Munich Seminars
CESifo and the Süddeutsche Zeitung

Lecture Topic
Greece: Government Accounting Reform as a Pre-Condition to EU Funds

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27 April 2015

[Working Draft]

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

- The lecture will explain the extent to which the absence of transparency and accountability, associated with an institutional and cultural aversion to accounting reform, represents a major cause of the lack of trust and confidence in the Greek government.

- The lecture will provide a quantification of the benefits for sustainable fiscal policy of making Greece government accounting reform a pre-condition to EU funds.

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

Lecture Outline

1. Background
2. The Right Framework of Analysis
3. Analytical Research Findings
4. Field Research Findings
5. Pre-Conditions for EU Funding

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

1. Background

Japonica History with Greece

- Japonica’s core business is investing in underperforming global special situations.
- Began our research on Greece in the Spring of 2012.
- Discovered a woeful lack of and disregard for government financial information.
- A team of over 100 professionals assisting.
- One of largest accounting and financial mismanagement situations in history.

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.
- Estimated 650,000 government related employees.
- 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, had approximately €91 billion in financial assets.

2. The Right Framework of Analysis

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

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

2. The Right Framework of Analysis

2.1. International Alternatives

Debt Measurement Frameworks

INTERNATIONAL ACCOUNTING STANDARDS

IPSAS

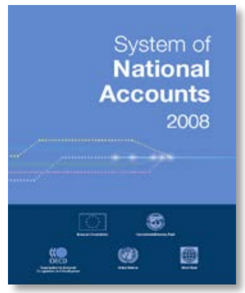
IPSAS 29 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

IFRS

IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

INTERNATIONAL STATISTICS GUIDELINES

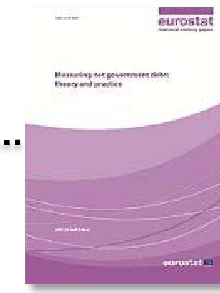
SNA 2008



ESA 2010

MGDD

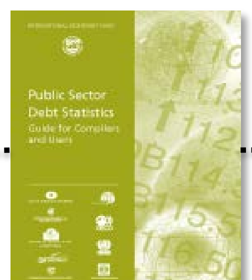
NET DEBT



INTERNATIONAL STATISTICS LENDER COVENANT GUIDELINES

GFSM 2014

PSDS



EDS

Maastricht Treaty

International Accounting Standards and International Statistics Systems

IPSAS: International Public Sector Accounting Standards is the public sector global benchmark.

IFRS: International Financial Reporting Standards is the private sector global benchmark.

SNA 2008: System of National Accounts is endorsed by five multi-national organizations.

ESA 2010: European Commission.

GFSM 2014: International Monetary Fund.

Economic Reality is the Goal

All statistics systems have the same goal as international accounting standards, IPSAS and IFRS: financial information that best reflects economic reality.

SNA 2008 – 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.

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.

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

Debt Measurement Principles: Summary

S/N	Debt Principle	International Accounting (IPSAS and IFRS)	International Statistics (ESA, SNA, GFS*)	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 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. GFS discusses but deviates from basic principles, even citing policy exemptions.
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. None of the three statistics systems 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 (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 and GFS specifically use the IPSAS/IFRS term “arm’s length” as a part of market valuation.
8. Ongoing Market Price Changes: Unlike IPSAS/IFRS, all three statistics systems revalue debt that is traded at the date of each balance sheet.

** IMF 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.

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

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

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.

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 of 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.

Five Opportunities For Greece Government to Show Net Debt Numbers that Reflect Economic Reality, But They Choose Not To

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

#5. GFS: §3.113-115 at fair value. §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 by Greece in the table below avoid the disclosure by providing qualitative, not quantitative, responses.

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 Schools of Thought on Net vs. Gross Debt

School #1: Views <u>net debt</u> as essential for transparency and accountability, especially to assess government fiscal performance.

School #2: Uses <u>gross debt</u> as a punitive measure, especially for under-developed governments where financial asset data is suspect.

School #3: Uses either <u>gross or net debt</u> based on convenience, especially for database analysis.

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 “20 Questions About Government Financial Reporting” 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.

