Accurately Measuring Greece Government Debt and Debt Relief

Representative comments by:

A. EU Member States
B. European Institutions
C. IMF
D. Economists
E. Accountants
F. Historians
G. Investors

Accurately Measuring Greece Government Debt and Debt Relief Commenters

A. EU Member States
   1. Germany Chancellor Angela Merkel
   2. Germany Deputy Minister of Finance Jens Spahn
   3. Germany - CDU Economic Council
   4. Germany - Former German Council of Economic Experts to German Chancellor Beatrice Weder di Mauro
   5. Greece - Bank of Greece Deputy Governor Iannis (John) Mourmouras
   6. Austria - Budget and Public Finance Director General Gerhard Steger
   7. Greece - New Democracy President Kyriakos Mitsotakis
   8. Greece - Former Deputy PM and FM Evangelos Venizelos
   9. Greece - Deputy Minister of Foreign Affairs and Former Deputy FM Dimitris Mardas
   10. Greece - Governor of the Bank of Greece Yannis Stournaras
   11. Greece – Deputy Minister of Finance Giorgios Chouliarakis
B. European Institutions
   12. European Stability Mechanism Managing Director Klaus Regling
   13. European Stability Mechanism
   14. Eurogroup President Jeroen Dijsselbloem
C. IMF (15.)

Accurately Measuring Greece Government Debt and Debt Relief Commenters (Con't)

D. Economists

16. Harvard Business School Professor George Serafeim
17. London School of Economics Professor Paul De Grauwe
18. Bruegel Director Guntram Wolff
19. IFAC International Ethics Standards Board for Accountants Chairman Stavros B. Thomadakis
20. Brookings Senior Fellow Theodore Pelagidis
21. Centre for European Policy Studies Director Daniel Gros
22. Former Moody's Head of Sovereign Ratings Vincent Truglia
23. Former IMF Senior Economist Dimitri Tzanninis
24. Former Finance Minister Gikas Hardouvelis
25. Former Greece Finance Minister Yannis Varoufakis
26. Greece Banking Executive Yiannis Pehlivanidis
27. Former Minister of Economy and Finance Nikos Christodoulakis
28. LBS Professor Michael Jacobides

Accurately Measuring Greece Government Debt and Debt Relief Commenters (Con't)

E. Accountants
   29. KPMG Frankfurt
   30. CIPFA Chairman and former IFAC CEO Ian Ball
   31. CIPFA CEO Rob Whiteman
   32. International Federation of Accountants
   33. PWC Greece
   34. Deloitte Global Leader Public Sector Accounting and Auditing Frans Van Schaik
   35. AmCham Taxation Committee President Stavros Kostas
F. Historians
   36. University of Southern California Professor Jacob Soll
G. Investors
   37. Japonica Partners Chairman and CEO Paul Kazarian
   38. American-Hellenic Chamber of Commerce Executive Director Elias Spirtounias
H. Media and Civil Society
   39. Chair of Transparency International Greece Costas Bakouris
   40. Kathimerini Editorial (INYT local affiliate)

A. EU Member States

1. **Germany Chancellor Angela Merkel**: “It is rightful that we don't ask about the 120% debt [to GDP] ratio, but ask, what is the actual burden on Greece from its debt service.” 1 Sep 2015, Axia Daily.
2. **Germany Deputy Minister of Finance Jens Spahn**: Debt burden should be assessed based on "net present value of debt" and "how much in fact does Greece have to pay per year”. 2 Sep 2015, Bloomberg.
3. **Germany - CDU Economic Council**: “...it is the fair value of a loan that is decisive, not the nominal value. Thanks to various debt restructuring rounds, Greece is relieved of its full risk premium on financial markets. Heavily subsidized Greek debt is not even subject to repayment until 2020. This 'competitive edge' is kept quiet. If Greece were subject to IPSAS accounting, it would have to state significantly lower debt than the nominal value of €315.5 billion...” 24 Feb 2015, Letter to Members of the CDU/CSU Parliamentary Group.

