The Most Important Economic Reform for Greece is Transparent Accounting

Stakeholder Briefing Materials

May 2015

Working Draft v.3.0

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. And, the starting point for transparency and accountability in Greece is accurate government financial information obtained through **international public sector accounting standards and audits**.

Ask 5 Reform Questions

#1. Was 2013 Greece **net debt** under international accounting standards 18% of GDP and approximately 1/4 of EU post-programme countries?

#2. Is 2015 Greece **cash interest expense** approximately 2.8% of revenue and 1/4 of EU post-programme countries?

#3. Would accurate accounting reveal Greece government **primary balance deficits** of 6.5% in 2014 and 15.3% in the first quarter of 2015?

#4. Is the **opportunity cost** of misguided financial management by the Greece government €35 billion to €45+ billion since 2012?

#5. Does Greece receive approximately €7 billion per year in EU annual funds and has Greece **avoided net debt** of over €160 billion by receiving “free” EU annual funds since 1996?

Briefing Materials Organization

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SHORT ANSWERS

Ask Reform Question #1

Was 2013 Greece **net debt** under international accounting standards 18% of GDP and approximately 1/4 of EU post-programme countries?

Net Debt to GDP Using International Accounting Standards was 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 Reform Question #2

Is 2015 Greece **cash interest expense** approximately 2.8% of revenue and 1/4 of EU post-programme countries?

Greece Cash Interest is Approximately 1/4 of Peers

(€, Billions; 2015, except Debt)

		Greece	Peer Average	Post-Programme Countries: Ireland	Spain	Portugal	Italy
1.	Revenue	€ 81		€ 67	€ 408	€ 79	€ 778
2.	Interest Expense	€ 7.5		€ 7.0	€ 33.9	€ 8.8	€ 70.0
3.	Interest Expense % of Revenue	**9.3%**	**9.7%**	10.5%	8.3%	11.2%	9.0%

4.	EFSF Non-Cash Interest	€ 1.4
5.	ANFA/SMP Rebates	€ 3.9

		Greece	Peer Average	Ireland	Spain	Portugal	Italy
6.	Cash Interest Payments	€ 2.2		€ 7.0	€ 33.9	€ 8.8	€ 70.0
7.	**Cash Interest Payments % of Revenue**	**2.8%**	**9.7%**	10.5%	8.3%	11.2%	9.0%

		Greece	Peer Average	Ireland	Spain	Portugal	Italy
8.	Cash Interest Payments % of Debt (2014)	**0.7%**	**3.5%**	3.4%	3.3%	3.9%	3.3%

Potential Better Financial Asset Management

9.	Other Interest Income on Fin. Assets	TBD

10.	Cash Net Interest Expense	TBD

Note: AMECO 2015 data except Debt, 2014.

Ask Reform Question #3

Would accurate accounting reveal Greece government **primary balance deficits** of 6.5% in 2014 and 15.3% in the first quarter of 2015?

Greece 2014 Primary Balance Massive Shortfall

(Euros, Millions; Year-end 2014 except 2015 Estimated)

Greece Budget and AMECO at year end had projected a primary balance for 2014 of 2.9% and 2.7% of GDP respectively. However, ELSTAT reported on 15 April 2015 a Primary Balance including ANFA/SMP rebates of 0.3% of GDP, which is a Primary Balance excluding ANFA/SMP Rebates as a percent of GDP of almost zero. Primary Balance less ANFA/SMP Rebates and the estimated 2014 HFSF loss amounts to a negative 5.5% of GDP. Adjusting this number further to exclude estimated 2014 EU In-Budget Net Receipts, Greece Primary Balance would be a negative 6.5% of GDP. IMF and EC 2014 projections were in line with the Budget and AMECO and show a primary balance of approximately 1.5% of GDP excluding ANFA/SMP rebates.

S/N		ELSTAT Fiscal data Press Release (15 Apr 2015)	Percent of GDP	Greece 2015 Budget (21 Nov 2014)	General Government Monthly Data Bulletin Dec 2014 (27 Jan 2015)	EC AMECO Database (Accessed 30 Dec 2014)	EC AMECO Database (Accessed 19 Apr 2015)	EC AMECO Database (Accessed 14 May 2015)	EC SEAP Fourth Review (April 2014)	IMF Greece Fifth Review (June 2014)
1.	**Primary Balance (Incl. ANFA/SMP)**	**€ 630**	**0.3%**	**€ 5,300**	**€ 2,179**	**€ 4,900**	**€ 3,100**	**€ 600**	NA	NA
2.	**ANFA/SMP Rebates**	€ 580	0.3%	€ 2,000	€ 580	NA	NA	NA	€ 2,500	€ 2,500
3.	**Primary Balance (Excl. ANFA/SMP)**	€ 50	0.03%	€ 3,300	€ 1,599	NA	NA	NA	**€ 2,800**	**€ 2,700**
4.	**As Reported Includes ANFA/SMP**	Yes		Yes	Yes	Yes	Yes	Yes	No	No
5.	Primary Balance (Incl. ANFA/SMP) as % of GDP			**2.9%**	**1.2%**	**2.7%**	**1.7%**	**0.3%**	NA	NA
6.	Primary Balance (Excl. ANFA/SMP) as % of GDP			NA	0.9%	NA	NA	NA	**1.6%**	**1.5%**

7.	**HFSF Loss Estimate**	-€ 9,917	-5.5%
8.	**Primary Balance less ANFA/SMP Rebates and HFSF Loss Estimate**	-€ 9,867	**-5.5%**
9.	**EU Net Receipts to Greece Estimate**	€ 4,500	2.5%
10.	**EU Not-In-Budget Net Receipts to Greece Estimate**	€ 2,600	1.4%
11.	**EU In-Budget Net Receipts to Greece Estimate**	€ 1,900	1.1%
12.	**Hidden State Aid to Banks via Tax Credits**	TBD	TBD
13.	**Primary Balance less Rebates, HFSF Loss, and EU In-Budget Net Receipts Estimate**	-€ 11,767	**-6.5%**
14.	**EU In-Budget Net Receipts and ANFA/SMP Rebates**	€ 2,480	1.4%
15.	GDP Estimate (AMECO)	€ 180,200	

SN	2015 Estimated	Amount	Percent of GDP
1.	ANFA/SMP 2014 Carryover	€ 1,920	1.0%
2.	ANFA/SMP 2015	€ 2,000	1.1%
3.	EU Net Receipts to Greece	€ 5,000	2.7%
4.	EU Not-In-Budget Net Receipts	€ 2,600	1.4%
5.	EU In-Budget Net Receipts	€ 2,400	1.3%
6.	Total	€ 6,320	3.4%
7.	GDP (AMECO)	€ 184,300	

Greece General Government Primary Balance: Q1 2015 (1 of 3)

S/N		Amount		% of Q1 GDP	% of Q1 Revenue
		As of 31 March 2015			
1.	State Budget Primary Surplus	€ 1,735	*(a)*	3.9%	10.2%
2.	Non-State Primary Balance	€ 549	*(b)*	1.2%	3.2%
3.	General Government Primary Balance	€ 1,186	*(c)*	2.7%	7.0%
	IPSAS/IFRS Adjustments: Substance over form adjustments to correct fiscal illusion cash basis accounting				
4.	Rearrangement of Cash Payments	(€ 1,181)	*(d)*	-2.7%	-7.0%
5.	Military Procurement (On a Cash Basis)	(€ 130)	*(e)*	-0.3%	-0.8%
6.	ANFA & SMP	(€ 291)	*(f)*	-0.7%	-1.7%
7.	Transfer of 2012 HFSF Fee Revenue	(€ 556)	*(g)*	-1.2%	-3.3%
8.	Bank Obligation Absorption	(€ 273)	*(h)*	-0.6%	-1.6%
9.	HFSF Loss Estimate	(€ 5,058)	*(i)*	-11.4%	-29.8%
10.	Losses on Non-Bank Level 1 Financial Assets	(TBD)	*(j)*		
11.	Costs Associated with Stimulation of Receivable Payments	(TBD)	*(k)*		
12.	Costs Associated with Increasing Arrears	(TBD)	*(l)*		
13.	Deferred Spending (facilitated by absence of depreciation)	(TBD)	*(m)*		
14.	Government Pension Modification Related Costs	(TBD)	*(n)*		
15.	Delayed Expense Submissions from Vendors to Government	(TBD)	*(o)*		
16.	EU Funds Flow Quarterly Mismatches	(TBD)	*(p)*		
17.	Bank Deferred Tax Asset to Deferred Tax Credit Scheme	(TBD)	*(q)*		
18.	**Primary Surplus – Adjusted**	**(€ 6,303)**		**-14.2%**	**-37.2%**
19.	EU In-Budget Net Receipts Estimate	(€ 500)	*(r)*	-1.1%	-3.0%
20.	**Primary Surplus – Adjusted less EU Net Receipts**	**(€ 6,803)**		**-15.3%**	**-40.2%**
21.	GDP Q1 2015	€ 44,549	*(s)*		
22.	GDP Q1 2014	€ 45,035	*(s)*		
23.	General Government Revenue Q1 2015	€ 16,945	*(c)*		
24.	General Government Primary Balance Q1 2014	€ 2,454	*(c)*	5.4%	

Greece General Government Primary Balance: Q1 2015 (2 of 3)

Notes:

(a) Hellenic Republic State Budget Execution Bulletin, March 2015.

