IMF and GREECE:

12 HELPFUL FACTS TO BETTER UNDERSTAND GREECE GOVERNMENT DEBT SUSTAINABILITY

(Part 2 of 4)

On 23 September 2016, the IMF released a Greece Article IV Mission Staff Concluding Statement, a useful complement to its May 2016 Debt Sustainability Analyses. The headline message is that Greece government debt is unsustainable, further debt relief is required, and debt continued to rise reflecting shortfalls between economic outcomes and Greece's ambitious targets. (Article IV, page 3)

The following are **12 Helpful Facts to Better Understand Greece Government Debt Sustainability**:

1. **Trust and confidence:** Contrary to the IMF's long-standing tradition, the Statement does not acknowledge building trust and confidence as a cornerstone of government responsibility and omits from its recommendations a most important reform for Greece, which is transparency and accountability of financial information. Despite IMF advocating IPSAS for transparency and accountability of government financials, especially balance sheets, in numerous publications, the Statement makes no mention of these reforms for Greece, exposing the IMF to criticism for showing creditor bias in not wanting to report the correct value of Greece government 2015 net debt/GDP of 41%, thereby advancing the IMF's economic interests. Of note, the IMF uses similar rules (IFRS) for its own balance sheet.
2. **Debt relief:** The DSA acknowledges the "very large NPV (net present value) relief" provided by the EU to Greece, but does not report the impact on Greek balance sheet debt. (DSA May 2016, page 1)
3. **DSA on PV:** Although the IMF's guidelines for highly concessional loans recommend the present value of debt be reported in debt sustainability analyses, present value is not reported for Greece. (Public Debt Limits June 2015, page 27) Using the IMF guidelines and public information, Greece 2015 gross debt/GDP was 116% and net debt was 104%.
4. **Debt/GDP:** The IMF states clearly that Greece's "debt/GDP ratio is not a very meaningful proxy for the forward-looking debt burden", but continues to make it a headline target for decision-making. (Preliminary DSA June 26, 2015, page 11)
5. **Concessional debt:** Replacing debt that matures at face value with highly concessional debt with a present value as low as 20% of future face value is recorded as no change in Greece government debt by the IMF rather than reflecting the economic reality that debt actually declined by up to 80%. Recording restructured debt at present value, also known as initial recognition value, is a global best practice for independently developed international rules, such as IPSAS, IFRS, 2008 SNA, and ESA 2010.
6. **Restructured debt:** The IMF GFSM guidelines are the only internationally applied rules that do not seek to report the economic reality that rescheduled debt is extinguished and recorded at fair value on the date of rescheduling. Sections A3.12-13 are superficially harmonized with the international consensus saying that "rescheduled debt is considered repaid and replaced with a new debt instrument created with new terms and conditions" and recorded at the "value of the new debt". However, inserted parentheses directly undermine the harmonized text and defy economic reality by adding, "which, under a debt rescheduling, is the same value as the value of the old debt". Furthermore, the GFSM again favors creditors by diverging from international standards and economic reality in section A3.15 requiring debt refinancing in the replacement of existing debt to be recorded at the value of the new instrument by inserting the text, "except for nonmarketable debt (e.g., a loan) owed to official creditors".
7. **Use of proceeds:** Incurring highly concessional debt to invest in financial assets is reported as a debt increase by the IMF. In economic reality, receiving highly concessional loans and investing in financial assets decreases Greece government net debt as the asset value exceeds the initial value of debt.
8. **Interest rates:** There is an irreconcilable *non sequitur* between the Statement concluding that the debt stock number is not "meaningful" and using that same number to project interest rates in the DSA.
9. **Asset losses:** The Statement does not mention the tens of billions of euros in Greece government asset value lost as the main cause for the increase in Greece net debt, a key metric used in other DSAs. Our estimate of government asset value lost is €69 billion or €625 million per week.
10. **GFN:** Gross financing needs should not replace debt service as a key metric, as about 75% of projected GFN components are not conventional debt service but IMF discretionary assumptions. Conventional debt service for Greece would be approximately 50% of peers.
11. **Projections:** Half-century projections are not credible. Assumptions for Greece on growth, interest rates, and fiscal balances if applied to many EU member states would show similarly unsustainable debt metrics.
12. **Loan profitability:** Greece has paid over €3.5 billion in interest payments and fees to the IMF, averaging 37% of IMF total net income, and covering 79% of IMF total administrative expenses. Over the past five years, the IMF had an average operating margin of 63%, a multiple of major banks.

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