Four (4) February Actions for Greece to Win the Trust & Confidence of the Global Capital Markets and Regain Market Access at Borrowing Costs Comparable to Cyprus and Portugal

"Greece has among the best debt metrics and primary/fiscal balance numbers in the Eurozone"

Briefing Materials by:

Paul B. Kazarian

Chairman & CEO

JAPONICA PARTNERS

Bloomberg

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Paul B. Kazarian Summary CV

- As CEO and CFO of Fortune 300 diversified conglomerate, turned around over a dozen multinational businesses from bankruptcy to world-leading successful growth companies.
- Over 100 presentations on the topic of Greek debt and debt sustainability including: AmCham, BHCC, CEPS, CESifo, CIPFA, EGPA, FEE, HBS, IIF, IFAC, INET Oxford, ISCTE, LBS, OECD, PMI Congress, S&P, and USC.
- Sole Special Advisor to the Centre for European Policy Studies Task Force on How Better Managing Government Balance Sheets Can Enhance Growth.
- Visiting Professor of Government Financial Management for 2017-2018 at the ISCTE Business School at the Instituto Universitário de Lisboa in Portugal.
- Received the 2016 William Pitt the Younger Award for extraordinary leadership in strengthening democracy through government financial management.
- Analysis on Greek debt cited in prestigious publications including: HBS Case Study, InterEconomics, The Accountant, Der Spiegel, and the FT.
- Authored multiple presentations on IMF best practices not applied to Greece.
- Creator of www.MostImportantReform.info.
- Personal relationships with executives at the largest SWFs.
- Japonica Partners founder (est. 1988), Chairman, and CEO.

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#1. Start communicating Greece financial competitive advantage and Greece debt is sustainable.

#2. Select and communicate the right role model countries.

#3. Appoint a best in world financial management professional individual.

#4. Commit to publish a consolidated government balance sheet with timeline.

Greece has a Competitive Advantage when 2016 Debt is Measured According to Internationally Agreed Upon Standards

(€, billions)

Rules Set Politically with Little to No Regard to **Economic Reality**	**Amount (€)**	**% of GDP**		Internationally Agreed Upon Standards Designed to Reflect **Economic Reality**	**Amount (€)**	**% of GDP**
Excessive Deficit Procedure (EDP) Debt: Future Face Value	€ 317	180%		International Accounting Standards (IPSAS/IFRS) Balance Sheet Debt	**€ 132**	**75%**
IMF Baseline Debt: Future Face Value	€ 325	184%		ESA 2010 / 2008 SNA Debt: Correctly Calculated	€ 161	91%
IMF DSA Debt: Correctly Calculated	€ 204	116%		International Accounting Standards (IPSAS/IFRS) Balance Sheet Net Debt	**€ 84**	**48%**

Notes: IAS, ESA/SNA, and EDP from EC AMECO, Eurostat, and Bloomberg data accessed 17 Feb 2017; IMF Baseline data from Greece Article IV (Feb 2017).

Greece has Among the Best 2016 Debt to GDP Metrics in the Eurozone

	EZ Member State	Balance Sheet Debt % of GDP
1.	Estonia	10%
2.	Luxembourg	21%
3.	Latvia	39%
4.	Lithuania	41%
5.	Slovakia	52%
6.	Malta	60%
7.	Netherlands	62%
8.	Finland	64%
9.	Germany	68%
10.	Ireland	71%
11.	Greece	75%
12.	Slovenia	81%
13.	Austria	84%
14.	Cyprus	88%
15.	France	96%
16.	Spain	98%
17.	Belgium	107%
18.	Portugal	119%
19.	Italy	133%

Notes: EC AMECO data accessed 13 Feb 2017 except Greece, Cyprus, Ireland, Portugal, and Spain calculated according to international accounting standards; adjustments to future face value include Greece (180%), Cyprus (107%), Ireland (75%), Portugal (131%), and Spain (100%).

