

SAVING EUROPE

Improving Your Financial Literacy of an EU Government
Balance Sheet Framework Can Help Save Europe from
Financial Ruin



KAZARIAN CENTER FOR
PUBLIC FINANCIAL MANAGEMENT

Athens, Greece
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Since 2002, there has been a massive destruction of the EU Bottom 5 worst performing government balance sheets hidden from the public with minimal economic growth.



An obsessive focus on debt and cash deficit framework is enabling financial ruin in the EU Bottom 5, which includes France, Greece, Italy, Portugal, and Spain.

Improving Your Financial Literacy of Government Balance Sheets Provides a Framework to Reverse the Financial Destruction and Save Europe from Financial Ruin

$$\text{Total Assets} - \text{Total Liabilities} = \text{Net Liabilities}$$

Net Liabilities is also known as
Net Worth or Taxpayer's Equity or Net Position

With the Obsessive Focus on Debt and Cash Deficit, Almost 3/4 of EU Bottom 5 Government (€16 Trillion) Assets and Liabilities are Hidden from Public Management

(31 December 2017; €, trillions)

<u>SN</u>	<u>Balance Sheet Item</u>	<u>Amount</u>	<u>% of Total Assets and Liabilities Combined</u>
1.	Financial Assets	€ 1.6	7%
2.	Non-Financial Assets	€ 3.8	17%
3.	Total Assets	€ 5.4	24%
4.	Financial Liabilities	€ 6.2	28%
5.	Non-Financial Liabilities	€ 10.7	48%
6.	Total Liabilities	€ 16.9	76%
7.	Net Liabilities	(11.5)	100%

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

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These Indicators Provide a Framework to Improve Your Financial Literacy of an EU Government Balance Sheet

- Compare EU Bottom 5 with EU Top 23 and EU total
- Changes over time, especially from 2002 to 2017
- Per Citizen
- Formulaic relationships with balance sheet line items, GDP, and population
- As a percentage of gross domestic product (GDP)

Government Balance Sheets - 2002 and 2017: EU 28, EU Bottom 5*, EU Top 23 (€, Trillions)

	<u>EU 28 Total</u>	<u>EU Bottom 5*</u>	<u>EU Top 23</u>
	<u>2017</u>	<u>2017</u>	<u>2017</u>
Financial Assets	€ 4.9	€ 1.6	€ 3.3
Non-Financial Assets	€ 11.1	€ 3.8	€ 7.3
Total Assets	€ 16.0	€ 5.4	€ 10.6
Financial Liabilities	€ 12.7	€ 6.2	€ 6.5
Non-Financial Liabilities	€ 18.3	€ 10.7	€ 7.6
Total Liabilities	€ 31.0	€ 16.9	€ 14.1
Net Liabilities	(15.0)	(11.5)	(3.5)
	<u>2002</u>	<u>2002</u>	<u>2002</u>
Financial Assets	€ 2.2	€ 0.8	€ 1.4
Non-Financial Assets	€ 8.3	€ 3.3	€ 5.0
Total Assets	€ 10.5	€ 4.1	€ 6.4
Financial Liabilities	€ 6.1	€ 3.0	€ 3.1
Non-Financial Liabilities	€ 10.0	€ 5.6	€ 4.4
Total Liabilities	€ 16.1	€ 8.6	€ 7.5
Net Liabilities	(5.6)	(4.5)	(1.1)

*EU Bottom 5 includes France, Greece, Italy, Portugal, and Spain.

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

Government Balance Sheet Indicators - Change Per Citizen from 2002 to 2017: EU Bottom 5 vs. EU Top 23

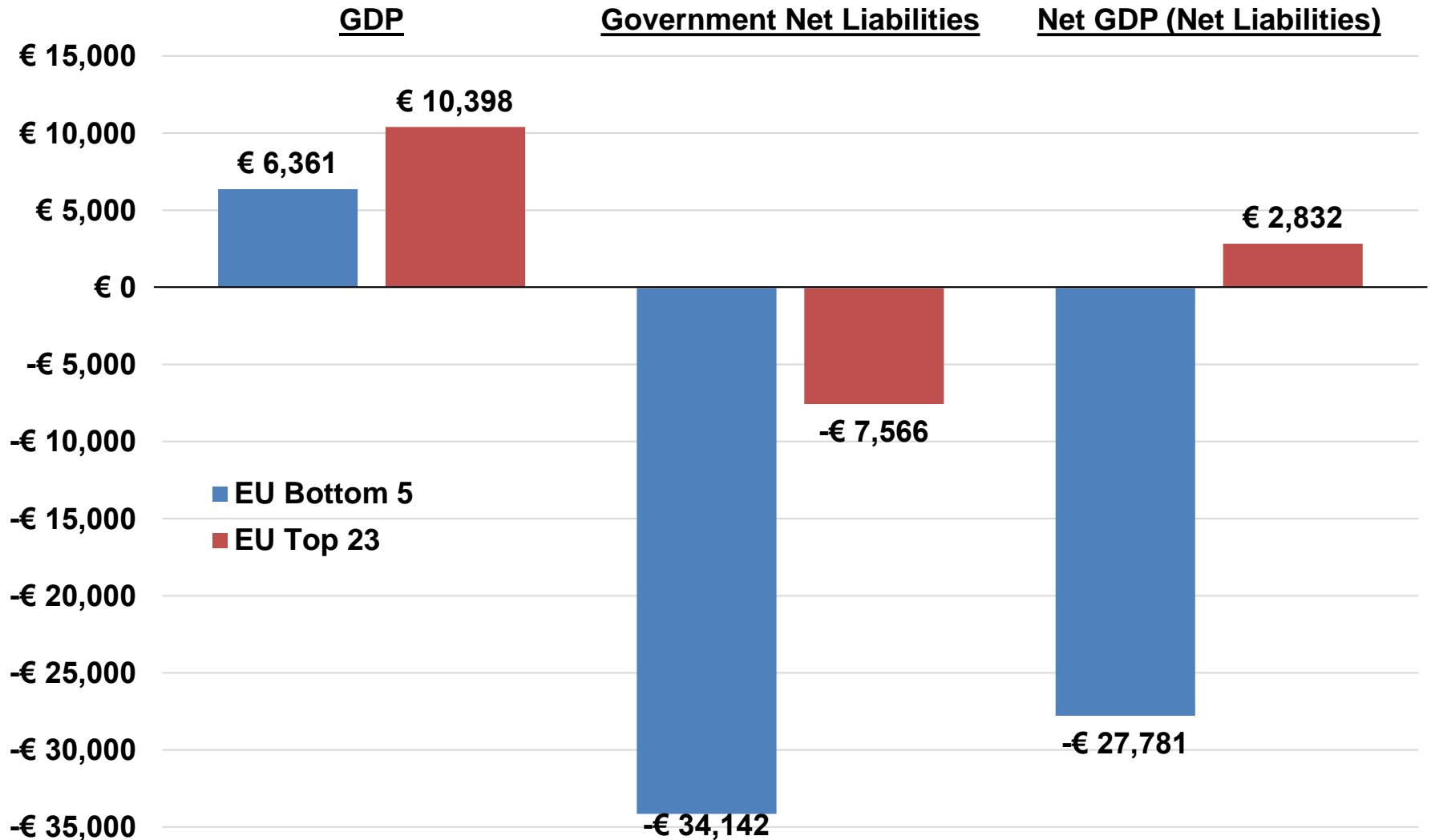
(Per Citizen Data)