A. EU Member States (con't)

4. **Germany - Former German Council of Economic Experts to German Chancellor Beatrice Weder di Mauro**:

   - "Why focus on debt in present value rather than gross terms? Because the majority of low-income countries' external debt is owed to official creditors, at long maturities, and below market interest rates. In order to account for differences in the debt profiles across countries and time, the framework discounts the nominal debt into more sensibly comparable present values… nominal values ignore the fact that the bulk of the obligations are low-interest rate liabilities due far in the future – in fact, the average weighted maturity is 15.7 years, at an average interest rate of 2.7%. This compares to secondary market yields in excess of 10% on the 10-year bonds for the majority of the year. These numbers reflect the concessional nature of Greece's official sector loans." 12 July 2015, Vox.
   - The present value of outstanding Greek debt is now about 100% of GDP. (Brookings, Sept 2015)

A. EU Member States (con't)

5. **Bank of Greece Deputy Governor Iannis (John) Mourmouras:**
   - Future talks on debt relief for Greece will focus on the "present value of Greece debt". (AmCham Greek Economy Conference Speech, 1 Dec 2015)
   - Greek debt should be correctly calculated using international accounting standards, based on present value terms, which would most accurately reflect the economic reality that most of Greek government debt is with the official sector and under concessional terms (low interest rates and long maturities).

6. **Austria – Budget and Public Finance Director General Gerhard Steger**: "To quantify net debt, assets and liabilities need to be valued. Cash cannot provide that, only accruals can. IPSAS offers the standards to compile a balance sheet." 17 Jun 2015, Presentation.

A. EU Member States (con't)

7. **New Democracy President Kyriakos Mitsotakis:** The public debt is not the most fundamental problem of the Greek economy. The problem is the reform deficit, competitiveness deficit, investment deficit, and the persistent unemployment. In other words, the denominator is the problem. The GDP, far more than the numerator, the debt. A very interesting debate has begun on the accurate representation of the public debt in present value terms. (Speech in Parliament, 22 May 2016)

8. **Former Deputy Prime Minister and Finance Minister Evangelos Venizelos**: Since the beginning of 2012, Greece has received a debt reduction of more than €200 billion: €100 billion in nominal terms, and another €100 billion in net present value terms. (Speech to Hellenic Republic Parliament, 4 Dec 2015)

9. **Deputy Minister of Foreign Affairs and Former Deputy Finance Minister Dimitris Mardas:** Greece government debt would be recorded at net present value taking into consideration the current value of the debt discounted by their expiry date on the basis of the market. (Economist Government Roundtable Speech, 14 May 2015)

A. EU Member States (con't)

10. **Governor of the Bank of Greece Yannis Stournaras:** The combination of these actions would amount to a net present value benefit of about 17% of 2015 GDP for Greece over the next 35 years, thus improving debt sustainability. (LSE Speech, 25 Mar 2015)
11. **Deputy Minister of Finance Giorgos Chouliarakis:** The main short-term measure is considered to be the restructuring under conditions of present value of the large debt of EFSF. (Speech to Parliamentary Subcommittee 3 November 2016)

B. European Institutions

12. European Stability Mechanism Managing Director Klaus Regling :

- "The IMF has accepted the euro-region view that Greece's debt load as a percentage of its economy isn't a proper debt sustainability gauge as long as bond redemptions and interest payments are largely suspended thanks to the financial support... Greece's gross financing need will be below 15 percent of gross domestic product for a decade." 27 Sep 2015, Bloomberg.
- "the actual cost to Greece of servicing its debt is among the lowest in Europe and will remain so for a long time. Its gross financing needs will drop in the coming years and fall well below those of most other eurozone countries by 2020" (FT, 9 Feb 2017). Greece debt ratio is meaningless (WSJ, 26 Sep 2013) given very generous concessional terms on the debt, and the debt relief should be measured using net present value. (ESM Annual Report, 18 Jun 2015)

B. European Institutions

13. **European Stability Mechanism**: "Considering these maturity extensions and interest rate deferrals over the entire debt servicing profile from a net present value (NPV) perspective shows a reduction in the overall debt burden and reveals implicit savings. The NPV approach consists of discounting the difference between the future cash flows of the loans benefitting from lower financing costs and debt relief measures and the cash flows of the same loans had they not benefitted from the relief measures."
    18 Jun 2015, Annual Report.

