among the world's most highly regarded. Some say the reason the government will not appoint a successful professional is because the person would bring extraordinary success and the public would then no longer accept unqualified political appointments.