(b) Difference between State Budget Primary Balance and General Government Primary Balance.

(c) Hellenic Republic General Government Monthly Data Bulletin, March 2015.

(d) According to the Hellenic Republic Ministry of Finance website State Budget Execution for January - March 2015 page, "the lower expenditures [March] are mainly due to the rearrangement of the cash payments projection, according to the prevailing conditions. It is estimated that after the stabilization of the conditions, expenditure will revert to the levels of budget targets."

(e) Hellenic Republic State Budget Execution Bulletin, March 2015. Assumes cash payment of estimated Military Procurement given public disclosure of military procurement contracts and stated desire to minimize cash payments as stated in note (c).

(f) Hellenic Republic State Budget Execution Bulletin, March 2015.

(g) Transfer of fee income booked in 2012 as reported in HFSF 2014 Annual Report; see Note 26 (d.).

(h) Piraeus Bank Press Release, 17 April 2015. €273 million difference between €645 million of liabilities and €372 million of assets of Panellinia Bank (transferred to Piraeus Bank as part of acquisition) that was covered by the Hellenic Deposit and Investment Guarantee Fund. Assumes this gap was not previously reserved.

(i) Calculated from the HFSF's losses on Alpha Bank, Eurobank, NBG and Piraeus Bank from 31 Dec 2014 to 31 Mar 2015 using HFSF and Bloomberg data.

Greece General Government Primary Balance: Q1 2015 (2 of 3)

Notes (Con't):

(j) Non-Bank Level 1 Financial Assets include Greece government financial assets reported by Eurostat, ECB, and the IMF.
(k) Stimulation of arrears noted in Parliamentary Budget Office Q1 2015 Report. Unable to determine impact as not disclosed in report and there is no balance sheet, integrated financial statements, or audits.
(l) Costs associated with increasing arrears as described in Hellenic Republic Ministry of Finance website State Budget Execution for January - March 2015 page (see note (b)) and Parliamentary Budget Office Q1 2015 Report.
(m) Deferred spending on capital projects would be in part captured by depreciation, which is not calculated on a cash basis.
(n) Modifications in government pension plans or other additions unaccounted for on cash basis.
(o) Delayed spending submissions not calculated on a cash basis.
(p) Intentional EU quarterly funds mismatching to create fiscal illusion.
(q) Conversion of bank DTA to DTC legislated in 2014 not calculated on a cash basis.
(r) Calculated based on estimated 2014 full year EU In-Budget Net Receipts of €1.9 billion.
(s) Seasonally adjusted quarterly GDP data from ELSTAT 13 May 2015 Press Release; 2015 "flash estimate".

Ask Reform Question #4

Does Greece receive approximately €7 billion per year in EU annual funds and has Greece **avoided net debt** of over €160 billion by receiving “free” EU annual funds since 1996?

Greece Receives Approximately €7 Billion Per Year in EU Annual Funds

SN	EU Annual Funds Source	Average EU Annual Funds
1	“Free” EU Annual Funds	€ 5.4 billion
2	EIB Concessionary Loans	€ 1.5 billion
3	Total	€ 6.9 billion

Note: SN1: 2011–2015e average based on ECB and EU Budget data. SN2: EIB 2013-2014 average.

€160+ Billion in Greece Debt Avoided by "Free" EU Annual Funds

(Euros, Billions)

SN	Period	**"Free" EU Annual Funds** (a) *(Period Average)*	**10 Year Borrowing Cost** (b) *(Period Average)*	**Cumulative Debt Avoided**
1	1996-2000	€ 3.6	7%	€ 22.2
2	2001-2005	€ 3.3	*5%*	€ 46.1
3	2006-2010	€ 3.9	*6%*	€ 83.9
4	2011-2015	€ 4.4	*10%*	€ 162.2

Given data limitations, Debt Avoided does not include the EU Budget's larger "Free" EU Annual Funds number which, over the most recent five years for which data is available, would add an additional approximately €1.0 billion per year, and does not include the concessionary benefits on approximately €1.5 billion per year of EIB loans.

Notes:
(a) 1996-2012 ECB. 2013-2015 estimates ECB, EU Budget data, and EC announcement (20 Mar 2015).
(b) Bloomberg data.

Ask Reform Question #5

Is the **opportunity cost** of misguided financial management by the Greece government €35 billion to €45+ billion since 2012?

€35 to €45+ Billion in Opportunity Costs from Not Using International Accounting Standards Since 2012 OSI/PSI

- Government Financial Assets: Equity and fixed income losses.
- Debt Buyback: Unwise debt buybacks based on flawed accounting contributed to liquidity crisis.
- Bank Forced GGB Sale: Destruction of bank equity as financial assets on forced sale of GGBs.
- Revenue Loss: Inaccurate debt data depressed economy.
- Borrowing Costs: Inaccurate debt data increased borrowing costs.
- Repos: Forced intra-government repo funding.
- Swaps: Reduced bank collateral through forced GGB swaps.
- Timing Games: Tax installments, arrears, IRRs schemes.

BACKGROUND

Proof that Government Management Accounting Reform is the Most Important Reform in Greece is Unquestionably Confirmed by Asking Five Reform Questions

www.MostImportantReform.info

Greece Management Challenge

- Absence of government transparency and accountability.
- Absence of a culture of government management, accounting, or auditing.
- Government has approximately €80 billion annual spending.
- Government is often said to account for approximately half of Greece GDP.
- As of YE 2013, had €32 billion in net debt on €319 billion face value of mostly concessionary and restructured debt.
- As of YE 2013, has approximately €90 billion in financial assets.
- Estimated 650,000 government related employees.

Accounting Failed Attempts History

Greece has had six (and one pending) failed attempts at implementing government accrual accounting

***1st: 1992 – Greek Ministry of Economy pushes for accrual accounting**

2003 – Public hospitals in Greece to implement accrual accounting

***2nd: 2005 – Greece law passed for public entities to use IAS (IFRS)**

2006 – SEV publicly supports adoption of IPSAS

2008 – EC recommends, unofficially, that Greece implement IPSAS

***3rd: 2009 (March) – Greece self-reports to OECD that it has full accrual based financial statements**

2009 – Greece big four accounting firms plus locals form IPSAS committee

2010 – IPSAS Greece government training of low level employees started (not Minister or MP level)

2011 – IPSAS Greece government training stopped prior to certification exams

***4th: 2011/12 – IPSAS Greece projects started**

2012 (April) – IPSAS conference in Athens

2013 – IPSAS Greece projects stopped with expiration of funds

2014 (June) – Public tender for computer accrual accounting systems pending

***5th: 2014 (December) – Finance Ministry tells parliament member that government will adopt IPSAS "next year"**

***6th: 2015 (February) - New government advisor claims government will embrace IPSAS "within two weeks"**

***7th [Pending]: 2015 (14 May): Finance Ministry publicly announces plan to adopt IPSAS**

Greece 2015 IPSAS Adoption Plan

In a 14 May 2015 public speech, Deputy Finance Minister Dimitris Mardas announces plan to adopt IPSAS:

Key Elements:

- Speech title notes “tackling Greek Debt” with international accounting standards.
- IPSAS is a “major step forward and progress in financial accounting, enhancing the transparency and accountability of public finances…”
- IPSAS will provide a “correct representation of the financial position”
- Primary impact on valuation of debt.
- Debt recorded in present value terms using market rate rather than nominal.
- Benefits including reduced borrowing and operating costs and increased employment.

Key Challenges:

- Shows common misunderstanding of measuring debt under Maastricht , statistics guidelines, and IPSAS.
- No timeframe for implementation, 100 day plan, or immediate use for financial decision-making.
- Formation of committees without successful implementers or transparency.
- May attempt to customize new accounting framework rather than follow IPSAS standards.

