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# THE Accountant

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# Greece's bailout package

# Missing IPSAS?

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# Tantalized Greece

A large number of legendary stories, chronicles and anecdotes from both history and mythology could illustrate Greece's current tragedy. The best one, to draw an analogy which captures Greece's burden after the third bailout, is that of Tantalus.

The English verb, tantalize, comes from this hero's eternal punishment in the Greek underworld or the Tartarus. As the mythological account has it, Tantalus was condemned to stand in a pool, under a fruit tree.

Whenever he was thirsty, the water would recede; and whenever he was hungry, the branch bearing the fruit would be no more at his reach. Similar dynamics can be identified when measuring Greece's debt, but with a third party coming in to rescue Tantalus from his torment.

Official lenders in subsequent bailouts have given Greece the chance to reach the fruit and quench the thirst that Tantalus never had. Among the Good Samaritans are the IMF and European partners, notably Germany and France.

A lighter burden by accountants' standards

Yet the loans, like a Trojan horse, hid unpleasant surprises for prodigal Greece: austerity measures imposed by what nowadays seems to be the economic orthodoxy. But whether you are a staunch Keynesian or a stalwart supporter of Friedrich Hayek, there is a problem at the very outset: Greece's debt numbers don't add up.

Under accrual-based International Public Sector Accounting Standards (IPSAS), Greece's gross debt is 68% of GDP and not 180% – lower than Germany's 80% (These are 2013 figures of Japonica Partners, one of the largest private holders of Greek bonds). Defying logic and common sense, Greece's debt is being measured at its face value and not at its fair value. That means the concessionary terms of the bailout (e.g. low interest rates and long-term maturities) are unaccounted for, despite being a sort of debt relief.

So with IPSAS the problem seems to be solved. As if Zeus would have hurled his thunderbolt at Greece's accounting books. Eureka! There is no unsustainable debt anymore. The problem is that Greece's creditors either play dumb or don't want IPSAS themselves; otherwise any bailout should have been subjected to the condition of using those international standards.

Well, it happens that governments and politicians are not always for transparency. Take Germany for example, Greece's biggest single country creditor. For its federal government, Germany still uses cash accounting. That spares Angela Merkel of telling taxpayers that the moneys given to the Greeks should have been booked as a loss under IPSAS. But Germans are intelligent people, capable of squaring the circle: the rescue packages given to Greeks banks will also end up servicing their debts with German counterparts.

Don't get me wrong, Greeks are the masters of their own destiny, and should take responsibility for being stuck in the Tartarus. Yet Greek mythologies fall short in explaining this descend to the underworld. A thorough account of how the debt was formed (and how the psyche of Greek society contributed to it) can be found in Jason Manolopoulos' book: *Greece's 'Odious' Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community*.

Another essential book, shedding light on the connection between democracy and accountancy, is Jacob Soll's *The Reckoning: Financial Accountability and the Rise and Fall of Nations*. The chapter about the first bailout in history (engineered by Robert Walpole, the first Prime Minister of Great Britain) will help you debunk the many myths contemporary politicians want to perpetuate. In the meantime, on **pages 10-15**, you can read our country survey on Greece.

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*Carlos Martin Tornero*
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*Journalist of the Year for Regulatory Issues 2014*
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# Debt under IPSAS: Greece's cathartic hope

Under International Public Sector Accounting Standards (IPSAS) Greece's debt burden as a percentage of GDP would be lower than Germany's. After a third bailout Greece is a spectator of her self-inflicted tragedy, yet creditors deny her the catharsis IPSAS might bring to the country's public finances, writes **Carlos Martin Tornero**

Is chaos, my friend, says on the other end of the line in California economic historian Jacob Soll. As we speak about Greece's recent bailout agreement, a news alert pops up in our phones: Alexis Tsipras, the Greek Prime Minister, resigns and calls for a snap election.

In July Greece and its creditors have agreed on a third bailout package of €86bn ($98bn) so that the country can avoid defaulting on its debt.

Yet in June ahead of the deadline for debt repayments 61.3% of the Greek people, tired of long-standing austerity measures, had voted "No" in a referendum about the conditions associated with the new bailout.

Many had seen the referendum as a de facto 'Grexit' plebiscite, a No-vote meaning departure from the EU single currency and perhaps from the political union as well.