14. **Eurogroup President Jeroen Dijsselbloem**: "Eurozone governments, Greece's biggest creditors, agree that debt relief for Athens should be accomplished by capping its debt servicing costs at 15 percent of GDP."
    8 Oct 2015, Kathimerini.

C. IMF

15. IMF:

- "Given the extraordinarily concessional terms that now apply to the bulk of Greece's debt, the debt/GDP ratio is not a very meaningful proxy for the forward-looking debt burden. For the same reason, it has become increasingly problematic to compare the debt stock to the applicable benchmarks in the MAC DSA framework, which are derived from a historical sample of crisis episodes in which debt stocks would have been mostly, if not entirely, on market terms. It therefore makes sense to focus directly on the future path of gross financing needs (GFN), and use the MAC DSA benchmarks of 15–20 percent of GDP for that ratio to define a sustainable path." 26 Jun 2015, Greece Preliminary DSA.
- Present value of debt is the appropriate measure for non-market access countries (DSA LIC Framework, 5 Nov 2013)

D. Economists

16. **Harvard Business School Professor George Serafeim**: "In 2012, other countries provided loans on attractive terms with below-market interest rates, extended maturities, deferral of interest payments, and rebates on interest. This is why the present value of Greece's debt is actually a fraction of its face value." 1 Jul 2015, hbs.edu.

17. **London School of Economics Professor Paul De Grauwe**: "As a result of these implicit restructurings, the headline debt burden of 175% of GDP in 2015 vastly overstates the effective debt burden. The latter can be defined as the net present value of the expected future interest disbursements and debt repayments by the Greek government, taking these implicit restructurings into account. Various estimates suggest that this effective debt burden of the Greek government is less than one-half of the headline debt burden of 175%." 18 Jun 2015, Blog posting.

18. **Bruegel Director Guntram Wolff**: "In the period 2015-2020, Greece will not pay more than 2.6% of GDP in annual interest. In fact, the European official creditors have waived interest payments until 2020 and debt repayment is stretched over more than 30 years. As a consequence, the Greek interest burden is about the level of interest that France pays." 16 Jun 2015, Blog post.

D. Economists (Con't)

19. **IFAC International Ethics Standards Board for Accountants Chairman Stavros B. Thomadakis**: "In the case of Greek debt, the cash flows promised by outstanding securities have changed as public debt has been subjected to a haircut and transformed to a large extent from market-held to officially-held debt. Valuations and nominal obligations are understandably out of line. The PV of present debt is arguably much lower than the nominal amount… We should support the introduction of accrual accounting and the application of high quality accounting standards to our public sector." 1 Dec 2014, Speech.

20. **Brookings Senior Fellow Theodore Pelagidis**:
    - The Greek 2016 debt service ratio of 6 per cent "is very low, at just 47 per cent of the peer government average." Sep 2015, Intereconomics.
    - "From a political perspective, Tsipras now has the hard-earned right to claim that he has won €64.6 billion in debt relief with the new agreement and over €10 billion in reduced austerity." Sep 2015, Intereconomics.

D. Economists (Con't)

- Undermining business confidence for political reasons by saying that debt is unsustainable? A vicious circle of political risk and debt sustainability. Greece debt metrics are a fraction of peers, but its borrowing costs are almost 1,000 bps greater. Why? The political risk again is the answer. Numbers are even better when using present value, not future face value. (LSE, 1 Mar 2016)

21. **Centre for European Policy Studies Director Daniel Gros**: "Greece is not insolvent. The debt-to-GDP ratio of 175% of GDP is a red herring. What matters is how much the Greek government has to pay for debt service. This is actually rather low, lower than for Italy or Ireland for that matter." 5 Feb 2015, CEPS.