Countless Headline Reforms But Not Transparency or Accountability

Approaching 1,000 reform recommendations since May 2010 OSI, but no government accounting or auditing reforms

- IMF and EC reforms in Memorandums for Economic and Financial Policies (MEFPs): May 2010, March 2012, and March 2012
- EC Task Force for Reforms
- Hellenic National Reform Programs: 2011 to 2014 and 2012 to 2015
- OECD reform recommendations
- IOBE, Greece think tank, reform recommendations
- SEV, Greece largest business group, 250 reform recommendations
- Bain reform recommendations
- McKinsey reform recommendations

From IMF (12 June 2014): NESAS – Athens

Marco Cangiano, Assistant Director of the IMF Fiscal Affairs Department and co-editor of *Public Financial Management and its Emerging Architecture*.

“Many countries—not only Greece—were caught by surprise during the crisis because of the poor quality of their fiscal reporting systems. **It would therefore be a welcome development if the Greek government decided to move toward developing an accruals-based reporting** framework in the context of their public financial management reform agenda.

Pending the development of European accounting standards, such a decision would have to **be initially anchored to the existing International Public Sector Accounting Standards (IPSAS),** suitably adapted to the Greek context, and implemented on the basis of a realistic timeframe and the need to develop the appropriate skills.”

Recent “Alarmist” Comments on Greece Debt

1.	*Hellenic Republic Prime Minister*	The size of the debt is “unbearable” and it simply cannot be repaid. We will seek…to erase the largest part of the (national) debt. (Telegraph, 23 Jan 2015)
2.	*Hellenic Republic Finance Minister*	Greece debt is not sustainable and must be “redesigned”. (Bloomberg, 14 May 2015)
3.	*Hellenic Parliament PBO*	The foregoing facts do not negate the <u>necessity for debt restructuring</u> and suggest that this discussion should be revived… (Hellenic Parliament, Parliamentary Budget Office, Executive Summary, Apr 2015)
4.	*Greece Committee on the Truth about the Debt*	If after a detailed analysis it arises that a part of the debt - of significant size - demanded of Greece is irregular, <u>illegal or odious and unbearable</u>, this will give the Greek authorities arguments in the framework of the negotiation. It will also provide arguments to the Greek population, in order to think about what it must do, independently of the elections. (ANA Interview, 7 May 2015)
5.	*New York Times*	Economists say Greece’s <u>titanic debt</u> will blight its economy’s future. (NYT, 12 May 2015)

Recent Comments Touting Greece Primary Balance

Government:

- "In view of the progress achieved so far in terms of reaching primary surpluses and meeting the various conditions incorporated in the adjustment program, further debt relief should be provided to Greece." (Bank of Greece, 25 Mar 2015)
- "In the four months that our government has been in office, the primary surplus has reached €2,164 million compared to a primary surplus of €1,046 million for the same period in 2014, and in contrast to a primary deficit forecast of €287 million." (Greece Prime Minister, 16 May 2015)
- "We shall endeavor to come to reforms along the lines that I mentioned on privatization and pensions and, and at the same time to make a commitment that is cast in stone, iron, even, you know, penned in our own blood, in order to increase capability that we shall never slip again into primary deficit." (Greece Finance Minister, 16 Apr 2015)

On the 2014 Primary Balance:

- "And while Greece beat its budget targets in the first quarter with increased revenue and reduced spending, analysts said that a primary surplus last year of nearly €3 billion may have turned into a deficit." (*New York Times,* 12 May 2015)
- "The forecast of a rising Greek deficit after achieving a 1.7 per cent surplus last year — and overly optimistic projections of similar surpluses into the future — would also increase the size of a third Greek bailout." (*FT*, 4 May 2015)

On the Q1 2015 Primary Balance:

- "Big improvement in the Greek primary budget" (Bruegel, 17 Apr 2015)
- "That has produced a primary surplus of €1.7bn, which is €1.6bn ahead of expectations. And that's all cash the government can use to keep itself running while it's trying to hammer out a deal to get the final €7.2bn remaining it its current bailout." (FT, 6 May 2015)

EXTENDED ANSWERS

Ask Reform Question #1

Was 2013 Greece **net debt** under international accounting standards 18% of GDP and approximately 1/4 of EU post-programme countries?

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

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."

Debt Measurement International Frameworks are Similar

International Accounting Standards: Both IFRS and IPSAS are virtually identical in measuring debt.

International Statistics Systems*: 2008 SNA and ESA 2010, are mostly harmonized and similar in principle to accounting.

Maastricht: Its face value is direct violation with accounting standards and statistics systems.

** IMF GFSM 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: Summary

S/N	Debt Principle	International Accounting (IPSAS and IFRS)	International Statistics* (ESA and SNA)	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 GFSM 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.
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. Statistics 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 (2nd/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 specifically uses the IPSAS/IFRS term “arm’s length” as a part of market valuation.
8. Ongoing Market Price Changes: Unlike IPSAS/IFRS, statistics systems revalue debt that is traded at the date of each balance sheet.

** IMF GFSM 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.

Overview of Greece Government Debt (1 of 2)

(Euros, Billions; as of 31 December 2013)

	Maastricht	IPSAS/IFRS
Concessionary Loans	€ 212	€ 60
Rescheduled Securities	63	20
Non-Revalued Debt	44	44
Gross Debt	€ 319	€ 124
Financial Assets	NA	91
Net Debt	NA	€ 33
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/prevailing 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)

SN	Type of Debt/Asset	Maastricht Debt (Face Value) 31 Dec 2013	IPSAS Adjustments (Includes Accretion): OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012	Total Adjustments	IPSAS Net Debt (Fair Value) 31 Dec 2013	SN
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							€ 34	8.
9.	Other Financial Assets							€ 57	9.
10.	Total Financial Assets							€ 91	10.
11.	Net Debt							€ 33	11.
12.	Net Debt/GDP							18%	12.

Concessionary Terms and Modifications: Highlights

OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012
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.
		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

OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012
~400 bps below market YTMs.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.

	OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012
Maastricht Debt - Cumulative Face Value Adjusted	€ 71	€ 71	€ 275	€ 275

Note: Simplification for presentation purposes.

Debt Relief of €340 Billion Granted to Greece: 2010-2013

	Creditor Funds Provided	Value of Creditor Funds Post Debt Relief	Debt Relief
Private Investors	€199 billion	€50 billion	-€149 billion
Official Investors	€243 billion	€52 billion	-€191 billion
Total	€442 billion	€102 billion	**-€340 billion**
% of GDP			**189%**

Debt Ranking Comparison of Select Eurozone Countries[1]: Maastricht vs. IPSAS/IFRS

(As of 31 December 2013)

Maastricht Treaty (Legal)
Gross Debt as % of GDP[2]

Rank	Country	Debt as % of GDP
1.	Slovakia	55%
2.	Slovenia	72%
3.	Netherlands	74%
4.	Austria	75%
5.	Germany	78%
6.	France	93%
7.	Spain	94%
8.	Belgium	101%
9.	Ireland	124%
10.	Portugal	129%
11.	Italy	133%
12.	Greece	175%

IPSAS/IFRS
Net Debt as % of GDP[2]

Rank	Country	Net Debt as % of GDP
1.	Slovenia	17%
2.	Greece	18%
3.	Slovakia	28%
4.	Netherlands	42%
5.	Austria	42%
6.	Germany	46%
7.	Spain	63%
8.	France	65%
9.	Portugal	70%
10.	Ireland	76%
11.	Belgium	84%
12.	Italy	112%

Notes:
1. OECD Eurozone countries with debt in excess of financial assets.
2. Source: EC AMECO Online and Eurostat databases. Net Debt calculated as Maastricht debt, adjusted according to IPSAS/IFRS where required for any concessionary loans or rescheduled securities, less all financial assets (ex. receivables). IPSAS/IFRS debt adjustments include Greece, Ireland, Portugal, and Spain data. Extensive granular analysis on Greece.

Five Opportunities For Greece Government to Show Real Debt Number, But They Have Not

#1. IPSAS 29 Financial Instruments: At fair value.

#2. IFRS 39 Financial Instruments: At fair value.

#3. ESA 2010: §1.94-95 at exchange value. §20.236, 20.241-242 and EDP table #4 (item #4) at present value.

#4. 2008 SNA: §3.156-157(a) at fair value. §22.106-113 and 22.123-124 at present value

#5. GFS: §7.246 at present value.

Greece Government Did Not Disclose Present Value of Debt as Requested by the EC in EDP Table #4, Item #4

In case of substantial differences between the face value and the present value of government debt, please provide information on: (i) the extent of these differences; (ii) the reasons for these differences.