		Change from 2002 to 2017	
		<u>EU Bottom 5</u>	<u>EU Top 23</u>
1.	GDP	€ 6,361	€ 10,398
2.	GDP (ex-Inflation)	€ 1,087	€ 5,794
3.	Government Debt	€ 15,558	€ 10,411
4.	Government Net Debt	€ 11,797	€ 4,560
5.	Government Net Liabilities	€ 34,142	-€ 7,566
6.	Net GDP (Net Debt)	-€ 5,436	€ 5,838
7.	Net GDP (Net Liabilities)	-€ 27,781	€ 2,832
8.	Fiscal Multiplier (Net Debt)	54% (46%)	228% (0%)
9.	Fiscal Multiplier (Net Liabilities)	19% (81%)	137% (0%)
10.	ROA	-10%	-5%

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources. Fiscal Multiplier is change in GDP over change in net debt or net liabilities.

Important to Your Financial Literacy to Understand the Difference Between the Net GDP Per Citizen of the EU Bottom 5 and EU Top 23

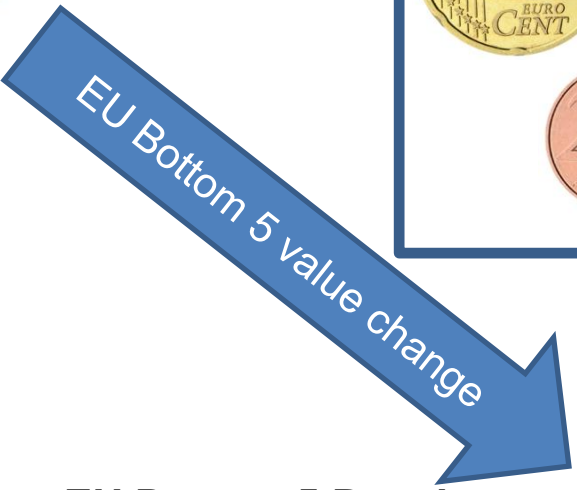
(Change per Citizen from 2002 to 2017)



Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

Impact of Mismanagement of Bottom 5 EU Government Balance Sheets on the Total EU 28: Value Created and Destroyed 2002 – 2017 Change

EU 28 Liabilities increase:
 €14.9 trillion
 (€ 8.3T for EU Bottom 5
 € 6.6T for EU Top 23)



EU 28 Result:
 49 cents per € created
51 cents per € destroyed
 Net GDP: (€4.6T)

EU Top 23 Result:
 137 cents per € created
0 cents per € destroyed
 Net GDP: €898 billion

EU Bottom 5 Result:
 19 cents per € created
81 cents per € destroyed
 Net GDP: (€5.5T)

EU, EU Bottom 5, EU Top 23 Government Balance Sheets: 2002 and 2017

(Percent of GDP)

	EU Total	EU Bottom 5	EU Top 23
	<u>2017</u>	<u>2017</u>	<u>2017</u>
Financial Assets	32%	29%	33%
Non-Financial Assets	72%	69%	74%
Total Assets	104%	98%	107%
Financial Liabilities	82%	113%	66%
Non-Financial Liabilities	119%	195%	77%
Total Liabilities	201%	307%	142%
Net Liabilities	-97%	-209%	-35%
GDP	€ 15.4	€ 5.5	€ 9.9
Population	512,500,000	195,300,000	317,200,000
	<u>2002</u>	<u>2002</u>	<u>2002</u>
Financial Assets	21%	20%	22%
Non-Financial Assets	80%	83%	79%
Total Assets	101%	103%	101%
Financial Liabilities	59%	75%	48%
Non-Financial Liabilities	96%	140%	69%
Total Liabilities	155%	215%	117%
Net Liabilities	-54%	-113%	-17%
GDP	€ 10.4	€ 4.0	€ 6.4
Population	489,100,000	181,600,000	307,500,000

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

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Summary: Understanding the Destruction of EU Bottom 5 Government Balance Sheets since 2002 by the Numbers

1. EU Bottom 5 governments have added a massive burden of €34,142 in net liabilities (total assets less total liabilities) for every man, woman, and child. At year end 2017, each citizen is now burdened with €58,786 in government net liabilities.
2. By comparison, GDP increased only €6,361 per citizen (1.7% annually) and adjusted for inflation has almost insignificantly grown by €1,087 per citizen since 2002.
3. Net GDP per Citizen has decreased in the EU Bottom 5 by €27,781 and increased in the EU Top 23 by €2,832.
4. For every one euro addition in government net liabilities burden, citizens saw only 19 cents increase in GDP, which means citizens suffered 81 cents in value destruction for each one euro addition in government net liabilities.
5. Government net liabilities as % of GDP have deteriorated by almost double to 209% from 113%.

EU Bottom 5 includes France, Greece, Italy, Portugal, and Spain.

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Examples of the Consequences of the Destruction of EU Bottom 5 Government Balance Sheets

- Dilapidated government infrastructure including: bridges, buildings, and roads.
- Large increases in opaque government liabilities such as the current value of government employee legally contractual pension obligations.
- Government assets sold to private investors who have earned above risk adjusted market returns (e.g. sale-and-leasebacks and concessions).
- Recurring explosion of hidden government liability guarantees (e.g. indemnification on assets sold).
- Value destruction not value creation in government expenditures (e.g. day one asset impairment and penalty interest on overdue payables).
- Very little economic growth relative to the burden of increasing net liabilities for citizens.

