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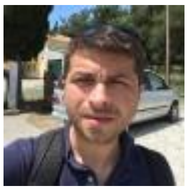
Paul Kazarian over Greece

US investor called debt "the lie of the century"

Greece's credit burden is too big - it has been reported for years. For US investor Paul Kazarian, this is a myth. The largest private creditor of Athens calls for new rules for the Greek debt balance.



From Giorgos Christides , Athens | December 2, 2016

It has been four years since Greece agreed with its creditors on the largest debt restructuring ever given to state debt. The euro partners are now about to grant the country new debt relief. Some may already be decided next Monday at the meeting of finance ministers.

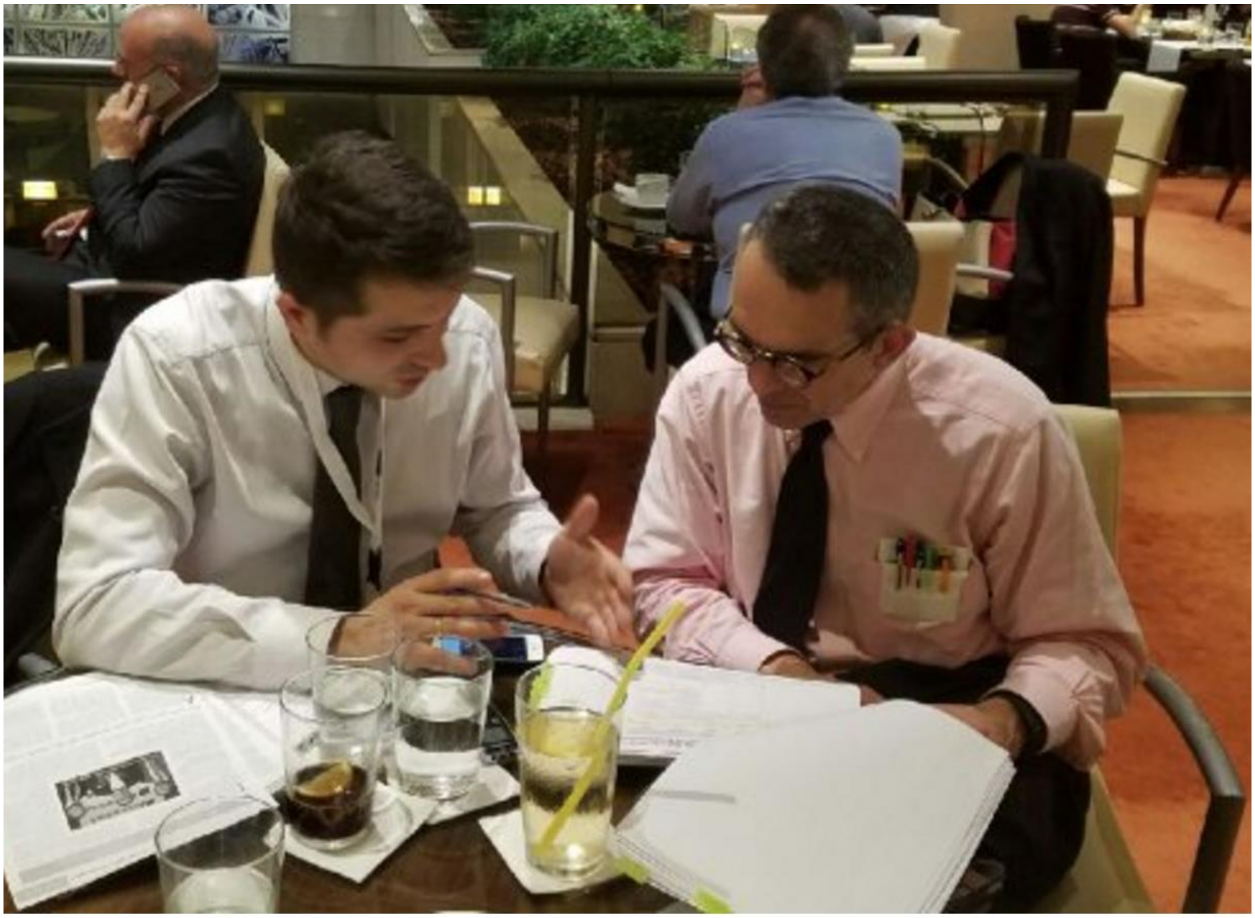
Only: Does Greece have a debt problem at all? Or is the proverbial debt burden "the biggest lie of the century," as Paul Kazarian says - a comfortable myth for the Greek elite, behind which she can hide her incompetence and her mismanagement?