The answers provided for Greece in the table below are qualitative not quantitative: (i) “Market value of securities much lower than nominal value.” (ii) “Economic crisis”

4	**In case of substantial differences between the face value and the present value of government debt, please provide information on**	
	i) the extent of these differences:	Market value of securities much lower than nominal value
	ii) the reasons for these differences:	Economic crisis

Three Streams of Debt Cash Flow: IPSAS/IFRS vs. Maastricht Comparison

(Euros, Billions)

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

	IPSAS/IFRS		Maastricht	
40-year Bullet Debt	7% “At-Market” Coupon	1% Coupon with Market at 7%	7% “At-Market” Coupon	1% Coupon with Market at 7%
Interest	€187	€27	NA	NA
Interest-on-Interest	€746	€106	NA	NA
Principal (Face)	€67	€67	€1,000	€1,000
Initial Recognition Value	€1,000	€200	€1,000	€1,000
Valuation	Present value of discounted future cash flows		Face value	

Comparing the Future Impact of Concessionary/Rescheduled Liabilities on Net Debt

(40-year bonds with 7% market rates.)

Day one values: IPSAS/IFRS is a present value based on discounted future cash flows. Maastricht measurement is face value.

		IPSAS/IFRS						Maastricht			GDP
		7% Coupon			1% Coupon			1% Coupon			*CAGR:*
		Impact	% Change	Debt/GDP	Impact	% Change	Debt/GDP	Impact	% Change	Debt/GDP	*2%*
1.	Day One	100	-	100%	20	-	20%	100	-	100%	100
2.	Year 10	197	97%	161%	39	97%	32%	114	14%	93%	122
3.	Year 20	387	287%	260%	77	287%	52%	141	41%	95%	149
4.	Year 30	761	661%	420%	152	661%	84%	194	94%	107%	181
5.	Year 40 (Maturity)	1497	1397%	678%	300	1397%	136%	300	200%	136%	221
6.	CAGR	7%			7%			3%			
							Ratio of Debt/GDP *(1% IPSAS/IFRS to 7% IPSAS/IFRS)*			**Ratio of Debt/GDP** *(1% Maastricht to 7% IPSAS/IFRS)*	
7.							20%			100%	
8.							20%			58%	
9.							20%			36%	
10.							20%			26%	
11.							20%			20%	

Note: Assumes government is running a fiscal deficit and must borrow to pay interest. Maastricht CAGR varies among interim periods.

Greece Had €91 Billion in Financial Assets as of 2013 Year-End

Sources include the IMF, Eurostat, and ECB.

Currency & Deposits	€ 21.6 billion
Security Other Than Shares	€ 12.2 billion
Loans	€ 0.8 billion
Shares & Other Equity	€ 55.9 billion
Total Financial Assets	**€ 90.7 billion**

Sources:

1. IMF, Greece Fifth Review Under the Extended Arrangement Under the Extended Fund Facility, June 2014, page 51.
2. Eurostat, Financial Balance Sheets [nasa_f_bs] (accessed 31 May 2014).
3. ECB Statistical Warehouse (accessed 17 March 2015).

Change in Net Debt 2013 to 2014e: Greece vs. EU Post-Programme Countries

(Early Estimates)

	Greece	Ireland	Spain	Portugal
1. Net Debt as % of GDP (2013)	18%	71%	62%	68%
2. Financial Assets Delta	17%	-5%	-2%	3%
3. Cash Deficit	2%	4%	6%	5%
4. Debt Accretion	4%	0.4%	0.1%	1%
5. GDP Delta	1%	-5%	-1%	-2%
6. Net Debt as % of GDP (2014)	42%	65%	65%	75%

Note: Financial Assets data from Eurostat, Financial Balance sheets. Greece Cash Deficit number from Greece Ministry of Finance General Government Debt Bulletin (Dec 2014); peers from EC AMECO database.

Ask Reform Question #2

Is 2015 Greece **cash interest expense** approximately 2.8% of revenue and 1/4 of EU post-programme countries?

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	3.4%	3.4%
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%	**0.7%**

Greece €5 to €15+ billion in Annual Interest Cost Benefits

- Greece is currently rated in the CCCs by all three major rating agencies.
- Greece cash interest payments as a % of revenue for 2015 are 1/4 of EU post-programme countries.
- Greece cash interest payments as a % of debt are currently less than 1%.
- Greece short-term borrowing costs are over 20% and long-term borrowing costs over 10%.

Ask Reform Question #3

Would accurate accounting reveal Greece government **primary balance deficits** of 6.5% in 2014 and 15.3% in the first quarter of 2015?

Greece Primary Balance Table: 2014

(€, Millions)

S/N		Q1	H1	9M	FY	
	General Government ESA 2010					
1.	**Outcome:**	(€ 529)	€ 893	€ 2,156	€ 630	*(a)*
2.	**Target:**	N/A	N/A	N/A	€ 5,300	*(b)*
3.	**Outcome vs. Target:**	N/A	N/A	N/A	(€ 4,670)	
	General Government Bulletin					*(c)*
2.	**Outcome:**	€ 2,500	€ 1,797	€ 3,144	€ 2,179	
3.	**Target (Unconsolidated):**	N/A	N/A	N/A	€ 5,402	*(d)*
4.	**Outcome vs. Target:**	N/A	N/A	N/A	(€ 3,223)	
	State Bulletin					*(e)*
5.	**Outcome:**	€ 1,566	€ 707	€ 2,532	€ 1,872	
6.	**Target:**	€ 878	(€ 635)	€ 1,551	€ 4,939	
7.	**Outcome vs. Target:**	€ 687	€ 1,343	€ 981	(€ 3,067)	

Notes:

(a) Source: ELSTAT Press Releases.

(b) Source: Greece 2015 Budget (21 Nov 2014).

(c) Source: Hellenic Republic Ministry of Finance, General Government Monthly Data Bulletins.

(d) A consolidated target for General Government was not provided; thus, an unconsolidated target for General Government was calculated for the FY 2014 by adding the Budget 2014 Surplus/Deficit and interest paid for the individual sub-sectors (State, Extrabudgetary central, Local, and Social Security funds). If no estimate for the interest paid was provided by Budget 2014, then the interest paid from the Outcome was taken for the calculation.

(e) Source: Hellenic Republic Ministry of Finance, State Budget Execution Bulletins.

Greece Primary Balance: 2008 - 2015 Q1

Primary Balance as % of GDP:

	2008	2009	2010	2011	2012	2013	2014	Q1 2015
ESA	-4.8%	-10.5%	-5.1%	-3.0%	-3.7%	-8.3%	0.4%	
ESA with International Accounting Adjustments							-5.5%	-14.1%
ESA Fully Adjusted							-6.5%	-15.3%

	2008	2009	2010	2011	2012	2013	2014	2008 - 2014 % Change
Primary Expenditures	106,319	112,694	101,447	97,145	90,584	83,171	81,385	-23%
% of GDP	46%	49%	46%	47%	47%	46%	45%	

Notes: Latest available ELSTAT financial data. International Accounting standards exclude ANFA/SMP rebates and include change in value of equity in publicly traded financial institutions. Primary Expenditures excludes impact of support to financial institutions.

Greece Baseline and Revised Projections to 2017e: Summary

(Euros, Billions)

SN		2013	2014e	2015e	2016e	2017e
1.	Primary Balance % of GDP – Baseline (w/o Rebates)	-0.7%	1.3%	3.0%	4.5%	4.6%
2.	Primary Balance % of GDP – Revised to Highest of EU Post-Programme Countries	NA	NA	1.6%	2.0%	3.2%
3.	Cumulative New Funds Available	NA	NA	+€2.6	+€7.5	+€10.4
4.	Net Debt as % of GDP – Revised	17.8%	18.6%	19.6%	18.7%	18.7%
5.	Ratio of Net Debt as % GDP – Revised : Greece to EU Post-Programme Countries	26.7%	26.3%	28.0%	27.2%	27.4%

Primary Balance as a % of GDP Projections 2014e-2017e: Greece vs. EU Post-Programme Countries

	2014e	2015e	2016e	2017e
Greece Baseline	**2.7%**	**4.1%**	**5.4%**	**5.3%**
Greece Less ANFA/SMP Rebates	**1.3%**	**3.0%**	**4.5%**	**4.6%**
Greece Less ANFA/SMP Rebates - Revised	**N/A**	**1.6%**	**2.0%**	**3.2%**
Ireland	0.4%	0.9%	0.8%	3.2%
Spain	-2.3%	-1.2%	-0.5%	0.6%
Portugal	0.1%	1.6%	2.0%	2.8%
Other EU Program Countries Average:	**-0.6%**	**0.4%**	**0.8%**	**2.2%**

ANFA and SMP Payments Should Reduce Interest Expense, NOT Inflate Primary Balance

- Government received €2.7 billion in 2013 and budgeted €3.9 billion in 2015 from ECB and NCBs.
- Rebates from interest expense and principal payments paid by the government on its bonds.
- Economic reality and proper accounting: rebates netted to interest expense, not to primary balance.