The rest is already recent history: Tsipras negotiates and accepts the tough conditions that come with the deal; the Greek parliament and the EU partners approve it; and Tsipras wins the second snap election in a year, thus revalidating his mandate to manage the bailout package after being challenged by the most anti-austerity flank of his own Syriza party.

For Soll, being the author of *The Reckoning* (a book that investigates the connection between good public finances and democracy throughout the centuries) Greece's conundrum must seem like a bizarrely familiar story of politicians' vested interests diverting from those of whom they represent.

"One of the most fascinating things for me is to take Greece's debt numbers to accountants, whether they are right or left wing, all agree that according to internationally accepted standards of accounting the debt would be worth less," he says.

Soll attended this summer a conference on sovereign debt in Munich under the auspices of investment firm Japonica Partners, whose founder and CEO Paul Kazarian is one of the largest holders of Greek government bonds.

At this forum, all accountants agreed that in the real world Greece's debt would have been restructured many times and would not be worth as much, Soll says, while non-accountants scoffed at this accounting dimension of the problem.

Soll says: "They said this is the world of the politics, not the real world, where we have agreements to honour. Now, I understand political agreements, but accounting is rarely on the public's agenda: is something we don't discuss and gets swept under the rug."

Another attendee at Japonica's debt conference was George Serafeim, Jakurski Family associate professor of business administration at Harvard Business School.

Serafeim believes that Greece is failing to recover because of its inability to build trust and confidence, in which accounting has a big part to play, he says.

An Athenian himself, Serafeim underscores that Greece's debt burden has never been officially measured using IPSAS.

"We've never tried to do it. People have been using the debt's face value, which doesn't mean anything. Under IPSAS you always consider the fair value, and that's logical, because you need to take into account the interest charged on the debt and the maturity level," Serafeim says.

He continues: "The country received this year another €86bn but that's based on concessionary loans: very long maturities and interest rates below the market rates for a country with the creditworthiness of Greece. IPSAS would show this implicit debt relief, but because we've never measured it, the country is not getting the benefit that otherwise should get from rating agencies and capital markets."

As Serafeim argues, if Greece used IPSAS the discussion about what the country needs to do next would be re-framed. According to him the culture of transparency and accountability that IPSAS would bring, could increase much-needed investor confidence in Greece, and internally would lead to better decision making.

Among those who have attempted to get Greece's debt figures right are, for obvious reasons, Kazarian's Japonica Partners. They estimated that at the end of 2013 Greece's gross debt was 68% of GDP (lower than Germany's 80%) and its net debt just 18%. Those calculations contrast with the 175-180 % of GDP that the Maastricht Treaty's face value definition of debt shows.

At the standard setting board that sets IPSAS, technical manager Paul Mason says he hasn't seen Japonica's figures himself but the accounting for financial instruments in IPSAS is the same as for the private sector under IFRS.

"What you need is all the information about what the terms are and what the market rates would have been when those loans were taken out. One interesting thing about IPSAS is that, in terms of how you would measure the debt, you would get the same results as under IFRS. That's because the standards we have for financial instruments are based on IFRS pretty much word for word, with additional public sector guidance," Mason says.

### Where there's a will...

In light of this summer's bailout the Chartered Institute of Public Finance and Accountancy called on Greece to use IPSAS, and its chair Ian Ball wrote a letter to *Finan-*

## Comment by Nick Dunbar: The eternal Greece of the financial engineer's mind

Exactly 12 years ago I wrote about a Greek disappearing act: how in 2001 the country concocted a swap deal with Goldman Sachs to conceal almost €3 billion of debt from its national accounts, to help meet Maastricht ratios. This story refuses to die: a former Goldman banker recently suggested that Greece sue the bank to recover the profits it made on the deal.

In July I found myself in Munich as part of a discussion whether Greece could shrink its debt again – this time by hundreds of billions of euros. Instead of a secret derivatives deal, the method would be a more transparent bookkeeping adjustment that would bring the country in line with modern national accounting standards. I will return to Goldman in a moment, but let's first consider Greece's present predicament.

In the Munich conference which was hosted by Germany's IFO institute, the driving force was US investor Paul Kazarian, who is believed to be the largest holder of Greek government bonds. In front of an audience of economists, accounting experts and lawyers, Kazarian argued passionately for his idea: if you valued Greek debt on a market value or accrual basis, all the relief measures taken since 2010 would add up to a €200bn haircut. If you then subtracted Greece's net financial assets of €90bn from that (this is a Eurostat 2013 figure) then you get to a net debt position of €33bn, or 18% of GDP.