EU Bottom 5 includes France, Greece, Italy, Portugal, and Spain.

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600 Years of History Teaches Us that Governments Managing with a Proper Balance Sheet have an Important Role in the Financial Rise and Fall of Nations

Professor Jacob Soll, author of “The Reckoning: Financial Accountability and the Rise and Fall of Nations”, conclusions from studying the past 600 years of European government finance and accounting:

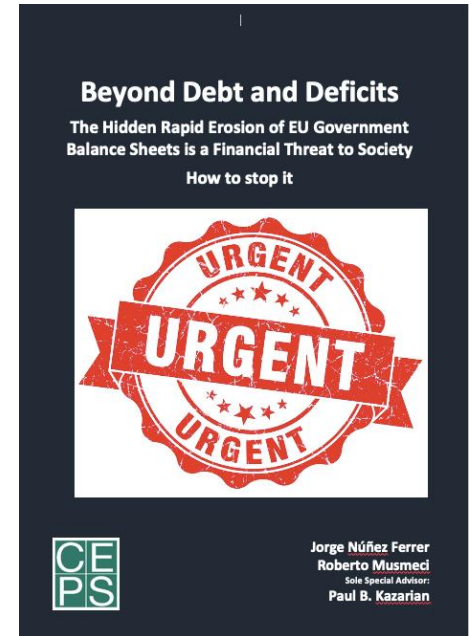
1. Good accounting and good financial management of government finances go hand in hand with the financial rise and fall of nations.
2. Government financial declines are preceded with those who deny the destruction of government balance sheets.
3. With only rare exceptions, good management of a government’s balance sheet requires a major financial crisis.
4. European and US greatest financial administrators (Jacques Necker, Jean-Baptiste Colbert, William Pitt, and Alexander Hamilton) knew the importance of managing a government balance sheet and double entry accounting.

Euro Area Government Bond Collective Action Clauses (CACs): An Alternative with Financial Ruin Consequences

- Since 2013, the EC has mandated investor hostile collective actions clauses (CACs) in all euro area government bonds.
- Each new issue of government bonds contains the updated CACs.
- As currently written, in certain circumstances 51% of the bond holders can agree to change the terms of the bonds and substantially reduce the bond obligation value.
- The changes can include reducing the amount due at maturity, cutting the interest rate, and extending the maturity.
- And, as currently written, government affiliated bondholders are not prohibited from voting.
- **By 2020, most euro area government bonds will contain the updated CACs and offer a legal option to reduce government debt.**

How to Stop It

- There is no quick fix.
- There is a deep lack of trust in the Eurozone due to the track-records of member states.
- Public expenditures are not all “investments” nor do they all have a positive impact on the economy, which can be seen in the net GDP per capita losses despite the large net liability increases.
- Broad brush austerity has not been “the” answer, but the one available due to the lack of transparency and responsible public financial management.
- Adequate public financial management and public accounting standards can lead to value creation, and a fiscal space capable of reducing the burden for the motors of the economy.
- Reforms are not only essential for the EU, but also crucial for the single member states. These reforms are a national priority.



Greek Government Successes Consistent with Gaining the Benefits of a Balance Sheet Framework Focus: Highlights

1. Prime Minister Alexis Tsipras's speech in which he stated that Greece improving the legislative framework for fiscal management is a **most important reform**, increasing both transparency and accountability in the management of public finances. (See [video](#) of the speech).
2. Government decree **adopting IPSAS-based framework**. See: http://www.mostimportantreform.info/Greek_MOF_Intro_IPSAS_2015_0602.pdf
3. Recognized the importance of progressing to the benefits of the **New Zealand Model** of public financial management. Six major categories of Greek government **PFM reforms**. http://www.mostimportantreform.info/Greece_PFM_Reforms.pdf
4. **Monthly reporting** among best in Eurozone. <http://www.minfin.gr/web/guest/deltia-ekteleses-proupologismou>

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Appendix

EU Government Bonds Collective Action Clauses (CACs): A Warning of Pending Financial Ruin

- Since 2010, the EC/ICMA has supported modifications to EU government bonds by inserting investor hostile collective actions clauses (CACs). 2010, 2013, and 2014
- As currently stand, in most circumstances 51% of the bond holders can agree to change the terms of the bonds and substantially reduce the bond obligation value.
- The changes can include reducing the amount due at maturity, cutting the interest rate, and extending the maturity.
- And, as currently written, government affiliated bond holders are not prohibited from voting.
- Each new issue of government bonds contained the updated CACs.
- **By 2020, almost all of Eurozone government bonds will contain the updated CACs and offer a legal option to reduce government debt.**

Kazarian and PFM Background: 2012-2018

- One of the largest private investors in Greek government bonds based on PFM related discoveries 2012-2017
- Established the Kazarian Center for Public Financial Management
- Cited, profiled, and/or co-authored in numerous leading publications on PFM related topics
- Special Advisor to EU task force on PFM
- Sponsor and instructor of several university programs on PFM related topics.
- Hundreds of PFM educational presentations globally
- William Pitt the Younger Award 2016

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From 2002, the Promises of Benefits of the Euro were Many and Now in 2018 the Financial Outcomes are Highly Destructive

- In 2002, when the euro became fully adopted, the promises were: peace, prosperity, and government debt below 60% of GDP.
- Following 2002, when deficits and debt increases exceeded expectations, the new promise was that government spending would provide a large fiscal multiple in GDP.
- Now in 2018, the reality of the outcome with the EU Bottom 5 member states is a large increase in debt as a % of GDP and a fractional fiscal multipliers.
- Furthermore, an analysis of the EU Bottom 5 member states balance sheets reveals an even larger increase in government net liabilities and value destruction.
- Now, a proper balance sheet provides the tools to save the EU Bottom 5 member state governments from a financial perspective.

EU Bottom 5 Governments Broke the 60% Maastricht Treaty Debt Limit and Added Only a Fraction in GDP

Since 2002, despite commitments to respect the Maastricht debt limit of 60% of GDP, a group of EU governments broke the 60% Maastricht limit by 52 percentage points, increasing of 38 percentage points over the period while adding only 48% in GDP for each additional euro of government debt.