Technical Definitions of Accounting Device and Fiscal Illusion

- An accounting device that gives the illusion of change <u>without substance</u> or makes the change appear larger. IMF Staff Discussion Note SDN/12/02
- Window dressing and creative accounting that has <u>little overall effect on fiscal policy</u> and could actually hide a worsening of a government's fiscal position. IMF Working Paper WP/00/172
- Creative accounting used by a government to <u>circumvent rules by hiding fiscal policies in less visible positions</u>. Deutsche Bundesbank Discussion Paper No 38/2004
- Measures that temporarily embellish both the headline and the fiscal position <u>without a commensurate improvement in the underlying fiscal position</u>. OECD paper No. 417
- The concept of creative accounting refers to the more or less unorthodox treatment of operations involving the general government, which affects the fiscal balance or public debt <u>but not, or far less, government net worth</u>. OECD paper No. 417

Ask Reform Question #4

Does Greece receive approximately €7 billion per year in EU annual funds and has Greece **avoided net debt** of over €160 billion by receiving “free” EU annual funds since 1996?

Net Debt Less EU Debt Avoided as of 2013: Greece vs. EU Post-Programme Countries

(Euros, Billions)

Greece IPSAS net debt less EU debt avoided is a negative 54% of GDP compared to a positive average 37% for other program countries.

	Greece	Ireland	Spain	Portugal
IPSAS Gross Debt	€123 billion	€189 billion	€940 billion	€185 billion
IPSAS Net Debt	€32	€125	€647	€116
EU Debt Avoided	€131	€TBD	€130	€78
IPSAS Net Debt less EU Debt Avoided	€-99	€TBD	€517	€38
% of GDP	-54%	TBD%	51%	23%

Note: EU Debt Avoided since 1996.

Allocation of EU Funds within Greece (1 of 2)

		2011	2012	2013
1.	**SUSTAINABLE GROWTH**	**3,551.6**	**3,448.0**	**4,476.9**
2.	**Competitiveness for growth and employment**	**219.9**	**229.9**	**244.8**
3.	Seventh Research framework programme	132.7	142.3	160.5
4.	Ten	1.6	3.8	8.8
5.	Marco Polo	0.0	0.3	0.1
6.	Lifelong Learning	32.8	41.4	32.0
7.	Competitiveness and innovation framework programme (CIP)	12.5	9.7	13.0
8.	CIP Entrepreneurship and innovation	5.4	1.0	4.0
9.	CIP ICT policy support	6.4	7.4	7.4
10.	CIP Intelligent energy	0.7	1.3	1.7
11.	Social policy agenda	0.9	2.9	0.7
12.	Customs 2013 and Fiscal 2013	0.4	0.5	0.4
13.	European Global Adjustment Funds	2.9	0.0	0.0
14.	Energy projects to aid economic recovery	6.0	0.0	0.0
15.	Decentralized agencies	23.1	24.8	25.8
16.	Other actions and programmes	7.0	4.1	3.5
17.	**Cohesion for growth and employment**	**3,331.7**	**3,218.1**	**4,232.0**
18.	Structural funds	2,734.6	2,545.7	3,169.7
19.	Convergence objective	2,587.3	2,362.1	2,970.2
20.	Regional competitiveness and employment objective	139.9	90.5	127.1
21.	European territorial cooperation objective	7.2	93.1	72.2
22.	Technical assistance	0.3	0.0	0.2
23.	Cohesion Fund	597.1	672.4	1,062.3

Allocation of EU Funds within Greece (2 of 2)

	2011	*2012*	*2013*
24. **PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES**	**2,894.7**	**2,813.2**	**2,651.1**
25. Market related expenditure and direct aids	2,407.7	2,412.9	2,349.2
26. Agriculture markets	2,406.9	2,409.2	2,346.5
27. Direct Aid	2,353.7	2,313.0	2,281.4
28. Export refunds	0.1	0.1	0.0
29. Storage	-9.0	-4.6	0.0
30. Other	62.1	100.7	65.1
31. Animal and plant health	0.8	3.7	2.7
32. Rural development	442.9	367.7	229.3
33. European fisheries fund	36.0	26.9	58.0
34. Fisheries governance and international agreements	0.5	0.1	5.6
35. Life+	7.2	5.5	7.8
36. Other actions and programmes	0.5	0.1	1.1
37. **CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE**	**52.9**	**53.3**	**45.5**
38. **Freedom, security and justice**	**44.0**	**46.2**	**36.6**
39. Solidarity and management of migration flows	42.5	42.4	33.5
40. Security and safeguarding liberties	0.2	2.4	1.7
41. Fundamental rights and justice	1.2	1.3	1.2
42. Other actions and programmes	0.0	0.1	0.2
43. **Citizenship**	**8.9**	**7.1**	**8.9**
44. Public health and consumer protection programme	0.8	1.2	0.7
45. Culture 2007-2013	0.3	0.7	0.7
46. Youth in action	2.9	1.0	3.3
47. Media 2007	1.7	1.3	1.4
48. Europe for Citizens	0.3	0.3	0.5
49. Civil protection Financial instrument	1.4	1.2	1.1
50. Communication actions	1.3	1.2	1.2
51. Other actions and programmes	0.2	0.1	0.0
52. **ADMINISTRATION**	**37.7**	**38.3**	**41.1**
TOTAL EXPENDITURE	**6,536.9**	**6,352.9**	**7,214.6**

EIB Concessionary Loans to Greece

Total Originated:

- 2014: €1.6 billion
- 2013: €1.4 billion
- 2013 - 2014 Average: €1.5 billion

Total Outstanding (Year End 2013): €15.4 billion

On EIB global portfolio of loans, average interest rate is 2.1% and average maturity is 8.2 years (country details not disclosed).

Source: EIB website and 2013 Annual Report. Average interest rate calculated as interest receivable of €8.6 billion (2013 AR, pg 50) divided by total loans outstanding of €428.1 billion (2013 AR, pg 64).

Ask Reform Question #5

Is the **opportunity cost** of misguided financial management by the Greece government €35 billion to €45+ billion since 2012?

Microeconomic “Opportunity Cost”: Overview

One of the three most fundamental concepts in economics.

The core microeconomic principle of “opportunity cost” is totally consistent with IPSAS/IFRS, but is ignored by those starting with politically desired debt number and seeking to create a flawed logic to defend their conclusion.

In an opportunity cost survey of PhD economists from top 30 economics departments, only 21% selected the correct answer on a four multiple choice question. (25% correct would have been random selection.)

Opportunity Cost has a Consistent Definition

- ***Microeconomics*** **by Pindyck and Rubinfeld**: Opportunity cost is the cost associated with opportunities that are forgone by not putting the firm's resources to their **highest-value use**.
- ***Essentials of Economics*** **by Krugman, Wells and Graddy**: More specifically, the opportunity cost of a choice is what you forgo by not choosing your **next best alternative**.
- ***Microeconomics*** **by Hubbard and O'Brien**: The opportunity cost of any activity is the **highest-valued alternative** that must be given up to engage in that activity.
- ***Economics*** **by Sloman and Wride**: The opportunity cost of any activity is the sacrifice made to do it. It is the **best thing that could have been done as an alternative**.
- ***Economics*** **by McConnell, Brue and Flynn**: An opportunity cost—the value of the **next best thing forgone**—is always present whenever a choice is made.
- ***Economics*** **by Arnold**: The **most highly valued opportunity or alternative forfeited** when we make a choice is known as opportunity cost.

Selling Negativity Instead of Greece's Huge Competitive Advantage

- Government presentations perpetuate false claims of unsustainability of debt, present "Greek statistics", and sell fear of economic and social turmoil. See also: WSJ paid special advert, Bloomberg interview, countless negative public statements, etc.

- No government presentations on Greece's huge competitive advantage compared to EU post-programme countries with net debt to GDP of 1/4 and cash interest as a % of revenue of approximately 1/4.

Government Borrowing Costs Matrix: Greece vs. EU Post- and Current Programme Countries

3yr benchmark yield	**6/30/2014**	**12/31/2014**	**3/31/2015**
Greece*	**3.50%**	**14.00%**	**22.13%**
Ireland	0.47%	0.26%	0.00%
Spain	0.76%	0.56%	0.22%
Portugal	1.17%	0.93%	0.62%
Cyprus	3.90%	4.67%	3.96%
ISPC Average:	**1.58%**	**1.61%**	**1.20%**
Greece – ISPC Average:	**192 bps**	**1,239 bps**	**2,093 bps**

Source: Bloomberg (accessed on 31 March 2015), mid yield-to-maturity.
**Greece: GGB 3.375% due 7/17/2017. The bond was issued on 17 July 2014; yield at issue is used for 30 June 2014.*

Losses on Greece Government Financial Assets Following Government Misguided Financial Management

	Estimated Loss *(31 Dec 2013 – 31 Mar 2015)*
1. Banks Stocks (HFSF)	€15.0 billion
2. Other Equities	€12.2 billion
3. PSI GGBs	€0.3 billion
4. New Issue GGBs	€0.6 billion
5. Total Losses	€28.1 billion

Notes: Other Equities assumes market returns plus change in reported 31 Dec 2013 holdings. PSI GGBs assumes pension holdings of €4 billion. New Issue GGBs assumes holdings of €2 billion.