Illustrative Comments on Correctly Measuring Greece Debt: EU-Related

1. **European Stability Mechanism Managing Director Klaus Regling**: "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)
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". (Bloomberg, 2 Sep 2015)
3. **Germany Chancellor Angela Merkel**: "It is rightful **that we do not ask about the 120% debt [to GDP] ratio**, but ask, what is the actual burden on Greece from its debt service." (Axia, 1 Sep 2015)
4. **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** (Greece Preliminary DSA 26 Jun 2015). **Present value** of debt is the appropriate measure for non-market access countries (DSA LIC Framework, 5 Nov 2013)
5. **CDU Economic Council**: It is the **present value** of a loan that is decisive, **not the nominal value**. Greece debt is significantly lower than thought. This 'competitive edge' is kept quiet. (Letter to Members of the CDU/CSU Parliamentary Group, 24 Feb 2015)
6. **Former Member of German Council of Economic Experts Beatrice Weder di Mauro**: The **present value** of outstanding Greek debt is now about 100% of GDP. (Brookings, Sept 2015)

Greece has a Competitive Advantage When Gross Financing Needs (GFN) is Correctly Calculated

		GFN % of GDP
1.	IMF	17.3%
2.	Correctly Calculated According to ESM Definition	12.7%
3.	Correctly Calculated According to ESM Definition - Adjusted	5.2%

Notes: Correctly Calculated based on EC AMECO and Bloomberg data accessed 13 Feb 2017; IMF from Feb 2017 Greece Article IV. Adjusted GFN assumes T-Bills refinanced at five year market yield except Greece at ESM rate of 1% with 10 year even amortization.

Greece 2016 Primary and Fiscal Balance Rankings Have Improved Since 2014 to be Among the Best in the Eurozone

Primary Balance % of GDP					Fiscal Balance % of GDP			
2016 Rank	**Country**	**2016**	**2014**		**2016 Rank**	**Country**	**2016**	**2014**
1	Cyprus	2.5%	-6.0%		1	Luxembourg	1.6%	1.5%
2	Greece	2.3%	0.4%		2	Germany	0.6%	0.3%
3	Portugal	2.1%	-2.3%		3	Estonia	0.1%	0.7%
4	Luxembourg	2.0%	1.9%		4	Latvia	0.0%	-1.6%
5	Germany	2.0%	2.1%		5	Cyprus	0.0%	-8.8%
6	Italy	1.7%	1.6%		6	Netherlands	-0.1%	-2.3%
7	Malta	1.5%	0.8%		*7*	*Greece (Adjusted)*	*-0.4%*	*-2.8%*
8	Ireland	1.4%	0.1%		7	Lithuania	-0.4%	-0.7%
9	Latvia	1.2%	-0.1%		8	Malta	-0.7%	-2.0%
10	Lithuania	1.1%	0.9%		9	Ireland	-0.9%	-3.7%
11	Netherlands	1.0%	-0.8%		10	Greece	-1.1%	-3.6%
12	Austria	0.8%	-0.3%		11	Austria	-1.4%	-2.7%
13	Slovenia	0.8%	-1.9%		12	Slovenia	-2.0%	-5.0%
14	Estonia	0.2%	0.8%		13	Finland	-2.2%	-3.2%
15	Belgium	-0.3%	0.2%		14	Slovakia	-2.2%	-2.7%
16	Slovakia	-0.7%	-0.8%		15	Italy	-2.3%	-3.0%
17	Finland	-1.1%	-1.9%		16	Portugal	-2.3%	-7.2%
18	France	-1.5%	-1.8%		17	Belgium	-2.9%	-3.1%
19	Spain	-1.9%	-2.5%		18	France	-3.3%	-4.0%
					19	Spain	-4.7%	-6.0%

Notes: EC AMECO data accessed 13 Feb 2017; Greece (Adjusted) is AMECO less EFSF deferred (non-cash) interest of an estimated €1.2 billion (2016) and €1.3 billion (2014).

IMF's 2016 Primary Balance Numbers are the Most Pessimistic for Greece and Among the Least for France and Belgium

	Country	EC	IMF	Difference
1.	Cyprus	2.5%	2.0%	-0.5%
2.	Greece	2.3%	0.9%	-1.4%
3.	Portugal	2.1%	1.3%	-0.8%
4.	Luxembourg	2.0%	1.2%	-0.9%
5.	Germany	2.0%	1.2%	-0.8%
6.	Italy	1.7%	1.3%	-0.4%
7.	Malta	1.5%	1.5%	0.0%
8.	Ireland	1.4%	1.3%	-0.1%
9.	Latvia	1.2%	-0.2%	-1.4%
10.	Lithuania	1.1%	1.1%	0.0%
11.	Netherlands	1.0%	-0.2%	-1.2%
12.	Austria	0.8%	0.2%	-0.6%
13.	Slovenia	0.8%	0.3%	-0.5%
14.	Estonia	0.2%	0.1%	-0.2%
15.	Belgium	-0.3%	-0.5%	-0.1%
16.	Slovakia	-0.7%	-1.1%	-0.3%
17.	Finland	-1.1%	-2.2%	-1.1%
18.	France	-1.5%	-1.5%	-0.1%
19.	Spain	-1.9%	-2.0%	-0.1%

Notes: EC data from AMECO database accessed 13 Feb 2017; IMF data from WEO Oct 2016 database except Greece from Article IV (Feb 2017).