General Government Maastricht Gross and Net Debt Ratios: 2001 - 2013

	Maastricht Gross Debt to GDP			Maastricht Net Debt to GDP		
	2001	2013	2001-2013 Δ%	2001	2013	2001-2013 Δ%
Eurozone Average	62%	96%	55%	34%	54%	62%
International Accounting Standards Benchmarks that Focus on Net Debt	43%	51%	19%	31%	22%	-30%
Outperformance by Benchmarks:			36 percentage points			92 percentage points

Note: Preliminary calculations. International Accounting Standards Benchmarks include NZ, AUS, CAN.

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

2. The Right Framework of Analysis

2.2. ESA 2010 Misinterpretations

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 SNA 2008 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 SNA 2008 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.

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.

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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.

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.

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

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.

86% of Greece Government Debt Should Be Valued Under One or Both of the Rescheduling Debt or Concessional Loan Rules

	Rules	On Balance Sheet	Capital Transfer	Memorandum Item	Supplemental Tables
ESA 2010	**Rescheduling Debt**	Yes	Yes	NA	NA
SNA 2008	**Rescheduling Debt**	Yes	Yes	NA	NA
ESA 2010	**Concessional Loan**	No impact	Yes	Yes	NA
SNA 2008	**Concessional Loan**	No impact	Yes	NA	Yes

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

3. Analytical Research Findings

3. Analytical Research Findings

3.1. Net Debt

Greece Net Debt to GDP Using International Accounting Standards is 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.

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."

Overview of Greece Government Debt (1 of 2)

(Euros, Billions)

	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.

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

3. Analytical Research Findings

3.2. Cash Interest Expense

Greece Cash Interest is 1/4 of Peers

(€, Billions; 2015, except Debt)

		Greece	Peer Average	Post-Programme Countries: Ireland	Spain	Portugal	Italy
1.	Revenue	€ 84		€ 65	€ 411	€ 78	€ 772
2.	Interest Expense	€ 7.3		€ 7.4	€ 35.0	€ 8.7	€ 70.0
3.	Interest Expense % of Revenue	**8.7%**	**10.0%**	11.3%	8.5%	11.2%	9.1%
4.	EFSF Non-Cash Interest	€ 1.4					
5.	ANFA/SMP Rebates	€ 3.9					
6.	Cash Interest Payments	€ 2.0		€ 7.4	€ 35.0	€ 8.7	€ 70.0
7.	**Cash Interest Payments % of Revenue**	**2.4%**	**10.0%**	11.3%	8.5%	11.2%	9.1%
8.	Cash Interest Payments % of Debt (2014)	**0.6%**	**3.5%**	3.6%	3.4%	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.

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	3.0%	3.0%
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%	**0.6%**

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

3. Analytical Research Findings

3.3. Cost of Recent Financial Mismanagement

€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, IRR schemes.

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

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).

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	€15.4 billion
3. PSI GGBs	€0.2 billion
4. New Issue GGBs	€0.6 billion
5. Total Losses	€31.2 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.

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 2.8% 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.

SN	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 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**	NA	NA
2. **ANFA/SMP Rebates**	€ 580	0.3%	€ 2,000	€ 580	NA	NA	€ 2,500	€ 2,500
3. **Primary Balance (Excl. ANFA/SMP)**	€ 50	0.03%	€ 3,300	€ 1,599	NA	NA	**€ 2,800**	**€ 2,700**
4. **As Reported Includes ANFA/SMP**	Yes		Yes	Yes	Yes	Yes	No	No
5. Primary Balance (Incl. ANFA/SMP) as % of GDP			**2.9%**	**1.2%**	**2.7%**	**1.7%**	NA	NA
6. Primary Balance (Excl. ANFA/SMP) as % of GDP			NA	0.9%	NA	NA	**1.6%**	**1.5%**
7. **HFSF Reported Loss**	-€ 9,917	-5.5%						
8. **Primary Balance less ANFA/SMP Rebates and HFSF Reported Loss**	-€ 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. **Primary Balance less Rebates, HFSF Reported Loss, and EU In-Budget Net Receipts Estimate**	-€ 11,767	-6.5%						
13. **EU In-Budget Net Receipts and ANFA/SMP Rebates**	€ 2,480	1.4%						
14. 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 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 “State” Primary Balance: Q1 2015 (1 of 2)