Financial Asset and Net Debt 2013–2014 Performance Comparison (1 of 2)

	GREECE	EU POST-PROGRAMME COUNTRY AVERAGE	IRELAND	SPAIN	PORTUGAL
<u>2013 to 2014 % Change:</u>					
Financial Assets	**-39%**	**-1%**	**-13%**	**+8%**	**+2%**
Currency & Deposits	-22%	-4%	-25%	+15%	-2%
Debt Securities	+6%	-35%	-11%	-45%	-48%
Loans	-3%	-19%	-54%	+1%	-4%
Equity Investments	-54%	+18%	+26%	+9%	+19%
Insurance Reserves	-100%	+0%	N/A	N/A	+0%
Financial Derivatives	N/A	-69%	-69%	N/A	N/A
Net Debt (from Change in FA)	**+16%**	**+3%**	**-1%**	**+7%**	**+3%**

Source: ECB Statistical Warehouse (accessed 2 May 2015).

Financial Asset and Net Debt 2013–2014 Performance Comparison (2 of 2)

(Current ECB Statistical Warehouse Data)

	GREECE	IRELAND	SPAIN	PORTUGAL
<u>2014</u>				
Gross Debt	**€ 317**	**€ 203**	**€ 1,034**	**€ 225**
Financial Assets	**€ 59**	**€ 75**	**€ 312**	**€ 64**
Currency & Deposits	€ 17	€ 18	€ 82	€ 21
Debt Securities	€ 13	€ 9	€ 3	€ 5
Loans	€ 1	€ 9	€ 68	€ 6
Equity Investments	€ 29	€ 38	€ 158	€ 31
Insurance Reserves	€ 0	€ 0	€ 0	€ 0
Financial Derivatives	€ 0	€ 0	€ 0	€ 1
Net Debt	**€ 258**	**€ 128**	**€ 722**	**€ 161**
<u>2013</u>				
Gross Debt	**€ 319**	**€ 215**	**€ 966**	**€ 220**
Financial Assets	**€ 97**	**€ 86**	**€ 289**	**€ 63**
Currency & Deposits	€ 22	€ 24	€ 71	€ 21
Debt Securities	€ 12	€ 10	€ 5	€ 9
Loans	€ 1	€ 20	€ 67	€ 7
Equity Investments	€ 62	€ 30	€ 145	€ 26
Insurance Reserves	€ 0	€ 0	€ 0	€ 0
Financial Derivatives	€ 0	€ 1	€ 0	(€ 0)
Net Debt	**€ 222**	**€ 129**	**€ 677**	**€ 157**

Source: ECB Statistical Warehouse (accessed 2 May 2015).

Examples of Opportunity Cost from Revenue Losses Following Government Misguided Financial Management

- Reduced corporate profits
- Increased net operating tax losses
- Diminished real estate profits
- Reduced taxes on wages
- Reduced social security payments
- Diminished stock market gains
- Increased stock market loss tax shields
- Reduced profits from higher borrowing costs
- Increased tax arrears defaults from failed businesses

The Greece Government Should be Required to Disclose the Change in Net Debt Monthly

Report publicly <u>change in net debt and net worth</u> according to international accounting standards and with independent expert verification. Starting now:

1. Monthly, financial assets.
2. Monthly, net debt.
3. <u>Prior</u> to approval, ALL government €100 million plus decisions.

Greece is a Financially Distressed Turnaround

A distressed turnaround finance minister's responsibility is to build trust and confidence. Appointments should be based on merit and a track record of performance in three areas:

1. Global capital markets.
2. International management accounting and audits.
3. Large scale financial and human capital management.

APPENDICES

Appendices TOC

IPSAS/IFRS Hierarchy of Valuation

-- At date of event --

1st: Market price/YTM

2nd: Market price/YTM of most comparable

2nd/3rd: Market YTM of most comparable to determine a present value (PV)

Market prices/YTMs for Greece and other program countries based on Bloomberg market data.

Importance of Using Market Rate/YTM at Event Date

- Protect against corruption resulting from wealth transfers
- Avoid attempts at creating fiscal illusion
- Facilitate global comparability
- Allow for auditable verification process

Illustrative Criteria and Process for Adjusting Market Prices or YTMs

Criteria to be met prior to beginning adjustment process:

1. Prices or YTMs change attributable to non-issuer events
2. No credible scenario to justify current prices or YTMs
3. Less than two or three market makers
4. Essentially no volume traded over past 30 days
5. 10% or more change in prices or YTMs in past 30 days

Process for adjusting market prices or YTMs if criteria have been satisfied:

1. Field research to confirm non-existence of credible worst case scenario
2. Attempt to isolate current market prices or YTMs outside of any published worst case scenario
3. Track market prices or YTMs over past 60 to 90 days, within quarter
4. Flexibility to use either bid or ask if spread is abnormally wide
5. Minimize adjustments to market prices and YTMs
6. Provide independently verifiable documentation to support adjustments

Note: Illustrative example.

Audit Best Practices

Objective: Audit verification of debt improves decision-making, increases transparency, strengthens accountability, and facilitates global comparability.

- All database access (eg. Bloomberg, Reuters, S&P IQ)
- Financial instrument valuation professionals
- Chinese wall between financial valuation and line audit professionals
- Required by code of ethics for professional accountants and auditors

Debt Footnote Disclosure: Illustrative Topics

- Nominal amounts by type of debt.
- Accretion rates by type of debt.
- Initial recognition dates, prices, and YTMs.
- Substantial modification dates, prices, and YTMs.
- Debt that did and did not qualify as a substantial modification.
- Summary description of comparables.

Financial Assets Disclosure: Illustrative Topics

* Accounting and revaluation principles
* Consolidating adjustments * Contractual agreements
* Credit ratings groups * Currency categories
* Current and Non-current * Equity investment tables
* Gains and losses * Geographic distribution
* Initial price, book value, fair value
* Pending accounting principles impact
* Related liabilities * Related party disclosure
* Reporting of value changes * Reserves and provisions
* Significant transactions * Standard major classifications

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 rates rather than date and instrument specific
- Insufficient independently sourced market data
- Process violates independent audit verification

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

Debt Measurement Frameworks

INTERNATIONAL ACCOUNTING STANDARDS

IPSAS

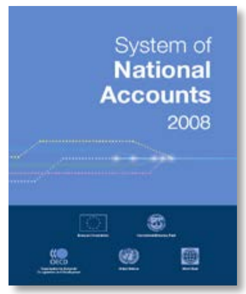
IPSAS 29 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

IFRS

IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

INTERNATIONAL STATISTICS GUIDELINES

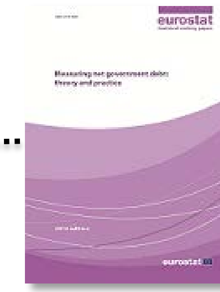
SNA 2008



ESA 2010

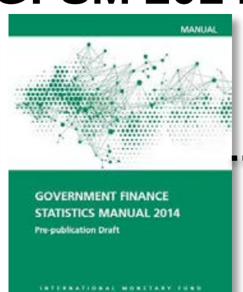
MGDD

NET DEBT

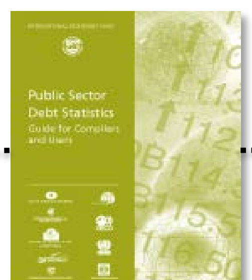


INTERNATIONAL STATISTICS LENDER COVENANT GUIDELINES

GFSM 2014



PSDS



EDS

Maastricht Treaty

For Debt, It is Present Value NOT Net Present Value

- **IPSAS 29/IFRS IAS 39:** Present value: 43 and 42 citations, respectively. Net present value: zero citations.
- **ESA 2010:** Present value: 29 citations. Net present value: two citations referring to mathematical models.
- **2008 SNA:** Present value: 56 citations. Net present value: seven citations relating to non-debt items such as insurance and pensions (with one exception).
- **IMF GFS Manual:** Present value: 68 citations. Net present value: Six citations relating to non-debt items such as pensions and natural resources.
- **IMF PSDS Manual:** Present value: 51 citations. Net present value: One citation referring to swap contracts.