The EC's 2017 Greece Projections for Primary and Fiscal Balance are Among the Best in the Eurozone

Primary Balance % of GDP				Fiscal Balance % of GDP		
Rank	**Country**	**2017**		**Rank**	**Country**	**2017**
1	Portugal	2.5%		1	Germany	0.4%
2	Greece	2.2%		2	*Greece (Adjusted)*	0.3%
3	Cyprus	2.2%		2	Netherlands	0.2%
4	Germany	1.6%		3	Luxembourg	0.2%
5	Italy	1.5%		4	Cyprus	-0.2%
6	Ireland	1.5%		5	Estonia	-0.5%
7	Malta	1.4%		6	Lithuania	-0.6%
8	Netherlands	1.2%		7	Malta	-0.6%
9	Slovenia	0.9%		8	Ireland	-0.7%
10	Austria	0.9%		9	Latvia	-1.0%
11	Lithuania	0.9%		10	Greece	-1.1%
12	Luxembourg	0.5%		11	Austria	-1.2%
13	Belgium	0.2%		12	Slovakia	-1.4%
14	Latvia	0.1%		13	Slovenia	-1.7%
15	Slovakia	0.0%		14	Portugal	-2.0%
16	Estonia	-0.4%		15	Belgium	-2.2%
17	Spain	-0.8%		16	Finland	-2.3%
18	France	-1.1%		17	Italy	-2.4%
19	Finland	-1.2%		18	France	-2.9%
				19	Spain	-3.5%

Notes: EC AMECO data accessed 13 Feb 2017; Greece (Adjusted) is AMECO less EFSF deferred (non-cash) interest of an estimated €1.2 billion and an estimated SMP/ANFA rebate of €1.4 billion.

Greece January 2017 State Primary and Fiscal Balances Significantly Exceed January 2016 Excluding EU Public Investment Net Flows

(€, Millions)

	2017	**2016**	**% Change**
Primary Balance	€ 1,012	€ 1,003	1%
Primary Balance w/o EU Public Investment Net Flows	€ 956	€ 568	68%
Fiscal Balance	€ 832	€ 888	-6%
Fiscal Balance w/o EU Public Investment Net Flows	€ 776	€ 453	71%
EU Public Investment Net Flows	€ 56	€ 435	-87%

Notes: Data from State Budget Execution Bulletin for January 2017 (Preliminary).

Greece Job Growth Trend Reversed and Increased Since January 2015

1.	June 2012	3,793,100
2.	December 2014	3,535,300
3.	Job Decline: Jun 2012 to Dec 2014	-257,800
4.	September 2016	3,736,700
5.	Job Increase: Jan 2015 to Sep 2016	201,400

Notes: June 2012 data from ELSTAT Labor Force Survey Press Release (19 Sep 2013); December 2014 data from ELSTAT Labor Force Survey Press Release (17 Mar 2016); September 2016 data from ELSTAT Labor Force Survey (15 Dec 2016).

Greece Received Extraordinary EU Solidarity in 2016

(€, Billions)

		Amount	% of GDP
1.	Net EU/EIB Funds	€ 6	3.4%
2.	Interest Savings	€ 8	4.5%
3.	Debt Relief	€ 8	4.5%
4.	Total	**€ 22**	**12.4%**

Notes: Net EU/EIB Funds based on EU and EIB data; Interest Savings based on ESM statements; Debt Relief calculated according to international accounting standards based on ESM data.

Action #1. Start Communicating Greece Financial Competitive Advantage and Greece Debt is Sustainable

- Publicly and truthfully communicate the Greece competitive financial advantage and that Greece debt is sustainable to **win the trust & confidence** of and facilitate the return to capital markets.
- Calculate and communicate debt, net debt, interest expense, debt service, gross financing needs, and average maturities of debt metrics in accordance with internationally agreed upon standards and rules.
- Think of this as using the same rules used by the world's leading governments, non-governmental organizations, and companies to provide a true and fair picture of economic reality.