Kazarian is the founder of the US investment company Japonica Partners, previously a banker with Goldman Sachs. The 61-year-old American is the largest private believer in Greece. In 2012, when all the Greek Ramshan bonds wanted to get rid of Japonica placed a purchase bid with a nominal value of three billion euros. Kazarian smelt a good deal - and has not regretted it so far: "This was the most profitable investment we've ever made."

According to Kazarian, Greece's debt, if correctly calculated, is not 177 percent of the economic output, but only 71 percent at most. What does correct calculation mean? According Kazarian should not exceed the **nominal value** to be the Greek debt the starting point - that the absolute level of around 312 billion euros (as of end of 2015).

Instead, the debt must after the **value** of the liabilities are calculated - and hence also the hidden decree to have given the euro partners Greece. They have not only significantly lowered interest rates. Greece can also repay its debts over a much longer period and has only to start ten years later than originally agreed. Inflation means a much lower burden.

The International Standard for Accounting for State Debt (IPSAS) also provides for the fair value. "The fair value is the foundation of the financial system," says Kazarian.



SPIEGEL ONLINE correspondent Christides, Investor Kazarian

That sounds very unintelligible. For the headlines are dominated by forecasts, according to which Greece's debt will soon reach 200 percent of the economic output. "We are convinced that Greece's debts are not viable," said Christine Lagarde, head of the International Monetary Fund (IMF), at the beginning of October.

However, the nominal value used by the media and politics is not useful in the case of Greece, argues Kazarian. "Every time the credit conditions are changed, the amount of debt is also changing," he says in the bar of an Athenian luxury hotel, where he held the opening speech at an economic conference organized by the Greek-American Chamber of Commerce.

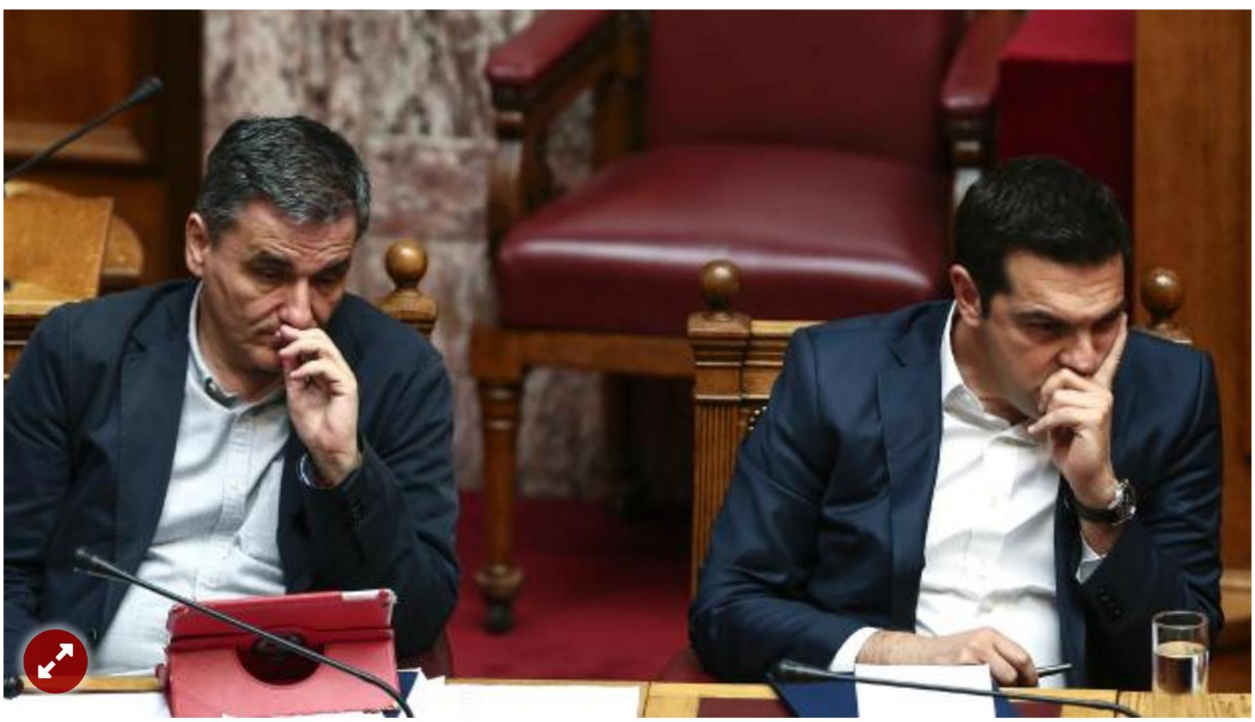
Kazarian, a narrow man with round glasses, has brought along a whole lot of documents and tables. They support his mission to convince the public that Greece no longer has a debt problem. A mission, which he also serves as a special adviser to a working group of the Center for European Policy Studies (Ceps), a Brussels think tank, dealing with the bookkeeping of the EU member states.