D. Economists (Con't)

22. **Former Moody's Head of Sovereign Ratings Vincent Truglia**: "… Eurostat, the agency that oversees EU accounting practices, has the odd rule that a government doesn't have to write-down debt (assets) if it simply extends the maturity and lowers the interest rate on those securities. Of course, this is a sham, since in net present value terms, such maturity extensions and lower interest rates, actually lower the value of the debt. However, Eurostat does require governments to write-down debt if there is any debt forgiveness." 30 Dec 2014, Clear and Candid.

23. **Former IMF Senior Economist Dimitri Tzanninis**: "Greece has a huge competitive advantage, which has been discussed only in the shadows. Specifically, Greece's public debt-to-GDP, when calculated correctly according to IPSAS, is one-third of its credit peers." 21 Oct 2014, Kathimerini.

D. Economists (Con't)

24. **Former Finance Minister Gikas Hardouvelis**: Greece was offered substantial debt relief through the PSI of February 2012 as well as maturity extensions, interest rate reductions and even a grace period in its interest rate obligations… The long maturities, low yields and grace period render the true (present) value of debt obligations very small relative to its nominal (face) value. (World Post, 29 Feb 2016)

25. **Former Greece Finance Minister Yannis Varoufakis**: "As stated by the Director General of the ESM in 2013, the structure of the Greek debt is as important as the debt-to-GDP ratio to assess sustainability. Long term maturities and reduced interest rates already entail a lower debt ratio in 2015 in net present value terms… The government looks forward to discuss with the IMF and the other institutions a more accurate assessment of debt sustainability."

26. **Greece Banking Executive Yiannis Pehlivanidis**: "Using internationally-accepted accounting standards, Greece's net debt-to-GDP is one-third of that of its peers. This is the true and fair debt level and can be accurately displayed using IPSAS." 15 Jun 2014, Kathimerini.

D. Economists (Con't)

27. Former Minister of Economy and Finance Nikos Christodoulakis: I agree that the present value of the debt is the right way to look at the debt stock. Debt is not the issue, it's about growth. (CEPS, 9 Feb 2016)

28. LBS Professor Michael Jacobides: Calculating this debt in "present" (i.e., today's) value, as the leading governments and businesses that follow international accounting standards do, suggest that the debt is actually 68% of GDP rather than 176%, the number you get if you considered the debt without taking into account maturities and duration. And that is without even deducting the significant value of government financial holdings to produce the net debt figure. (Harvard Business Review, 16 Sep 2016).

E. Accountants

29. KPMG Frankfurt: Independently verified Japonica calculations according to IPSAS of Greece debt to GDP of 68% and net debt to GDP of 18%. 15 Aug 2014, Expert's Opinion.

30. CIPFA Chairman and former IFAC CEO Ian Ball:

- "It remains a mystery how highly regarded commentators and institutions continue to refer to a debt-to-GDP ratio of 175%, when on an IPSAS basis the number would be around 70%. And even more of a mystery when account is taken of the €91bn in financial assets that Greece had at end 2013, which would reduce net debt to less than 20% of GDP!" 19 May 2015, PFI.
- "the 175% is based on the Maastricht Treaty, which uses the nominal or face value of debt. In other words, it does not reflect the time value of money or that restructuring pushed out the maturity of Greek debt significantly and also reduced the interest payable. Imagine the consequences if Greece was seen to have a debt level significantly less than 60%... attract more investment, achieve more favourable borrowing terms, and have both greater ability to borrow and greater scope to invest." 7 Nov 2014, PFI.

E. Accountants (Con’t)

31. CIPFA CEO Rob Whiteman: “If Greece was to adopt IPSAS, CIPFA estimates that its gross debt would drop from 176% to 68% of GDP. However, gross debt is not the best measure of debt burden or fiscal strength. Most governments, including the German one, regard net debt as the better measure. Government net debt is debt owed by the general government minus its financial assets... Greece’s net debt is only 18%... On this basis the Greek debt burden is significantly lower than that of most other European countries.” 6 Apr 2015, Global Government Forum.