Action #2. Select and Communicate the Right Role Model Countries

- Publicly confirm government's role model countries, which have the best prosperity rankings, credit ratings, and financial management to **win the trust & confidence** of global capital markets.
- Role model countries should be (prosperity index ranking of 149 countries and highest credit ratings in parentheses): New Zealand (1st/AAA), Switzerland (4th/AAA), Canada (5th/AAA), and the United Kingdom (10th/AA).
- Think of this as advising a young member of your family to pick the right role models in order to be the best they can be in life.

Action #3. Appoint a Best in World Financial Management Professional Individual

- Appoint professional individual considered among the best in the world in financial management and government financial reporting to senior position in the government who can **win the trust & confidence** of the global capital markets.
- Appoint individual with decades of success in **winning trust & confidence** of key stakeholders, including citizens, institutions, and capital markets.
- Appoint individual solely based on merit without regard to political affiliation, race, color, religion, gender, or national origin.
- Appoint individual with no political agenda or intention to make career in Greek politics.
- Test of success will be decline in Greek government's borrowing costs within 30 days following the appointment.
- Think of this as hiring a best in world football coach who has won one or more World Cup championships with previously underperforming teams.

Action #4. Commit to Publish a Consolidated Government Balance Sheet with Timeline

- Publicly confirm commitment to publish a preliminary government balance sheet in accordance with international public sector accounting standards to help **win the trust & confidence** of the global capital markets.
- A preliminary balance sheet identifying the largest and most important assets and liabilities will show the most important financial information that is essential to **win the trust & confidence** of Greek taxpayers and the global capital markets.
- A proper balance sheet is an excellent tool to combat corruption and improve the value of public assets for the benefit of all Greeks.
- A proper balance sheet also protects against untruthful and hurtful rumors started by those hostile to the best interests of Greece.
- Think of this as having a passport to the global capital markets.

ESM's Regling is Correct: Greece Has Among the Lowest 2016 Debt Metrics Compared to Peers and Now it is About Winning the Trust & Confidence of the Global Capital Markets

(% of GDP except Avg. Maturity of Debt)

		Greece	Peer Average	Cyprus	Ireland	Italy	Portugal	Spain
1.	Balance Sheet Net Debt	48%	70%	47%	43%	113%	79%	70%
2.	Balance Sheet Debt	75%	102%	88%	71%	133%	119%	98%
3.	Cash Interest	2.5%	3.2%	2.8%	2.3%	3.9%	4.3%	2.8%
4.	Debt Service	6.6%	10.3%	7.7%	5.2%	15.0%	10.6%	12.9%
5.	GFN	12.7%	14.0%	7.1%	4.2%	20.6%	16.2%	22.1%
6.	GFN - Adjusted	5.2%	9.6%	5.2%	3.9%	14.1%	9.6%	15.5%
7.	Avg. Maturity of Debt (Yrs)	25.5	9.6	9.7	14.0	6.7	10.7	6.9
8.	Interest Expense (ESA)	3.3%	3.2%	2.8%	2.3%	3.9%	4.3%	2.8%

Notes: Based on EC AMECO data accessed 13 Feb 2017. Balance Sheet Debt calculated according to international accounting standards; Balance Sheet Net Debt net of estimated financials assets based on Eurostat data accessed 13 Feb 2017. Greece Cash Interest is AMECO less EFSF deferred (non-cash) interest of an estimated €1.2 billion and SMP/ANFA rebates of €0.4 billion. Adjusted GFN assumes T-Bills refinanced at five year market yield except Greece at ESM rate of 1% with 10 year even amortization.

Paul B. Kazarian Bloomberg TV and Radio: February 2017

Bloomberg TV: Japonica's Kazarian Says Politics Drives Greek Crisis

- https://www.bloomberg.com/news/videos/2017-02-15/japonica-s-kazarian-says-politics-drives-greek-crisis
- https://www.bloomberg.com/politics/videos/2017-02-15/japonica-ceo-sees-mercenary-market-embracing-trump
- https://www.bloomberg.com/news/videos/2017-02-15/gilbert-investors-seek-insurance-against-le-pen

Bloomberg Radio: Kazarian - Dialogue Around Greek Bail-Out is Not Based on Facts

- https://www.bloomberg.com/news/audio/2017-02-15/kazarian-dialogue-around-greek-bail-out-is-not-based-on-facts

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