The discussion is less abstract and theoretical than it seems: If the debt of a country is considered unsustainable, this can become a self-fulfilling prophecy. The credit rating of the country is worsening as a result of which loans and thus urgently needed capital are becoming more expensive for the private sector - which is what foreign investors sell.

In addition, Greece is forced to demand more financial aid from the eurozone countries. However, they only give new loans under the condition of high budget surpluses and thus force the government to harsh austerity programs as well as unpopular and often controversial structural reforms. Last but not least, a high debt level leads to considerably higher interest-rate spreads for new loans once Greece returns to the capital markets.

But if the debt burden is in fact much lower - why does not the Greek government itself indicate loudly? "For the same reason why Greece has shown its debt levels too low before the crisis," says Kazarian. "At the time, the eurozone was able to take out loans at a favorable rate. Today, the exaggerated figures serve the demands on euro partners for more money and solidarity."

In addition, the exorbitant debt problem disturbs voters from the need for genuine, effective reforms, Kazarian says. Even if Greece were to issue the debt completely, the real problem would remain: too little transparency, poor regulation and a lack of professionalism. "People do not have confidence in the leadership," Kazarian notes. "Would you trust Treasury Secretary Tsakalotos or Stournaras banker to save your savings?"



azarian is by no means the only one who regards the official figures on the Greek debt burden as too high. So **it says in an analysis of the July 2015** , at which the former economy Beatrice Weder di Mauro was involved, the net present value of Greek debt amounts to only 93 percent of GNP.

In an **analysis for the Brookings Institution** , a US think tank, the same authors show surprised the assumption that both the public discussion and the negotiation of the Euro Partners Always refer to the 200-percent mark. Both the IMF and the euro rescue umbrella ESM "do not take into account the effective debt cut which has already been granted".

The **CDU Economic Council wrote in February 2015** to the Union faction in the Bundestag: "The decisive factor is not the face value of a loan, but the current value." The Greek debt burden was much lower than expected. "This" competitive advantage "is concealed."

Even the IMF picks up on this line - albeit as a latecomer. In their report on the debt sustainability of Greece in May 2016, the IMF experts note that the terms of credit initially agreed in 2012 are no longer "important" to determine debt sustainability. Lastly, the eurozone countries have been providing long-term payment deferrals and interest-rate cuts.

According to Kazarian, Greece should first identify its public finances according to internationally accepted rules - such as the IPSAS standard. Then it would be obvious that Greece's debt burden was much lower than that of other countries. It would also increase transparency and promote efficient management.

Kazarian, however, has little hope that it will come to this: "The whole narrative, the debts are intolerable and abominable, would not be tenable any more, but the government needs the guilt, which serves as an excuse for every problem."