Although economists at the conference quibbled about some of the numbers (the assets for example), the point is that when compared with the equivalent numbers for Ireland, Portugal or Spain, this looks like a far from unsustainable burden. It doesn't require any new debt relief programme, but merely a recognition in accounting terms of what has already taken place. Kazarian may have some heavyweight accountants backing his numbers, but the political realities left him sounding exasperated.

On one hand, the Eurogroup, led by Germany's finance minister, refuses to budge from the official €315bn figure, because it doesn't want to acknowledge the transfer that has already taken place. On the other hand, it suits Greece's Syriza government to say it owes €315bn because it sounds crippling and gives more negotiating leverage.

In other words, it's OK to say that Greece has had debt relief but not to recognise it in the accounts. Consider the European Stability Mechanism's 2014 annual report which lists the various steps taken since 2010 – repeated debt maturity extensions and interest rate reductions, amounting to an "economic reduction" of 49% of 2013 GDP. Yet when it comes to the balance sheet reporting of Greece's debt, the ESM insists these measures "do not entail any financial loss or writedown".

Instead, current suggestions involve an element of financial engineering: for example, professor Mitu Gulati's proposal at the conference that Greek debt be tranched like a securitisation, with official sector lenders taking the most subordinated, junior tranche. Gulati suggested that this would encourage private sector lenders to invest in Greek debt, but it also amounts to a haircut in all but name. (Gulati was involved with lawyer Lee Buchheit in advising Greece on its 2012 private sector debt restructuring).

Well-intentioned as these proposals are, it's hard not to be reminded of deals like the Goldman swap. Twelve years ago, it was about making the debt appear smaller with Eurostat's tacit agreement. Now it is about keeping it large. With Greece, the theme is always the same: financial engineering deployed to maintain a politically driven illusion.

Since the ultimate collateral for Greece to repay its debt is future growth, we find that this is also fertile territory for the financial engineer's imagination. Back in the time of Greece's entry to the euro, the country busily securitised any future stream of cash flows it could find to raise cash and reduce its debt burden. All of this was a diversion from the real challenge, which was to make Greece competitive within the Eurozone.

Knowing how badly Greece and its creditors failed at that challenge, it's all the more pathetic to see the succession of U-shaped recession-recovery curves that the creditors used to justify the bailouts from 2010 onwards. None of these bailouts could reverse the downward path of GDP, hastened on its way by austerity. Most tragic of all was the fleeting recovery in 2014 (when Greece was fleetingly able to borrow in the private markets once more) now erased in favour of a further downward GDP plunge.

For such an illusion to persist in the minds of intelligent human beings against the repeated contradictory evidence can only mean that rationality is being displaced by an article of faith. And we know what it is: Greece's membership of euro currency itself, something Greece's leaders and its creditor organisations both cling to.

So bad is the pain that one can't be surprised that the Greeks have a heightened sense of victimhood, even though many Greeks acknowledge that the problem starts at home with a culture that make them unable to reform. And it isn't really a surprise that the idea of suing Goldman over that infamous swap deal is now being suggested.

The idea is tempting, because Goldman gouged its client, making over €600m in a single day as I reported for *Bloomberg* in 2012. While legal, the deal was wrong and remains a stain on the bank's reputation. However, if I was the Greeks I would be wary about starting a lawsuit.

Not just because success in a London court would be elusive. After all there is plenty of evidence that the Greek government was far from a victim but a "willing sinner" in the words of its former debt chief Christoforos Sardelis. More to the point, by suing Goldman, Greece would risk putting itself on a parallel with Libya, a country far richer than Greece on paper but one that has become a failed state. And even if such a case was winnable, Greece would be once more distracting itself from its real task at hand: reforming itself so that it is capable of attracting investors and repaying them like a normal country.

Until Greeks grasp that nettle they are doomed to remain in a hall of mirrors, trapped in the dreams of financial engineers.

*Nick Dunbar is the journalist and author who broke the story on Greece's currency swap deal with Goldman Sachs while working for Risk Magazine in 2003.*

*cial Times* in which he denounced:

"If [IPSAS] is not an appropriate basis for measuring debt, then every company listed on major stock exchanges around the world has got its debt measurement wrong. This pervasive misunderstanding of Greece's real fiscal position has seen agreements reached between Greece and its creditors which do not address the real problem and may actually intensify it."