	<u>2002</u>	<u>2017</u>	<u>Percentage Point Change</u>	<u>GDP Growth as % of Increase in Government Debt</u>
France	60%	99%	39	54%
Italy	102%	131%	29	43%
Spain	51%	98%	47	55%
Portugal	56%	125%	69	32%
Greece	105%	176%	71	11%
EU Bottom Quartile	74%	112%	38	48%
Germany	59%	64%	5	137%

Notes: Data from EC AMECO database accessed 21 November 2018. Greece debt number is Maastricht gross debt as reported, which is not adjusted for debt restructuring according to international standards.

EU Bottom 5 Governments Net Liabilities Increased Even More than the Large Increase in Government Debt and Added a Small Fraction in GDP

Since 2002, a group of EU governments Net Liabilities per citizen increased by 95 percentage points and added only 19% in GDP for each euro increase in government Net Liabilities.

	Per Citizen Data			
	2002 Government Net Liabilities as % of GDP	2017 Government Net Liabilities as % of GDP	2002-2017 Percentage Point Change	Fiscal Multiplier (Increase in Government Net Liabilities)
France	73%	161%	88	23%
Italy	176%	273%	97	13%
Spain	70%	173%	103	23%
Portugal	78%	229%	151	16%
Greece	184%	360%	177	5%
EU Bottom Quartile	112%	207%	95	19%

EU Bottom 5 has a Record of Large Value Destruction from 2002 to 2017 – Amounts

	<u>Per Citizen Amount Change</u>	<u>Per Citizen Percentage Change</u>
GDP	€ 6,361	29%
GDP (Constant Euro)	€ 1,087	12%
Debt	€ 15,558	95%
Debt as % of GDP		from 74% to 112%
Net Liabilities	(€ 34,142)	139%
Net Liabilities as % of GDP		from 112% to 207%
Net GDP (Government Net Debt)	(€ 5,436)	-55%
Net GDP (Government Net Liabilities)	(€ 27,781)	-1051%

Notes: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources. Net GDP per citizen equals the change in GDP less the change in government net debt or less the change in government liabilities. Fiscal Multiplier is change in GDP over change in net debt or net liabilities.

EU Bottom 5 has a Record of Large Value Destruction from 2002 to 2017 – Ratios

Fiscal Multiplier (Government Net Debt)	54%
Fiscal Multiplier Compliment (Value Destroyed with Increase in Govt Net Debt)	46%
Fiscal Multiplier (Government Net Liabilities)	19%
Fiscal Multiplier Compliment (Value Destroyed with Reduction in Govt Net Liabilities)	81%
Return on Assets (2016 to 2017)	-10%

Notes: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources. Net GDP per citizen equals the change in GDP less the change in government net debt or less the change in government net liabilities. Fiscal Multiplier is change in GDP over change in net debt or net liabilities.

Almost 3/4 of EU Bottom 5 Government (€16 Trillion) Assets and Liabilities are Hidden from Public Management

(31 December 2017; €, billions)

<u>SN</u>	<u>Balance Sheet Item</u>	<u>Amount</u>	<u>% of Total Assets and Liabilities Combined</u>	<u>% of GDP</u>
1.	Financial Assets	€ 1,566	7%	28%
2.	Non-Financial Assets	€ 3,800	17%	69%
3.	Total Assets	€ 5,366	24%	97%
4.	Financial Liabilities	€ 6,226	28%	112%
5.	Non-Financial Liabilities	€ 10,600	48%	191%
6.	Total Liabilities	€ 16,826	76%	304%
7.	Net Liabilities	-11,460		-207%
8.	GDP			€ 5,539

The Massive Value Destruction by EU Bottom 5 Governments is Currently Hidden But Revealed When Understanding Changes in Government Net Liabilities Per Citizen

2002-2017

Financial information sourced from the French Republic central government financial statements and EC AMECO database. Includes extrapolations for France 2002 and the other EU Bottom 5 countries which do not produce government balance sheets, but only net debt statistics.

	<u>France</u>	<u>Italy</u>	<u>Spain</u>	<u>Portugal</u>	<u>Greece</u>	Total Bottom Quartile EU Countries
In Billions:						
Change in GDP	€ 693	€ 371	€ 414	€ 50	€ 14	€ 1,543
Change in Government Gross Debt	€ 1,301	€ 892	€ 760	€ 163	€ 146	€ 3,262
Change in Government Net Liabilities	€ 2,522	€ 2,319	€ 1,493	€ 331	€ 340	€ 7,005
Change in Net GDP (Generation #1 Indicator: GDP less Government Net Debt)	-€ 233	-€ 372	-€ 148	-€ 75	-€ 99	-€ 926
Change in Net GDP (Generation #2 Indicator: GDP less Government Net Liabilities)	-€ 1,829	-€ 1,948	-€ 1,078	-€ 281	-€ 326	-€ 5,462
Per Citizen:						
Change in GDP	€ 8,266	€ 4,789	€ 6,911	€ 5,046	€ 1,498	€ 6,361
Change in Government Gross Debt	€ 18,144	€ 13,364	€ 15,312	€ 15,878	€ 13,742	€ 15,558
Change in Government Net Liabilities	€ 36,061	€ 35,943	€ 30,680	€ 32,262	€ 31,887	€ 34,142
Change in Net GDP (Generation #1 Indicator: GDP less Government Net Debt)	-€ 4,789	-€ 6,324	-€ 4,487	-€ 7,156	-€ 9,140	-€ 5,436
Change in Net GDP (Generation #2 Indicator: GDP less Government Net Liabilities)	-€ 27,795	-€ 31,154	-€ 23,769	-€ 27,216	-€ 30,388	-€ 27,781

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

EU Top 23 and Bottom 5 Data Comparison

	GDP Change 2002-2017	Net Debt Change 2002-2017	Net GDP (Net Debt) Change 2002-2017	GDP Change Per Citizen 2002-2017	Net Debt Change Per Citizen 2002-2017	Net GDP (Net Debt) Change Per Citizen 2002-2017	Fiscal Multiplier (Net Debt Per Citizen)	Fiscal Multiplier Compliment (Value Destroyed)
	<i>(€, Billions)</i>							
EU Top 23	€ 3,403	€ 1,449	€ 1,953	€ 8,648	€ 4,386	€ 4,262	2.0x	0%
EU	€ 4,946	€ 3,918	€ 1,028	€ 8,700	€ 7,272	€ 1,428	1.2x	0%
Eurozone	€ 3,594	€ 2,890	€ 704	€ 9,100	€ 7,899	€ 1,201	1.2x	0%
EU Bottom 5:								
France	€ 693	€ 926	-€ 233	€ 8,266	€ 13,055	-€ 4,789	63%	37%
Italy	€ 371	€ 743	-€ 372	€ 4,789	€ 11,113	-€ 6,324	43%	57%
Spain	€ 414	€ 562	-€ 148	€ 6,911	€ 11,397	-€ 4,486	61%	39%
Portugal	€ 50	€ 125	-€ 75	€ 5,046	€ 12,203	-€ 7,157	41%	59%
Greece	€ 14	€ 113	-€ 99	€ 1,498	€ 10,639	-€ 9,141	14%	86%
EU Bottom 5	€ 1,543	€ 2,469	-€ 926	€ 6,361	€ 11,797	-€ 5,436	54%	46%