Guiding Principles of International Statistics Systems (1 of 4)

Economic Reality:

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.

2008 SNA – 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.

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

Initial Recognition:

ESA 2010 – Section 1.94. Market prices are reference point.

2008 SNA – Section 3.157a. Fair value is a market-equivalent value.

GFSM 2014 – Section 3.113. Stock positions should be valued at market value.

Guiding Principles of International Statistics Systems (2 of 4)

Hierarchy of Valuation:

ESA 2010 – Section 1.94 and Section 20.242. 1st, market prices. 2nd, market prices for analogous stock and flows. 3rd, present value using a relevant market discount rate. There is no single market interest rate that should be used.

2008 SNA – Section 2.59,2.60 and 3.156. 1st, observable market prices. 2nd, market value equivalent. 3rd, PV as approximation of market prices approximation provided an appropriate discount rate is used.

GFSM 2014 – Section 1.29, 3.114, and 3.125. 1st, current market prices. 2nd, market value equivalent. 3rd, present values using market interest rates.

Arm's Length:

ESA 2010 – Section 1.94 and 5.19. Referred to as exchange value. On the basis of purely commercial considerations.

2008 SNA – 3.157a. Fair value uses an arm's length transaction.

GFSM 2014 – Section 3.108. Commercial consideration only, called arm's length.

Guiding Principles of International Statistics Systems (3 of 4)

Rescheduled Debt:

ESA 2010 – Sections 20.221 to 20.236 and Chapter 5. Section titled "Debt Operations" with several subsections including "Debt assumption and cancellation" and "Other debt restructuring". Within this section, it is quite clear that rescheduling is not in nominal value terms but is the difference in value, as defined in Chapter 5 and Debt Operations, which determines the amount of the capital transfer.

2008 SNA – Sections 22.106(b), and 22.109 to 22.113. Section titled "Debt reorganization" with a subsection titled "Debt rescheduling and refinancing" with five extensive points on existing contract extinguished and new one created. Cites change in present value terms. 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. Furthermore, there is a specific reference to a "capital transfer".

GFSM 2014 – Sections A3.13 to A3.16. Guidance is inconsistent with principles and includes policy exceptions.

Guiding Principles of International Statistics Systems (4 of 4)

Concessional Loans:

ESA 2010 – Sections 20.241 and 20.242. Two points on concessional debt/loans which clearly cite a transfer/capital transfer, which is to be recorded as a memorandum item.

2008 SNA – Sections 22.123 and 22.124. Two points on concessional loans, including to a foreign government, cite a transfer/current transfer (the difference between the actual interest rate and market equivalent) and call for disclosure in supplementary tables, given the impact has "not been fully developed".

GFSM 2014 – Section 7.246 cites concessional transfer/grant as not fully developed, but to be recorded in memorandum item.

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 2008 SNA 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 2008 SNA 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 trea0ing 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.

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.

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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.

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 trea0ing 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.

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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 is a 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.

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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 2008 SNA: **[**Contains no comment on SNA.**]**

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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.

IMF and World Bank on Calculating Net Debt

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 <u>(NPV) of debt is needed to be informative</u> as a measure of a country's effective debt burden
2. This [debt] burden is <u>best measured</u> using the <u>net present value (NPV) of debt</u> to <u>capture the concessionality</u> of outstanding debt
3. <u>NPV debt ratios</u> are summary indicators of the burden represented by the future obligations of a country and thus <u>reflect long-term risks to solvency</u>

IMF Staff Guidance Note (May 2013):

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

Net Debt Really Matters

United Kingdom Two of the main measures used for fiscal management are the current deficit (surplus on current budget) and public sector net debt (PSND).

Canada Public Sector Accounting Standards Board: Net debt and the change in net debt is the single most important performance metric. See 20Qs booklet.

Australia National Audit Commission: Net debt as the main stock indicator.

New Zealand Treasury: Net debt better reflects the underlying strength.

Austrian Federal Ministry of Finance: Net debt is one of the ratios we discuss first and foremost.

Portugal Ministry of Finance: Portugal will use net debt and not gross debt as a key performance metric.

IPSAS/IFRS for Setters of International Statistics

Entity	**Supported Statistics Reporting System**	**Accounting Standard for Entity Financial Statements**	**Auditor**
EU	ESA 95 / ESA 2010 / PSDS / EDS / SNA 2008	EC: IPSAS EFSF: IFRS	EC: European Court of Auditors EFSF: PWC
IMF	GFSM / PSDS / EDS / BPM6 / SNA 2008	IFRS	Deloitte
OECD	SNA 2008 / PSDS / EDS	IPSAS	Cour des comptes
UN	SNA 2008 / PSDS / EDS	UN-SOs: IPSAS	UN Board of Auditors
WB	SNA 2008 / PSDS / EDS	US GAAP	IDA Audit Committee
The Commonwealth	PSDS / EDS	IPSAS	Deloitte

ESA 95 / ESA 2010: *European System of Accounts*
EDS: *External Debt Statistics Guide for Compilers and Users*
GFSM: *Government Finance Statistics Manual*
PSDS: *Public Sector Debt Statistics*
SNA 2008 *: System of National Accounts 2008.*
UN-SOs: *United Nations System Organizations*

The Commonwealth *: The Commonwealth of Nations is a voluntary intergovernmental association of 53 member sovereign states.*

Major Organizations Support IPSAS

- **IMF:** IPSAS are <u>the only</u> international accounting standards designed for the public sector. (January 2014)
- **EC:** IPSAS is currently <u>the only</u> internationally recognized set of public sector accounting standards. (June 2013)
- **WB:** As <u>the only</u> available international financial reporting standards for governments that are based on generally accepted accounting principles, IPSAS can contribute to greater quality, consistency, and comparability of governmental financial information within and between jurisdictions. (February 2004)
- **FEE:** International standards (IPSAS) already exist. They are <u>the only</u> recognized set of international standards. (March 2014)
- **IFAC:** High-quality and timely accrual-based financial reporting in the public sector can be achieved through the adoption of globally-accepted, high quality reporting standards developed <u>specifically for the public sector</u>, i.e., IPSASs. (April 2014)

€300+ Billion of EU Concessionary Lending to Greece and its Banks: Summary

(Euros, Billions)

SN	Source/Facility	**Amount Outstanding** (As of 15 May 2015)	**Interest Rate**	**Final Maturity** (Years)
1	EZ GLF	€ 52.9	0.6%	30
2	EZ EFSF	€ 130.9	1.7%	45
3	ECB/NCBs GGBs	€ 31.1	2.3%-6.5%	Up to 22
4	EIB Loans	€ 15.4	2.1%	8
5	ECB ELA to Banks	€ 80.0	1.6%	NA
6	Other ECB	€ 39.0	NA	NA
7	Total	€ 349.3		
8	GDP (2014)	€ 180.2		
9	% of GDP	194%		

Note: based on EC, EFSF, and EIB data. Additional concessionary debt includes IMF loans and post-PSI GGBs.

EIB Loans to Greece: 2012 – 2014 (1 of 2)

Project	Sector	Signature Date	Signed Amount
PPC POWER PROJECTS ON GREEK ISLANDS	Energy	11/12/2014	€ 80,000,000
APOLLO PHARMA R&D (GFI)	Industry	26/11/2014	€ 25,000,000
IPTO CYCLADES INTERCONNECTION	Energy	18/09/2014	€ 65,000,000
THESSALONIKI METRO B	Transport	18/09/2014	€ 200,000,000
GREEK MOTORWAYS (TEN-T)	Transport	18/09/2014	€ 300,000,000
IPTO TRANSMISSION I	Energy	18/09/2014	€ 70,000,000
PPC DISTRIBUTION VI	Energy	15/09/2014	€ 180,000,000
SMES TRADE FINANCE FACILITY	Services	19/06/2014	€ 75,000,000
REVITHOUSSA LNG TERMINAL EXTENSION	Energy	11/6/2014	€ 40,000,000
GROUPED LOAN FOR SMES	Credit lines	6/6/2014	€ 150,000,000
GROUPED LOAN FOR SMES	Credit lines	6/6/2014	€ 50,000,000
ATTICA SCHOOLS PPP	Education	9/5/2014	€ 16,721,000
ATTICA SCHOOLS PPP	Education	11/4/2014	€ 19,100,000
PPC DISTRIBUTION VI	Energy	11/3/2014	€ 235,000,000
GREEK LOCAL AUTHORITIES FRAMEWORK	Urban development	31/01/2014	€ 50,000,000
2014 SUBTOTAL:			**€ 1,555,821,000**
GREEK MOTORWAYS (TEN-T)	Transport	11/11/2013	€ 350,000,000
GREEK LOCAL AUTHORITIES FRAMEWORK	Urban development	11/11/2013	€ 50,000,000
GROUPED LOAN FOR SMES	Credit lines	11/11/2013	€ 100,000,000
GROUPED LOAN FOR SMES	Credit lines	11/11/2013	€ 50,000,000
SMES TRADE FINANCE FACILITY	Services	12/6/2013	€ 200,000,000
SMES TRADE FINANCE FACILITY	Services	12/6/2013	€ 100,000,000
SMES TRADE FINANCE FACILITY	Services	12/6/2013	€ 100,000,000
PPC TRANSMISSION & DISTRIBUTION V	Energy	13/05/2013	€ 190,000,000
HELLENIC NATURAL GAS V	Energy	30/04/2013	€ 25,000,000
ATHENS METRO C	Transport	1/2/2013	€ 200,000,000
2013 SUBTOTAL:			**€ 1,365,000,000**