		As of 31 March 2015		
S/N		**Amount**		**% of Q1 GDP**
1.	Primary Surplus (Target)	€ 119	*(a)*	0.3%
2.	Primary Surplus (Outcome)	€ 1,735	*(a)*	4.1%
3.	Rearrangement of Cash Payments	(€ 1,181)	*(b)*	-2.8%
4.	Military Procurement (On a Cash Basis)	(€ 130)	*(c)*	-0.3%
5.	ANFA & SMP	(€ 291)	*(d)*	-0.7%
6.	Bank Obligation Absorption	(€ 273)	*(e)*	-0.6%
7.	Losses on Bank Stocks	(€ 5,058)	*(f)*	-11.9%
8.	**Primary Surplus (Adjusted)**	**(€ 5,198)**		**-12.3%**
9.	EU In-Budget Net Receipts Estimate	(€ 500)	*(h)*	-1.2%
10	**Primary Surplus – Adjusted (Total)**	(€ 5,698)		**-13.5%**
11.	Q1 2015 Estimated GDP	€ 42,346	*(i)*	
	Q1 2014 GDP	€ 41,394	*(j)*	
12.	Primary Surplus 2014 (Outcome)	€ 1,541	*(a)*	3.7%

Greece "State" Primary Balance: Q1 2015 (1 of 2)

Notes:

(a) Hellenic Republic State Budget Execution Bulletin, March 2015, page 2.

(b) 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."

(c) 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 (b).

(d) Hellenic Republic State Budget Execution Bulletin, February 2015, page 4.

(e) The €273 million difference arises between the €645 million of liabilities and €372 million of assets for Panellinia Bank (to Piraeus Bank) that is covered by the Deposits and Investments Guarantee Fund (DIGF). This gap was not reserved for.

(f) 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.

(h) Calculated based on estimated 2014 full year EU In-Budget Net Receipts of €1.9 billion.

(i) Calculated using ELSTAT Q1 2014 GDP adjusted by EC AMECO database annual projected GDP growth rate.

(i) ELSTAT quarterly GDP data.

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%	-12.3%

	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.

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 Delta based on 2013 Eurostat data and 2014 ECB Statistical Warehouse data. GDP data from EC AMECO database. Cash Deficit and Debt Accretion are Japonica preliminary estimates based on available sources.

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

4. Field Research Findings

4. Field Research Findings

4.1 Transparency Reform Failure

Countless Headline Reforms with Little 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

Accounting Failed Attempts History

Greece has had five failed attempts at implementing government accrual accounting

***1: 1992** – Greek Ministry of Economy pushes for accrual accounting
2003 – Public hospitals in Greece to implement accrual accounting
***2: 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
***3: 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
***4: 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
*** 5: 2014 (December)** – For the fifth time, Government again promises to adopt IPSAS "next year" ignoring that implementation could start today

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

4. Field Research Findings

4.2. Countervailing Pressures

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

- There is NO tradition of the government building trust and confidence.
- There is NO tradition of transparency and accountability of government finances
- There is NO government financial information based on international accounting standards and audits.

Historical Perspective

Jacob Soll, Professor of History and Accounting at USC and author of “The Reckoning: Financial Accountability and the Rise and Fall of Nations”:

- “Greece has a weak tradition of accounting, with few homebred trained accountants.”
- “There is just not an accounting culture. Politically, nobody on the right or the left relies on accounting because nobody trusts it.”
- “The Greeks, for their part, don’t want serious accountants anywhere near their books.”
- “There is an absence of the Big Four on the topic. Even in major meetings of the Greek Chamber of Commerce on accounting, there are no representatives of the Big Four.”