Notes: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources. Data in euros from EC AMECO and Eurostat databases accessed 31 October 2018. Greece debt numbers are based on Maastricht gross debt as reported, which is not adjusted for debt restructuring according to international standards.

Balance Sheet Information: EU, EU Bottom 5, and EU Top 23

(€, billions except per citizen data)

EU Bottom 5 Member States: France, Italy, Spain, Portugal, and Greece.

	2017			2002		
	<u>EU Bottom 5 Governments</u>	<u>EU Top 23 Governments</u>	<u>European Union Governments</u>	<u>EU Bottom 5 Governments</u>	<u>EU Top 23 Governments</u>	<u>European Union Governments</u>
Net Liabilities % of GDP	-209%	-36%	-98%	-113%	-17%	-54%
Net Liabilities Per Citizen	-€ 58,884	-€ 11,122	-€ 29,323	-€ 24,928	-€ 3,468	-€ 11,381
GDP Per Citizen	€ 28,162	€ 31,129	€ 29,998	€ 22,004	€ 20,813	€ 21,264
GDP Less Net Liabilities Per Citizen	€ 87,046	€ 42,251	€ 59,321	€ 46,933	€ 24,281	€ 32,645
Net Liabilities % of EU	77%	23%	100%	81%	19%	100%
Non-Financial Liabilities Per Citizen	€ 54,788	€ 23,960	€ 35,707	€ 30,837	€ 14,331	€ 20,460
Financial Liabilities Per Citizen	€ 31,746	€ 20,492	€ 24,780	€ 16,520	€ 10,081	€ 12,472
Non-Financial % of Financial Liabilities	173%	117%	144%	187%	142%	164%
Financial Assets	€ 1.6	€ 3.3	€ 4.9	€ 0.8	€ 1.4	€ 2.2
Non-Financial Assets	€ 3.8	€ 7.3	€ 11.1	€ 3.3	€ 5.0	€ 8.3
Total Assets	€ 5.4	€ 10.6	€ 16.0	€ 4.1	€ 6.4	€ 10.5
Financial Liabilities	€ 6.2	€ 6.5	€ 12.7	€ 3.0	€ 3.1	€ 6.1
Non-Financial Liabilities	€ 10.7	€ 7.6	€ 18.3	€ 5.6	€ 4.4	€ 10.0
Total Liabilities	€ 16.9	€ 14.1	€ 31.0	€ 8.6	€ 7.5	€ 16.1
Net Liabilities	-€ 11.5	-€ 3.5	-€ 15.0	-€ 4.5	-€ 1.1	-€ 5.6
GDP	€ 5.5	€ 9.9	€ 15.4	€ 4.0	€ 6.4	€ 10.4
GDP as % of EU	36%	64%	-	38%	62%	-
Population	195,300,000	317,200,000	512,500,000	181,600,000	307,500,000	489,100,000

The Hidden Story of Government Employee Pension Liabilities – Summary

(Local Currency)

	<u>France</u> <u>Government</u>	<u>UK</u> <u>Government</u>	<u>Average</u>
Public Employee Pension Liabilities % of GDP (2017)	106.0%	89.7%	97.9%
Government Net Debt % of GDP (2017)	59.48%	39.2%	49.3%
Percentage points larger	46.5%	50.5%	48.5%
Net debt % of PEP Liabilities	56.1%	43.7%	50.4%
Annual increase in PEP Liabilities since 2010	8.5%	7.1%	
Annual increase in GDP since 2010	2.0%	3.7%	
Multiple	4.3x	1.9x	
Public Employee Pension Liabilities % of GDP (2010)	68.6%	71.5%	
Percentage points increase to 2017	37.4%	18.3%	
Public Employee Pension Liabilities Per Citizen (2017)	€ 36,202	£27,782	
Public Employee Pension Liabilities Per Citizen (2010)	€ 21,043	£18,080	
Amount increase	€ 15,159	£9,702	
% increase	72%	54%	
Government Net Liabilities per citizen (2017)	€ 54,985	£35,857	
Government Net Liabilities per citizen (2010)	€ 32,680	£16,122	
Amount Increase	€ 22,305	£19,735	
% change	68%	122%	

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600 Years of History Teaches Us that Governments Managing with a Proper Balance Sheet has an Important Role in the Financial Rise and Fall of Nations

Professor Jacob Soll, author of “The Reckoning: Financial Accountability and the Rise and Fall of Nations”, conclusions from studying the past 600 years of European government finance and accounting:

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2. Government financial declines are preceded with those who deny the destruction of government balance sheets.
3. With only rare exceptions, good management of a government’s balance sheet requires a major financial crisis.
4. European and US greatest financial administrators knew the importance of managing a government balance sheet and double entry accounting.

Understanding Net GDP and Economic Value Created or Destroyed Indicators

Example: France Central Government 2011-2017

The two indicators often offer easily understood meaning when calculated per citizen.