32. International Federation of Accountants: “IFAC supports the argument that Greece must build trust and confidence with all stakeholders by making transparency and accountability its most urgent and important reform. Whether the issue is political, economic, or social—accounting matters, and starting with the right numbers is essential to assessing the economic and financial consequences of alternative solutions. Thus, a fresh start for Greece should begin with government financial information based on accrual-based International Public Sector Accounting Standards.” 20 Jul 2015, Press Release.

E. Accountants (Con't)

33. **PWC Greece**:

- recommends "Immediate implementation of double entry bookkeeping system in all public administration bodies" and "Implementation of accruals accounting principle through the adoption of International Public Sector Accounting Standards for the accounting monitoring of budgetary figures" Sep 2013, Orange Book.
- The net present value of Greece government debt is less than half of its nominal value. (Directions for Economic Recovery in Greece, Sep 2013)

34. **Deloitte Global Leader Public Sector Accounting and Auditing Frans Van Schaik**: "If the interest rate on loans is below-market, as is the case with the renegotiated loans to Greece, the nominal value indeed does not reflect the economic substance. Any IPSAS financial statements would value such concessionary loans at a lower amount than the nominal value. This provides a more realistic picture of the government's financial position and with the Greek loans this makes a big difference." 6 Mar 2015, Accountant.nl.

E. Accountants (Con't)

35. AmCham Taxation Committee President Stavros Kostas:

- "implementation of IPSAS will lead to a favorable and more fair assessment of our public debt, due to the favorable conditions outlined in the EFSF financial support and the bilateral loan agreements with EU Partners." Mar 2015, Business Partners.
- In the framework of the implementation of IPSAS, the value of the Net Debt on 31 December 2013 would be 18% of GDP, a substantially lower level than the subversive threshold of 60% GDP provided for by Maastricht Treaty... By the principal criterion of Net Present Value, instead of the Market Value, the classification of the Country, according to the Maastricht Treaty, at the 12th and final unfavorable position among the 12 Eurozone Countries with an increased Debt, would change drastically by bringing competitively the Country to the second best position, after Slovenia. (Voria, 23 Dec 2014)

F. Historians

36. University of Southern California Professor Jacob Soll:

- "They agree that if you calculated Greece's debt by the modern accounting standards known as IPSAS — the rules used by the European Commission itself, as well as countries such as Britain and Portugal — it could be as low as $36 billion." 2 Jul 2015, Politico.
- "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." Sep 2015, The Accountant.

G. Investors

37. Japonica Partners Chairman and CEO Paul Kazarian:

- Greece Present Value (PV) of net debt to GDP was 22% of peers and PV of debt to GDP was 60% of peers when correctly calculated using international macroeconomic and accounting rules. 2015, mostimportantreform.info.
- Greece present value (PV) of net debt to GDP ratio was only 18%, or 1/4 of peers, when correctly calculated using international macro-economic rules and international accounting rules, which are largely harmonized. 2015, mostimportantreform.info.

38. American-Hellenic Chamber of Commerce Executive Director Elias Spirtounias: When accounted for correctly, Greece's net debt to GDP is significantly below 60%, not the often cited figure of 175%. (Nov 2014)

H. Media and Civil Society

39. Chair of Transparency International Greece Costas Bakouris: Using IPSAS, we could highlight that the fair value of our loan obligations is much lower than the nominal one… comparison of the fair value versus the nominal value of the net versus the gross debt to GDP will be considerably less and it is estimated to be comparatively less than that of our creditors, which actually constitutes an important competitive advantage. (Naftemporiki, 19 Feb 2015)

40. Kathimerini Editorial (INYT local affiliate): Editorial calls the government claims of a debt mountain a hoax on the public and the refusal to admit that debt relief reduced the debt outstanding part of a failed and destructive political strategy. (Kathimerini, 4 July 2016)