Greece Rankings

- Stanford Sovereign Fiscal Responsibility Index
  - Last among 35 countries
- Transparency International Corruption Perceptions Index
  - Among worst 3 countries in the EU in terms of perceived public sector corruption
- World Bank Voice & Accountability Index
  - Among bottom 4 countries in the EU
- World Bank Government Effectiveness Index
  - Among bottom 3 countries in the EU in quality of public and civil services and credibility of government's commitments

Greece is the Worst Sovereign Accounting Offender (1 of 3)

1997 – 2004 EC Perspective: November 2004 EC Report on Revision of the Greek Government Deficit and Debt Figures:

- Understated consolidated debt
- Under reporting of expenditures and interest expense
- Over statement of revenues
- Unrecorded capital injections

2005 IMF Perspective: IMF Fiscal Transparency Report on Standards and Codes (ROSC)

- No consolidated budget for ordinary, military, and investment spending.
- Large number of extra-budgetary funds.
- Inadequate coverage, timeliness, and reliability of fiscal reporting.
- Lack of control over expenditure commitments and arrears.
- Inadequate assessment of fiscal risks.

2010 EC Perspective: EC Report on Greek Government Deficit and Debt Statistics

- Severe irregularities.
- Poor internal cooperation.
- Inappropriate accounting systems and setting.
- Lack of accountability.
- Unclear and/or lack of responsibilities.

Greece is the Worst Sovereign Accounting Offender (2 of 3)

Representative Quotations

1. "Greece's deficit situation **takes 'there's lies, damned lies and statistics' to a whole new level.**" WSJ, November 2009
2. "The **national sport of Greece is cheating**. **The Greek government lied** its way into the EMU." Sydney Morning Herald, September 2011
3. "Greece set the tone when it **lied about its circumstances and lived beyond its means**." Economist, December 2011
4. "Greece is **in a class of its own**. It **manipulated its borrowing statistics to look good**." BBC, December 2011
5. "In the case of Greece, its initial entry into the euro currency was accompanied by **dubious accounting practices that went unacknowledged for years**." Peterson Institute, January 2014

Greece is the Worst Sovereign Accounting Offender (3 of 3)

Representative Quotations

6. "Greece entered the euro zone after **falsifying its data**." German Vice Chancellor February 2014
7. "… three years after Greece's disclosure that it had been **fudging its government finance statistics**" NYT, October 2012
8. "But the new administration in Athens [October 2009] soon proved to be **just as creative with its accounting as its predecessor**" Der Spiegel, October 2011
9. "The projected deficit for 2009 was **revised from 3.7% of GDP to 13.6% of GDP (and in 2010 revised up again to 15.4% of GDP)**." CESifo, November 2011

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 1/4.

Bank of Greece Governor's Plan for No Creditor Losses but NPV Benefit for Greece

25 March 2015

- "However, in view of the progress achieved so far in terms of reaching primary surpluses and meeting the various conditions incorporated in the adjustment programme, further debt relief should be provided to Greece along the lines of the Eurogroup decision of 27 November 2012."

- "There are various ways to do that [debt relief] without losses for euro area creditors. For example:
  - By reducing the lending rate on the Greek Loan Facility by setting the spread over the Euribor -- currently at 50 basis points -- to zero;
  - By a further 10-year extension of the maturity profile of EFSF and GLF loans.
  - The combination of these actions would amount to a net present value benefit of about 17 percent of 2015 GDP for Greece over the next 35 years, thus improving debt sustainability.

  This will also make possible a relaxation of fiscal targets, making some room for additional investment spending and catering social needs."

Culture Video Clip Example 1

The Greek economy and its global partners: A conversation with the Greek Finance Minister

April 16, 2015

BROOKINGS

Transcript Excerpt:

"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."

Video Clip: *https://youtu.be/352bLwFp3pg*

Culture Video Clip Example 2

Debt Restructuring & Greece (Excerpt) - Bruegel Interview with Syriza Chief Economist
February 12, 2015

bruegel

Transcript Excerpt:

"It's unsustainable from the point of view of the majority of the people. The agreement of the former government is that the country creates a primary surplus of 4.5% from next year on in order to repay not only the interest but also the principal. This is going to function as an austerity and recession trap. So from the point of view of growth and the interest of the majority of the people it's absolutely unsustainable."