			2011 to 2017		
			<u>2017</u>	<u>2011</u>	<u>Amount Change</u>
GDP	€ 2,287,600,000,000	€ 2,059,300,000,000	€ 228,300,000,000	11%	
Population	67,126,000	65,294,000	1,832,000	3%	
GDP Per Citizen	€ 34,079	€ 31,539	€ 2,540	8%	
Net Debt	€ 1,363,000,000,000	€ 1,052,000,000,000	€ 311,000,000,000	30%	
Net Debt Per Citizen	€ 20,305	€ 16,112	€ 4,193	26%	
Generation #1 Net GDP	€ 924,600,000,000	€ 1,007,300,000,000	(€ 82,700,000,000)	-8%	(€ 82,700,000,000)
Generation #1 Net GDP Per Citizen	€ 13,774	€ 15,427	(€ 1,653)	-11%	(€ 1,653)
Net Liabilities	€ 3,689,810,000,000	€ 2,149,250,000,000	€ 1,540,560,000,000	72%	
Net Liabilities Per Citizen	€ 54,968	€ 32,917	€ 22,052	67%	
Generation #2 Net GDP	€ 5,977,410,000,000	€ 4,208,550,000,000	€ 1,768,860,000,000	42%	€ 1,768,860,000,000
Generation #2 Net GDP Per Citizen	€ 89,048	€ 64,455	€ 24,592	38%	€ 24,592

Notes: Generation #1 Net GDP: GDP less Government Net Debt (gross government debt less government financial assets).
 Generation #2 Net GDP: GDP less government Net Liabilities (Total Assets less Total Liabilities). GDP and population from EC AMECO database and financial assets from Eurostat database; debt and net liabilities data from government financial statements.

IMF Fiscal Monitor (October 2018) versus UK Government and France Government Annual Reports: Differences in Balance Sheet Financial Information - Financial Year 2016

	IMF Fiscal Monitor Smallest Difference from UK WGA 2016 or 2017		IMF Fiscal Monitor Smallest Difference from France Central Government Annual Report 2016	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Financial Assets	£178	37%	€ 650	193%
Total Non-Financial Assets	-£94	-6%	€ 1,717	270%
Total Assets	-£523	-27%	€ 1,258	129%
Short-term liabilities	-£412	-48%	NA	NA
General Government Debt	£437	34%	€ 506	31%
Liabilities Ex Pensions	-£759	-33%	€ 567	26%
Pension Liabilities	-£119	-7%	-€ 1,142	-49%
Total Liabilities	£803	19%	€ 568	13%
Net Worth	-£92	4%	€ 2,626	-74%

Pervasive Inaccurate Reporting of Government Balance Sheets

Example: IMF Fiscal Monitor (October 2018): (1.) Huge difference in net worth numbers between IMF and balance sheets. (2.) Even when the net worth numbers are similar, the balance components can have massive differences.

	UK		France		Portugal			Greece		
	IMF	KCPFM	IMF	KCPFM	IMF	KCPFM	IMF	IMF	KCPFM	
Net Worth as % of GDP:	-125%	-123%	-40%	-159%	-130%	-168%	(2012 data from 2014 FTE) -140%	-111%	-141%	
Amount:										
Financial Assets	£1,083	£487	€ 1,337	€ 340	€ 325	€ 66	€ 85		€ 51	
Non-Financial Assets	£1,379	£1,416	€ 2,674	€ 638	€ 139	€ 145	€ 122		€ 90	
Total Assets	£2,462	£1,903	€ 4,011	€ 978	€ 464	€ 211	€ 207		€ 141	
Financial Liabilities	£3,447	£1,981	€ 4,011	€ 1,647	€ 464	€ 208	€ 217		€ 131	
Non-Financial Liabilities	£1,477	£2,343	€ 891	€ 2,886	€ 241	€ 304	€ 225		€ 255	
Total Liabilities	£4,924	£4,324	€ 4,903	€ 4,533	€ 705	€ 512	€ 442		€ 386	
Net Worth	-£2,462	-£2,421	-€ 891	-€ 3,555	-€ 241	-€ 301	-€ 235		-€ 245	
% of GDP:										
Financial Assets	55%	25%	60%	15%	175%	37%	50%		29%	
Non-Financial Assets	70%	72%	120%	29%	75%	81%	73%		52%	
Total Assets	125%	97%	180%	44%	250%	118%	123%		81%	
Financial Liabilities	175%	101%	180%	74%	250%	116%	129%		75%	
Non-Financial Liabilities	75%	119%	40%	129%	130%	169%	134%		146%	
Total Liabilities	250%	220%	220%	203%	380%	285%	263%		222%	
Net Worth	-125%	-123%	-40%	-159%	-130%	-168%	-140%		-111%	-141%
GDP	£1,970	£1,970	€ 2,229	€ 2,229	€ 186	€ 186	€ 168		€ 174	€ 174

Notes: IMF data from October 2018 Fiscal Monitor except Portugal 2012 data from 2014 FTE as indicated; given absence of actual numbers, data presented are visual estimates from graphs (except GDP data from WEO October 2018 database). KCPFM France and U.K. based on government audited financial statements; Portugal and Greece extrapolated from EC, Eurostat, and IMF data. 34

EU Bottom 5 Interest Rate Increase Exposure

(€, Billions)

Interest expense increase will have an accelerating impact as more debt matures and interest compounds.

<i>Assumptions:</i>								
Net Debt/GDP:		55%		Government Primary Expenditures as % of GDP:		46%		
Current Average Interest Rate:		3%		Projected GDP Annual Growth		2%		
			<u>Current</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Baseline Scenario (Estimated Average EU Bottom Quartile):								
GDP			€ 800	€ 816	€ 832	€ 849	€ 866	€ 883
Government Expenditures			€ 368	€ 375	€ 383	€ 391	€ 398	€ 406
Net Debt			€ 440	€ 449	€ 458	€ 467	€ 476	€ 486
Interest Expense			€ 13.2	€ 13.5	€ 13.7	€ 14.0	€ 14.3	€ 14.6
Interest Expense as % of Govt Exp.			4%	4%	4%	4%	4%	4%
Interest Rate Increase Scenarios:								
Interest Rate Increase By:		To:						
	1%	4%	€ 17.6	€ 18.0	€ 18.3	€ 18.7	€ 19.1	€ 19.4
	2%	5%	€ 22.0	€ 22.4	€ 22.9	€ 23.3	€ 23.8	€ 24.3
	3%	6%	€ 26.4	€ 26.9	€ 27.5	€ 28.0	€ 28.6	€ 29.1
	4%	7%	€ 30.8	€ 31.4	€ 32.0	€ 32.7	€ 33.3	€ 34.0
Necessary Reduction in Other Govt Exp.								
			1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
			2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
			3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
			4.8%	4.8%	4.8%	4.8%	4.8%	4.8%

EU Per Citizen Rankings: GDP, Net GDP, and GDP Value Created (Destroyed)