In June Greece's former Deputy Finance Minister announced that IPSAS would be implemented. A Greek accountant, who preferred not to be named, says that an ad hoc working group has been formed following the announcement to support this reform.

But implementing and effectively being able to use IPSAS is another matter altogether. "Let me remind you that several government officials have made the same announcement during the past years," Serafeim recalls.

One of the points Kazarian has made is that Greece lacks the technical capacity to measure its debt under IPSAS. As part of a Japonica campaign the investment firm has published one-page job adverts in main financial papers to recruit a Greek Finance Minister with the right skills: one who understands accounting, finance and turnaround. Such adverts suggest that, for Japonica, incumbent and Oxford-educated Euclid Tsakalotos might not be the right man.

Soll seems to agree on Greece's inability to use IPSAS: "Greece has adopted IPSAS but they can't apply it. I mean, under Varoufakis the Finance Ministry had fewer people than my history department; and Greece has no accounting tradition, they don't produce accountants there."

Serafeim dismisses the argument that Greece lacks such a technical capacity calling it just an excuse. "If Greece doesn't have the capability then it can surely get it from other European countries that have already done those reforms. If a medium-sized corporation can apply international accounting standards, I'm sure the government can do that as well."

Kazarian's call for IPSAS might be eroded, as some commentators have pointed out, by the fact that he has skin in the game due to his holdings of Greek debt.

However, while acknowledging Kazarian's multibillion dollar interest in Greece, Soll says: "The whole story in itself is that the only person asking for transparency is a former Goldman Sachs investor. The socialists, the conservatives, even the communists, nobody wants transparency except for a Wall Street investor. That's when you know that the world has turned upside down!"

### Greece's Stockholm syndrome

If accountants (and Kazarian) are right about IPSAS, shouldn't any bailout package have been subject to the condition of using those international standards to measure the debt in the first place? If those numbers don't add up, is Greece being kept in a debtors' prison or kidnapped by her own creditors?

Jason Manolopoulos, co-founder of investment firm Dromeus Capital and author of the book *Greece's 'odious' debt* (published by Anthem Press), takes with a pinch of salt Kazarian's arguments. Manolopoulos says he used to agree that the country has a very good debt profile, but then he changed his mind.

"It had nothing to do with the debt itself. It's just that there isn't any incentive for Greece to access public markets again. The situation is very perverse. As long as Greece is in the doghouse it would get refinanced at zero or 1% by the official lenders. So why should Greece be a good boy and go to the markets, if is going to be penalised?"

But Greece, while seeming to remain happily in such a debtors' prison, is not the only one to blame for this 'Stockholm syndrome' that doesn't encourage the country to undergo internal reforms.

It's worth remembering that Germany, one of her biggest lenders, has no interest in using IPSAS at all. The situation as described by journalist and author Nick Dunbar is a "marriage of convenience" between the two sides of this story.

While working for *Risk Magazine*, Dunbar brought to light Goldman Sachs and Greek government's currency swap deals to reduce national deficit in the run-up to Greece's entry in the Eurozone (**see box with Dunbar's comment piece**).

For Dunbar the idea that Greece's debt is actually lower under IPSAS is "compelling and politically toxic". The Eurozone partners would unwillingly have to admit that they have rescued Greece with the taxpayer's money, Dunbar says.

"They don't want to do that, so there is a vested interest in denying the economic reality of the bailout." At the same time the Syriza government finds politically convenient to acknowledge, according to Dunbar, that the debt burden is unsustainable as it gives the government more leverage in negotiations.

"So, you have Paul Kazarian pointing out that the emperor hasn't got any clothes, but no one is listening," Dunbar says.

Soll makes it clear that he doesn't defend any party. But he stressesn the fact that the lack of IPSAS is bringing out the worst in everybody.

"If I were Germany, and I had lent billions to Greece, I would say: Look, the first thing I want you to do is adopt IPSAS. And you don't have to take our accountants; we'll bring them from Australia or New Zealand, outside guys who don't have any goal on this. Clearly, the Germans haven't asked for the right reforms," Soll says.

He continues: "Why doesn't Europe call on Germany to reform their accounting standards? Why are not major leaders of accounting firms saying: We would step in; we would help you referee the debate about the debt. We are really stuck."

However, Soll is sure that the Greeks wouldn't like outsiders coming in and meddling in their affairs; third parties such as the troika (the European Commission, the European Central Bank and the International Monetary Fund).