Video Clip: [*https://youtu.be/A6tlMQKXPmU*](https://youtu.be/A6tlMQKXPmU)

Baseless Excuses Protecting the Accounting Status Quo in Greece

1. **Accounting** cannot be that important or have that big of an impact**.**
2. **Between 2000 and 2008** Greece didn't have GAAP financials and the country grew.
3. **Capital markets** frequent changes are too demanding for Greece.
4. **Debt projections** already have Greece well below 100% in the next few years without GAAP accounting.
5. **Economic recovery** is already occurring in Greece without GAAP accounting.
6. **First in EU** to have GAAP financials has no benefit to Greece.
7. **Government is too unstable** in Greece to risk adopting GAAP accounting.
8. **High interest** costs for Greece are not the biggest issue to recovery.
9. **Markets access** for Greece will already be available in 2H 2014 without GAAP accounting.
10. **No money or resources** in Greece to adopt GAAP accounting.
11. **No one will believe** Greece if they say their numbers improve with GAAP accounting.
12. **Not all AAA rated** nations have GAAP financials, so why does Greece need them?
13. **If positive** GAAP results were really true, then Greece would have already adopted.
14. **Reducing debt** is not a top priority.
15. **Sign of weakness** if the current government admits that such an important idea was not created in the current Greek government.
16. **Something unknown and really bad** that will happen if Greece adopts GAAP accounting otherwise they would have done it already.
17. **Ten years** time will be necessary before Greece can have GAAP financials.
18. **Too complicated,** GAAP, and Greece does not have the talent to do GAAP.
19. **Undesirable disclosure** will be required by GAAP of Greece government affairs.
20. **Since late 1990s,** Greece has successfully exploited the enabling EU beneficiary country funding and EU membership low borrowing costs--why change strategy now?

Continued Use of Fiscal Illusion

- ECB and national central bank interest and principal rebates added to revenue to artificially inflate the primary balance.
- 100 tax installments having no cost.
- Destroying value of financial assets is not recorded.
- <u>Decentralised Europeanisation</u> cost no one anything.
- Difference between Greece Ministry of Finance and ELSTAT reported primary balance.
- Delaying vendor payments to reduce Q1 expenditures.
- Defense spending cash timing games.

5. Pre-Conditions for EU Funding

Greece: Government Accounting Reform as a Pre-Condition to EU Funds

5. Pre-Conditions for EU Funding

5.1. Immediate Conditions

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.

€340 Billion of Debt Relief 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%**

Greece Net Debt is Among the Lowest in the Eurozone[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.

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%.

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.*

Greece Receives €7 Billion Per Year in EU 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.

Greece has Avoided Debt of €160+ Billion with "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.

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).

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.

5. Pre-Conditions for EU Funding

5.2. Long-Term Planning

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%**

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."

GFSM (IMF) Box A6.1.
Summary Comparison of GFS and IPSAS - Objectives

Government Finance Statistics:

Evaluate economic impact: Government finance statistics are used to (i) analyze and evaluate the outcomes of fiscal policy decisions, (ii) determine the impact on the economy, and (iii) compare national and international outcomes. The GFS reporting framework was developed specifically for public sector input to other macroeconomic datasets.

IPSAS:

Evaluate financial performance and position: General purpose financial statements are used to evaluate financial performance and financial position, hold management accountable, and inform decision making by users of the general purpose financial statements.

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

IMF Staff Guidance Note (May 2013):

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

IMF on Fiscal Transparency

- New Fiscal Transparency Code
- New Fiscal Transparency Evaluations (FTEs)
- Seminal Fiscal Transparency, Accountability, and Risk Report
- Staff seconded to Portugal
- Positive FTAs on Portugal and Ireland
- **Greece:** Comparatively little progress

Potential Cost to Europe of Greece Loans

(As of 27 April 2015)

GLF Loans	€ 53 Billion
EFSF Loans	€ 131 Billion
SMP/ANFA Bonds	€ 27 Billion
ELA	€ 76 Billion
ECB (Other Target-2)	€ 39 Billion
Total	€ 326 Billion

It's Time to Expand the Public Debate Globally for Greece to Implement International Accounting Standards and Audits and Improve Government Fiscal Performance

- Greece has already received €340 billion in debt forgiveness.
- Greece benefits annually:
  - €5+ billion of EU "free" funds.
  - €1.5 billion in EIB loans.
  - €5 to €15+ billion in avoided interest expense with EU borrowings.
  - **€11.5 to €21.5 billion Annual Financial Advantage.**

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