EIB Loans to Greece: 2012 – 2014 (2 of 2)

Project	Sector	Signature Date	Signed Amount
GROUPED LOAN FOR SMES	Credit lines	27/12/2012	€ 50,000,000
GROUPED LOAN FOR SMES	Credit lines	20/12/2012	€ 100,000,000
ALPHA BANK LOAN FOR SMES II	Credit lines	7/12/2012	€ 140,000,000
HELLENIC EDUCATION III	Education	4/12/2012	€ 100,000,000
PPC MEGALOPOLIS POWER PLANT	Energy	23/11/2012	€ 130,000,000
HELLENIC NATURAL GAS V	Energy	30/03/2012	€ 30,000,000
JHF GR - EFG EUROBANK	Credit lines	9/2/2012	€ 27,450,000
JHF GR - EFG EUROBANK	Credit lines	9/2/2012	€ 39,200,000
JHF GR - PIRAEUS BANK	Credit lines	9/2/2012	€ 19,605,000
JHF GR - PIRAEUS BANK	Credit lines	9/2/2012	€ 19,605,000
JHF GR - IBG	Credit lines	9/2/2012	€ 9,800,000
JHF GR - IBG	Credit lines	9/2/2012	€ 14,700,000
JHF GR - IBG	Credit lines	9/2/2012	€ 14,700,000
JHF GR - IBG	Credit lines	9/2/2012	€ 9,800,000
2013 SUBTOTAL:			**€ 704,860,000**

2012-2014 TOTAL: **€ 3,625,681,000**

OUTSTANDING (AT YEAR-END 2013): **€ 15,440,398,000**

Source: EIB website and 2013 Annual Report.

Intergovernmental Lending Exposure (1 of 3)

EU member states have €326.3 billion of debt exposure to Greece and a total primary deficit of €9.7 billion.

EU Member State	2013 Intergovernmental Lending	Lending Greece Exposure	ECB Greece Exposure[a]	Total Greece Exposure	2015 PB [b]	Total Greece Exposure as % of 2015 PB	
Germany	€ 67.0	€ 52.6	€ 25.0	**€ 77.6**	€ 65.9	118%	
France	€ 50.3	€ 39.5	€ 19.7	**€ 59.1**	(€ 37.1)	NA	
Italy	€ 44.2	€ 34.7	€ 17.1	**€ 51.8**	€ 27.9	185%	
Spain	€ 29.3	€ 23.0	€ 12.3	**€ 35.3**	(€ 15.4)	NA	
Netherlands	€ 14.1	€ 11.1	€ 5.6	**€ 16.6**	(€ 1.9)	NA	
Belgium	€ 8.6	€ 6.8	€ 3.4	**€ 10.2**	€ 0.8	1250%	
Austria	€ 6.9	€ 5.4	€ 2.7	**€ 8.1**	€ 1.1	760%	
United Kingdom	€ 4.3	€ 3.4	€ 19.0	**€ 22.4**	(€ 45.4)	NA	*(c)*
Finland	€ 4.4	€ 3.5	€ 1.7	**€ 5.2**	(€ 4.4)	NA	
Denmark	€ 3.0	€ 2.3	€ 2.1	**€ 4.4**	(€ 0.2)	NA	
Slovakia	€ 1.9	€ 1.5	€ 1.1	**€ 2.6**	(€ 0.9)	NA	
Slovenia	€ 1.2	€ 0.9	€ 0.5	**€ 1.4**	€ 0.1	NA	
Portugal	€ 1.1	€ 0.9	€ 2.4	**€ 3.3**	€ 3.3	101%	
Luxembourg	€ 0.6	€ 0.5	€ 0.3	**€ 0.8**	€ 0.2	486%	
Sweden	€ 0.6	€ 0.5	€ 3.2	**€ 3.6**	(€ 3.3)	NA	*(d)*
Estonia	€ 0.5	€ 0.4	€ 0.3	**€ 0.6**	(€ 0.0)	NA	
Cyprus	€ 0.4	€ 0.3	€ 0.2	**€ 0.5**	€ 0.3	173%	
Ireland	€ 0.3	€ 0.3	€ 1.6	**€ 1.9**	€ 1.5	130%	
Malta	€ 0.2	€ 0.2	€ 0.1	**€ 0.3**	€ 0.1	356%	

Intergovernmental Lending Exposure (2 of 3)

EU Member State	2013 Intergovernmental Lending	Lending Greece Exposure	ECB Greece Exposure[a]	Total Greece Exposure	2015 PB [b]	Total Greece Exposure as % of 2015 PB	
Bulgaria	€ 0.0	€ 0.0	€ 1.2	**€ 1.2**	(€ 0.8)	NA	
Czech Republic	€ 0.0	€ 0.0	€ 2.2	**€ 2.2**	(€ 1.3)	NA	
Greece	€ 0.0	€ 0.0	€ 2.8	**€ 2.8**	€ 3.8	75%	
Croatia	€ 0.0	€ 0.0	€ 0.8	**€ 0.8**	(€ 0.8)	NA	
Latvia	€ 0.0	€ 0.0	€ 0.4	**€ 0.4**	(€ 0.0)	NA	
Lithuania	€ 0.0	€ 0.0	€ 0.6	**€ 0.6**	€ 0.0	NA	
Hungary	€ 0.0	€ 0.0	€ 1.9	**€ 1.9**	€ 1.2	155%	
Poland	€ 0.0	€ 0.0	€ 7.1	**€ 7.1**	(€ 4.3)	NA	
Romania	€ 0.0	€ 0.0	€ 3.6	**€ 3.6**	€ 0.0	NA	
ANFA (TBD)	NA	NA	NA	**€ 7.3**	NA	NA	
Total Intergovernmental Lending	**€ 238.9**	**€ 187.5**	-	**-**	**(€ 9.7)**		*(e)*
EFSF Member Loans	€ 181.7	€ 134.6	-	-			*(f)*
EFSF as % of Intergovernmental Lending	76%	72%	-	-			
Other Lending	€ 57.2	€ 52.9	-	-			
Total ECB Exposure	-	-	**€ 138.8**	**-**			

TOTAL GREECE EXPOSURE	**€ 326.3**

Intergovernmental Lending Exposure (3 of 3)

Notes:

ECB Exposure (€ bn)	-
ELA:	€ 80
Other ECB:	€ 39
SMP	€ 20
Total ECB Exposure:	**€ 139**

For the purpose of proper consolidation of general government debt in European aggregates and to provide users with information, Eurostat is collecting and publishing data on government loans to other EU governments, including those made through the European Financial Stability Facility (EFSF). For the years 2011 to 2014 the intergovernmental lending figures relate mainly to lending to Greece, Ireland and Portugal.

Source: Eurostat, "Provision of deficit and debt data for 2014 - first notification", 21 Apr 2015: http://ec.europa.eu/eurostat/documents/2995521/6796757/2-21042015-AP-EN.pdf/2a3922ae-2976-4aef-b6ce-af19bde6a236

(a) Allocation of ECB Exposure to each individual country based on the capital key %: https://www.ecb.europa.eu/ecb/orga/capital/html/index.en.html
(b) Total excluding Greece. AMECO database (accessed on 12 Feb 2015).
(c) GBP to EUR exchange rates: 1.1972 (2011); 1.2241 (2012); 1.1956 (2013); 1.2767 (2014).
(d) SEK to EUR exchange rates: 0.1122 (2011); 0.1168 (2012); 0.1120 (2013); 0.1055 (2014).
(e) The YE 2013 Greece exposure of €187.5 billion is from €134.6 billion of EFSF loans and €52.9 of GLF loans. As €187.5 bn is 78.5% of €238.9 bn, a simple ratio was used to extrapolate each individual countries' Greece exposure.
(f) EFSF Annual Reports, Loans to Euro Area Member States.