This comes back to the point of Greece's capability. Soll thinks the country lacks skilled accountants and proposes the idea of an international mediator with the relevant accountancy skills.

"Why can't we have an international team of inspectors agreed on by the international and the accounting communities to mediate a solution? We do it for wars, genocides, nuclear power, why not for finance? Jimmy Carter used to look over elections all over the world. The problem is that we don't have an accounting leader who stands up and gets involved," Solls says.

### An 'odious' debt?

One pressing question which has not been answered so far is whether Greece owes as much as her creditors say. Or conversely, how come Greece can receive a third bailout from creditors who ignore what the real numbers are, I ask Serafeim.

"These are political decisions, driven by voters and not by the true numbers. I'm not a politician, so I wouldn't be able to comment on that. Yet they seem very poorly advised decisions," he answers.

## Q&A with Ian Ball: "It is never too late to demonstrate a determination to be accountable"

Ian Ball, chairman of the Chartered Institute of Public Finance and Accounting (CIPFA) and financial transparency champion, answers the questions of *The Accountant* on Greece's misleading debt measurement.

***The Accountant:* The former Greek Deputy Finance Minister announced in June that Greece would be implementing IPSAS. Is it too little too late given that the announcement has not been followed by the use of the international standards yet?**

**Ian Ball:** There are two key issues concerning the use of IPSAS in Greece. First, have they committed to reporting transparently on an IPSAS basis and are they actively working to give effect to this commitment? It is never too late to demonstrate a determination to be transparent, and therefore accountable. Second, are they using the framework of financial statements that are required by IPSAS to assess major financial decisions?

They can do this ahead of full implementation of the standards, and it would reflect an understanding of why IPSAS are important – that is to have the complete and correct information for financial decision-making.

Information on cash flows and nominal debt is partial, inadequate, and especially when the debt has long maturities and concessional interest charges, misleading.

**TA: Does Greece have the technical capacity to do so?**

**Ball:** Like any government moving to adopt IPSAS or accrual accounting, the capacity has to be built or hired.

Governments currently using cash accounting will never have the capacity to operate a full accrual based system – it would be wasteful for them to do so. So, if they wish to move to accrual accounting, they will need to develop the capacity.

**TA: Germany, Greece's toughest creditor, doesn't use IPSAS either. How can this be interpreted? Does this situation benefit Germany in any way?**

**Ball:** Germany's reluctance to adopt IPSAS pre-dates the Greek crisis, but signals an unwillingness to produce financial information that is fully transparent and internationally comparable. If Germany used IPSAS, it would need to report a loss associated with its holdings of Greek government debt. Under a cash basis of accounting, this is not the case.

**TA: Accountants agree that if IPSAS were applied Greece's debt would be significantly lower than the conventional figures. What are Greece's debt true numbers?**

**Ball:** The difference between the IPSAS based number and the "conventional figures" is that the latter is the face value of the debt, whereas IPSAS takes account of the length of the maturity of the debt and concessional interest rates. Economists also agree, and it is increasingly being recognised by informed commentators, that debt with long maturities and concessional interest rates should not be measured at its face value. So we see academic economists like Professor Paul de Grauwe at London School of Economics writing that Greece may have a liquidity problem, but does not have a solvency problem.

Accounting and economic measurement systems both seek to convey economic reality and both emphasize the importance of economic substance over legal form (the face value of debt – which is what is specified in the Maastricht Treaty).

**TA: Has anybody measured and audited Greece's debt?**

**Ball:** The most detailed measurement of Greece's debt of which I am aware is that produced by Japonica Partners as at December 2013. It has a Big Four expert opinion to support their numbers.

This is reported on the website www.mostimportantreform.info

**TA: In that respect, what could be the consequences of bailing out a country such as Greece ignoring its real financial position?**

**Ball:** There are many potential consequences of using the wrong information on Greece's financial position. They could be given debt relief which they do not need, and they could be held to conditions which are harsher than are required.

Investment into Greece, and consequentially economic activity and job creation, could be stifled both by the misperception of Greece's position and by the conditions imposed. Perhaps most importantly, the real problems which Greece does face, go unaddressed.