		GDP Per Citizen			Net GDP Per Citizen			GDP Value Created (Destroyed) Per Citizen
		<u>2002-2017 % Change</u>			<u>2002-2017 % Change</u>			<u>2002-2017 Change</u>
<u>Rank</u>			<u>Rank</u>		<small>GDP Per Citizen less Government Net Debt Per Citizen</small>	<u>Rank</u>		<small>Change in GDP Per Citizen less Change in Government Net Debt Per Citizen</small>
1	Romania	317%	1	Belgium	302%	1	Luxembourg	€ 43,174
2	Lithuania	236%	2	Estonia	236%	2	Sweden	€ 32,952
3	Bulgaria	223%	3	Romania	208%	3	Finland	€ 29,266
4	Slovakia	218%	4	Bulgaria	199%	4	Denmark	€ 24,911
5	Latvia	216%	5	Lithuania	151%	5	Estonia	€ 16,880
6	Estonia	213%	6	Malta	140%	6	Germany	€ 10,960
7	Poland	120%	7	Latvia	135%	7	Malta	€ 10,169
8	Czech Republic	113%	8	Slovakia	125%	8	Netherlands	€ 7,999
9	Malta	99%	9	Sweden	109%	9	Lithuania	€ 7,526
10	Ireland	81%	10	Poland	88%	10	Czech Republic	€ 7,221
11	Hungary	77%	11	Denmark	86%	11	Belgium	€ 7,153
12	Croatia	77%	12	Czech Republic	80%	12	Latvia	€ 6,493
13	Slovenia	67%	13	Finland	77%	13	Austria	€ 6,460
14	Luxembourg	50%	14	Germany	68%	14	Slovakia	€ 5,863
15	Sweden	51%	15	Luxembourg	55%	15	Romania	€ 5,321
16	Austria	49%	16	Hungary	43%	16	Bulgaria	€ 4,634
17	Germany	46%	17	Netherlands	37%	17	Ireland	€ 1,669
18	Belgium	45%	18	Austria	33%	18	Poland	€ 3,876
19	Finland	42%	19	Slovenia	20%	19	Slovenia	€ 2,807
20	Denmark	42%		EU	11%	20	Hungary	€ 1,933
	EU	41%		Euro area	9%		EU	€ 1,428
21	Netherlands	40%	20	Ireland	7%		Euro area	€ 1,201
	Euro area	39%	21	Croatia	6%	21	Croatia	€ 400
22	Spain	38%	22	France	-29%	22	Cyprus	-€ 4,013
23	Portugal	36%	23	Cyprus	-34%	23	Spain	-€ 4,497
24	France	32%	24	Spain	-38%	24	France	-€ 4,757
25	Cyprus	32%	25	United Kingdom	-44%	25	Italy	-€ 6,313
26	Italy	20%	26	Portugal	-85%	26	Portugal	-€ 7,204
27	United Kingdom	11%	27	Italy	-194%	27	Greece	-€ 9,152
28	Greece	11%	28	Greece	-603%	28	United Kingdom	-€ 11,378
	Average	93%			42%			€ 6,798

Notes: From data in euros from EC AMECO and Eurostat databases accessed 31 October 2018. Due to massive debt relief from six debt restructurings, Greece received ~€16,000 in debt relief per citizen which is not reflected in the data.

Key Events Timeline in History of Sovereign Government Financial Management

Source: *The Reckoning: Financial Accountability and the Rise and Fall of Nations*. Professor Jacob Soll and public sources.

- 1340s: Genoa, Italy first government balance sheet based on double-entry accounting
- 1530 – 1615: Spanish failed attempts to create a double-entry central ledger of the state
- 1581-1800: Dutch Republic used double-entry for majority of tax records
- 1620 – 1800: British government produced balances sheet of varying quality to Parliament
- 1661-1683: Jean-Baptiste Colbert (France) tries and fails to create a standard balance sheet
- 1720: Most European nations try and fail to produce a double-entry balance sheets
- 1781: France produces first sovereign balance sheet based on double entry accounting (Comte Rendu, Jacques Necker).
- 1790: Rendiconto of the Grand Duchy of Tuscany first, of scale accurate double entry balance sheet
- 1820s: France and US government produce double entry balance sheets with accurate numbers
- 1832: British Commission of Accounts published balance sheet based on double entry accounting
- Period of varying negative and positive development**-----
- 1992: New Zealand first sovereign nation to publish a balance sheet based on international standards
- 1994: New Zealand first sovereign nation to publish “monthly” full financial statements based on international standards
- 2012: UK government publishes first Whole of Government Accounts financial statements

EU Member State Total Expenditures

Average 43% of GDP (2017)

#	Country	Total Expenditure % of GDP	#	Country	Total Expenditure % of GDP
1	France	56%	15	Luxembourg	43%
2	Finland	54%	16	Poland	41%
3	Denmark	53%	17	Spain	41%
4	Belgium	52%	18	United Kingdom	41%
5	Greece	50%	19	Slovakia	41%
6	Austria	50%	20	Estonia	40%
7	Italy	49%	21	Czech Republic	39%
8	Sweden	49%	22	Cyprus	39%
9	Hungary	48%	23	Latvia	38%
10	Croatia	46%	24	Malta	38%
11	Portugal	45%	25	Bulgaria	36%
12	Germany	44%	26	Lithuania	34%
13	Slovenia	44%	27	Romania	34%
14	Netherlands	43%	28	Ireland	26%
				Average	43%

Source: EC AMECO database.