**TA: Some argue that in the case of Greece, it wouldn't be farfetched to talk of an "odious debt". Would this longstanding disregard for IPSAS encourage the idea that the debt is illegitimate?**

**Ball:** No, as many countries do not (yet) adopt IPSAS and that is no reason to regard their debt as odious.

Photo: IFAC

Ball shares a slide of New Zealand's Government financial statements at Rome's 2014 World Congress of Accountants

Soll observes that these political decisions go against accounting standards. "That would not be right in any kind of financial/business real world. [This situation] is a fast-growing ulcer that threatens the whole European project. I cannot see five years down the road if someone not only restructures the debt but introduces IPSAS. Otherwise we'll keep having these violent manipulations or misunderstandings, call them what you want."

He continues: "The other problem is amateur governments. Again, only accountants would tell you that the numbers are right if we used IPSAS. Yet I've had prime ministers in Europe laughed at my face when I say we need accountants. That, historically, scares the hell out of me."

As Manolopoulos writes in his book, future generations may challenge whether they should pay the bill that older ones have

accrued and therefore would look up the definition of 'odious' debt.

"I put the odious in inverted commas because I knew what was going to happen: people would say that this debt is not ours, while with my book I just wanted to stimulate discussions about the nature of this debt," he tells *The Accountant*.

The concept of odious debt was coined by international law expert Alexander Nahum Sack in the 1920s. This legal theory allows repudiate the national debt incurred by a government who is acting against the interest of its people. This legal construction was based upon the US annexation of Cuba after the 1898 Spanish-American war, which did not include the debt incurred by Spanish colonial rulers over centuries.

More recently the concept was invoked by the US ahead of its invasion of Iraq in 2003 and in preparation of the post-war reconstruction. The US called for a meeting of G8 finance ministers in which the concept of odiousness was instrumental to repudiate the Iraqi regime's debt.

It could easily be argued whether this could apply to a democratically elected government, ironically in the country credited with the invention of democracy (literally from ancient Greek: demos and kratos, or rule of the people).

But to what extent Greece's successive governments since the early years of the 'EUphoria' have unconditionally acted in the benefit of its people?

A clear example was the secret deal between Goldman Sachs and the Greek government that Dunbar unearthed and published in July 2003. While being an important story, Dunbar recollects, at the time was not as prominent as it should have been.

"It was ignored by a lot of people. The ECB and Eurostat claimed not to have known about the story until *Die Spiegel* kind of rediscovered it in 2010 – basically republishing the story, almost without attributing the source. So for six years and half the story was in the public domain but these crucially important institutions for the governance of the Eurozone weren't aware of it."

As Dunbar recalls, the rediscovery of his scoop came at a time when a new Greek government announced a shock revision to deficit ratios and added momentum to the suspicion about its accounting.

"It was damaging in the sense that Greece tried to hide something and didn't succeed in the long term. And the price Greece paid for it was very high: in its attempt to hide less than €3bn it ended up owing more than €5bn. It wasn't a good transaction."

Jacob Soll

Jason Manolopoulos

Could the subsequent Greek debt crisis be blamed on the Goldman's deal? I ask Dunbar. "Not at all. It wasn't the cause of Greece's problems but it has a large symbolic weight: it's a symbol of those problems."

The deal was once eloquently described by US senator Mark Kirk in a 2010 parliamentary hearing:

"As Greece got on the heroin of borrowed money, Goldman was the crack dealer. And did not disclose these increasing liabilities to the EU financial system, to the IMF, or to the Fed."

As much as the Goldman deal was legal, the bribes allegedly paid by German companies to politicians in exchange of public contracts don't seem to be either lawful or legitimate.

Those scandals, such as the 'gifts' Siemens allegedly presented to Greek MPs, reported by international media in the last decade, coupled with the disregard for IPSAS, build the case of those who see features of odiousness in Greece's debt.

**"The other problem is amateur governments. Again, only accountants would tell you that the numbers are right if we used IPSAS. Yet I've had prime ministers in Europe laughed at my face when I say we need accountants. That, historically, scares the hell out of me" Soll**

**"The situation is very perverse. As long as Greece is in the doghouse it would get refinanced at zero or 1% by the official lenders. So why should Greece be a good boy and go to the markets, if is going to be penalised?" Manolopoulos**

"Under the strict international laws Greece's debt is not odious but if you look at how the debt was formed you have complicit players. Clearly the Greeks have the full responsibility but international lenders knew what was happening," Manolopoulos says.

Manolopoulos doesn't spare his fellow countrymen of criticism, his book thoroughly analyses the structural issues that have hindered Greece's reforms: clientelism, cronyism, nepotism, corruption, red tape, a bloated public sector.

As he writes in *Greece's 'odious' debt*, the EU was the safe haven, the safety net. Greeks felt they were too important to fail, and should a crisis come, the Europeans will help them. "This is the problem with free riding. If you have a trust fund to fall back on, you don't work so hard at school. [...] Thus, is no coincidence that the pace of reform went through a major slowdown after Greece joined the Euro."

But as Manolopoulos now tells *The Accountant*, it takes two to tango, in reference to the ultimate beneficiaries of bailout funds. "The bailouts made sure that the Ger-

> "If Greece doesn't have the capability [for IPSAS] then it can surely get it from other European countries that have already done those reforms. If a medium-sized corporation can apply international accounting standards, I'm sure the government can do that as well" Serafeim

> "One interesting thing about IPSAS is that, in terms of how you would measure the debt, you would get the same results as under IFRS. That's because the standards we have for financial instruments are based on IFRS pretty much word for word" Mason

George Serafeim

Paul Mason

man and French banks didn't go bust. It's a merry-go-round: they are lending us to give back to themselves."

He says that was Varoufakis' argument, someone with whom he doesn't generally agree. However Manolopoulos says: "The good thing about Varoufakis, amid all the huge damage he did, is that he forced people to look at ideas and arguments more deeply. Before it was too much of a one-sided discussion: Greeks are just lazy. But it's much more complicated than that."

### Spartan austerity

Among the austerity measures imposed by the first bailout package of 2010, there seems to have been some exceptions, namely arm spending.

As denounced by Daniel Cohn-Bendit, former Member of the European Parliament for the Green party, France and Germany were quick to remind Greece that austerity was not an obstacle to keep up their arms deals business as usual.

In a famous address of about that time the MEP said: "This is all gross hypocrisy! In recent months, France has sold six frigates to Greece for €2.5bn, helicopters for more than €400m, and Rafales at 100m apiece.

"My sources don't allow me to say whether it's 10 or 20 of 30 Rafales. That adds up to almost €3bn! Germany has sold 6 submarine vessels for €1bn over the coming years. We are really a bunch of hypocrites! We are giving the Greeks money to buy arms from us!"

In Manolopoulos' book is well documented Greece's arm spending, where he explains how France and Germany, have benefited commercially the most from weapons sales in the Aegean region.

According to Manolopoulos' account during 2010 talks between the Greek government and French company DCNS over the purchase of six frigates were underway, at a combined estimated cost of €2.5bn, the same figures Cohn-Bendit referred to.

He also provides data from the Stockholm-based International Peace Research Institute (SIPRI). According to this organisation Greece was among the top five largest recipients of major conventional weapons during 2005 to 2009.

During the same five-year period only China, India, South Korea and the United Arab Emirates spent more in arms than Greece. However relative to size and wealth of the population, the adjusted ranking placed the UAE at the top followed by Greece.

Manolopoulos also quotes SIPRI researcher Siermon Wezeman in his book: "The Greek navy is the same size as the Dutch, Danish and Norwegian navies combined in terms of the number of ships." That's possibly a very telling example as Greece's post-bailout welfare state pales compared to those enjoyed by her Dutch and Scandinavian peers.

Another pearl from SIPRI's annual report, dated March 2010, is Germany's credentials as arms exporter: the world's third largest one, after the US and Russia. And interestingly enough, its top two buyers were Turkey and Greece with 14% and 13% of sales, respectively.

No wonder then, Germany and France are also Greece's biggest creditors, with holdings of about €57bn and €43bn each.

However, asked who benefits more from the whole situation, Greeks or its creditors, Manolopoulos answers that none of them in the long run: "It's all just damage control. Greece has not been thrown to the wolves and creditors haven't taken the heat right now. But after six years of depression, reforms and a growth package are needed so the money spent in Greece goes somewhere productive."

That's an assertion which seems to be shared by Serafeim when asked about the potential odiousness, or at least sustainability, of Greece's debt.

"Any debt can be a debt that cannot be repaid. This always depends on the underlying productive capacity of the economy."

According to him, if the country gets right a number of key reforms (property rights, reduction of the cost of capital, stop the brain drain and retaining high quality entrepreneurs) Greece's capacity to repay the debt would increase.

Serafeim continues: "Bailout programs are badly designed because they tend to ask for too many things, instead of focusing on the few aspects that really matter – that's a fundamental principle of turnaround.

"I think those bailouts programs should be about increasing accountability and transparency in the public sector." ■