Net GDP per Citizen of Portugal and Brazil Reveals a Wide Gap in Performance

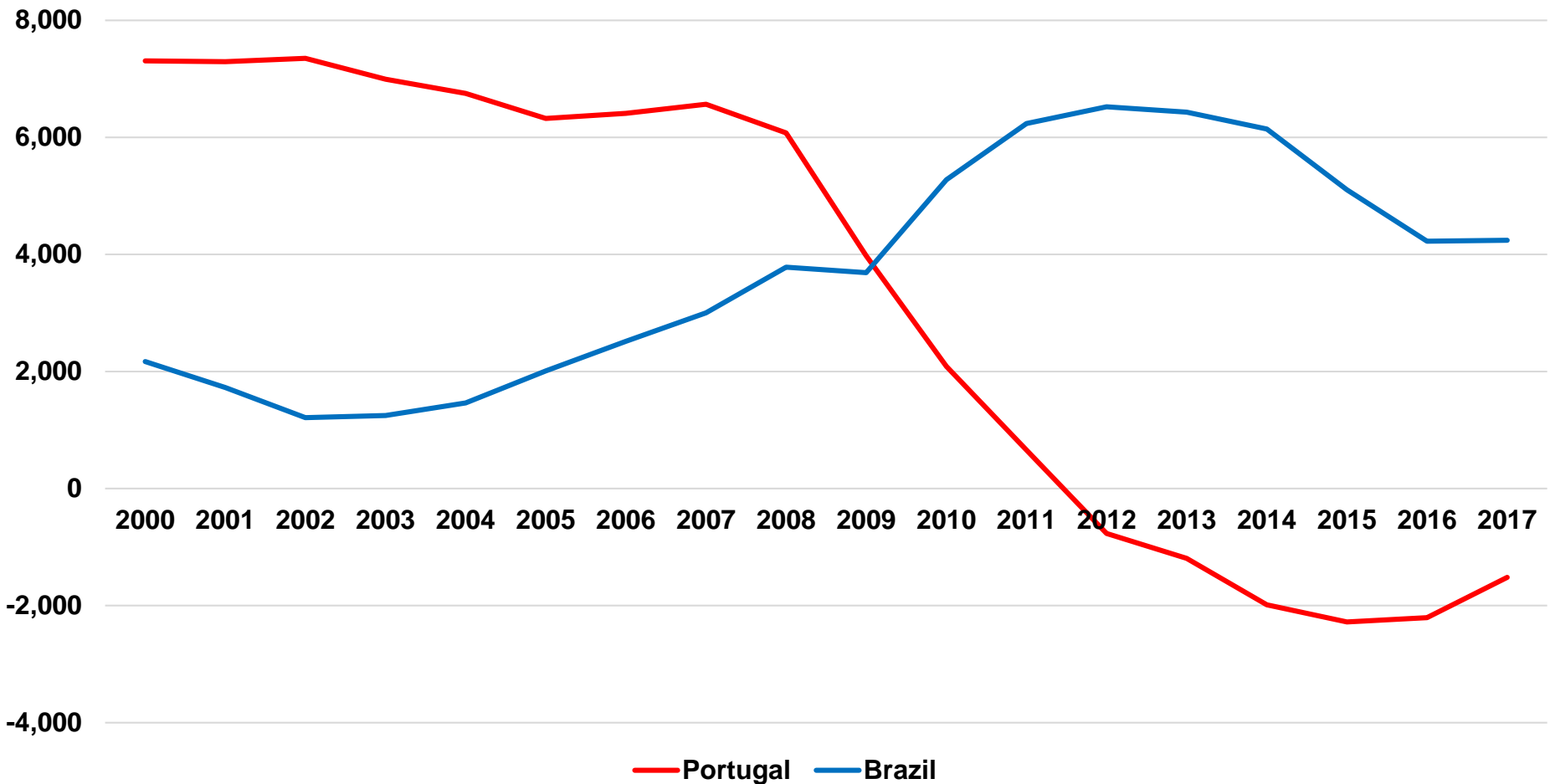
(€, Billions)

	<u>2000</u>	<u>2017</u>	<u>2000- 2017 Change</u>	<u>2000- 2017 % Change</u>
Portugal	7,306	-1,518	-8,824	-121%
Brazil	2,169	4,243	2,074	96%
Delta	5,137	-5,760		

Notes: IMF World Economic Outlook database (April 2018) accessed 27 August 2018. Data in euros for comparative purposes. Net GDP is defined as GDP less general government Net Debt.

Net GDP per Citizen of Portugal and Brazil Reveals a Wide Gap in Performance

(€, Billions)



Notes: IMF World Economic Outlook database (April 2018) accessed 27 August 2018. Data in euros for comparative purposes. Net GDP is defined as GDP less general government Net Debt.

Paul B. Kazarian Accounting Relevant Highlights

- Founder, Chairman, and CEO of Japonica Partners (founded 1988) and Charles & Agnes Kazarian Foundation (founded 1998).
- Formerly Chairman, CEO, and CFO of Fortune 300 diversified conglomerate, turned around over a dozen multinational businesses from bankruptcy to world-leading successful growth companies.

Recent activities related to Public Financial Management (PFM):

- **Hundreds of presentations/meetings** on public financial management and Greek debt sustainability including: AmCham, BHCC, CEPS, CESifo, CIPFA, Economic Council of CDU, DBRS, EGPA, Eurogroup, European Court of Auditors, ESM, FEE, Greek government and political entities, HBS, ICAEW, IIF, IFAC, IMF, INET Oxford, IOBE, IPSAS, ISCTE, key stakeholders, LBS, Moody's, OECD, PMI Congress, S&P, USC, World Bank.
- **Cited/published in prestigious publications** on analysis of Greek debt including: HBS Case Study, NYT (page one), InterEconomics, The Accountant, Der Spiegel, and the FT.
- **Sole Special Advisor** to the Centre for European Policy Studies Task Force on How Better Managing Government Balance Sheets Can Enhance Growth.
- **Adjunct professor** of public financial management at Columbia Business School.
- **Visiting Professor** of Government Financial Management at the ISCTE Business School at the Instituto Universitário de Lisboa in Portugal.
- **Established** Kazarian Center for Public Financial Management in Lisbon.
- **William Pitt the Younger Award** (2016) for extraordinary leadership in strengthening democracy through government financial management.

The Negative Return on Government Assets Highlights Both a Big Performance Gap and the Big Potential to Create Value: A Comparison of Governments that Publish Balance Sheet Financials

(2011-2017; data in local currency)

	<u>France</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Australia</u>	<u>Canada</u>	<u>New Zealand</u>
Total Assets 2017 - Billions	1,011	1,956	3,481	643	465	314
Total Assets 2017 - Per Citizen	15,069	29,615	10,678	26,283	12,705	66,643
Change in Total Assets - Billions	91	522	773	266	95	68
Change in Total Assets - Per Citizen	982	6,951	2,003	9,509	1,977	11,144
Change in Net Worth - Billions	-1,541	-1,382	-5,631	-288	-101	30
Change in Net Worth - Per Citizen	-22,086	-20,280	-15,255	-11,394	-1,855	5,251
Return on Assets (Average)	-27%	-13%	-30%	-11%	-4%	2%

Select Per Citizen Metrics for Governments that Manage their Balance Sheets

(Per citizen data in local currency)

	2011 to 2017			
	France	Australia	Canada	New Zealand
GDP Change	€ 2,540	A\$9,422	C\$7,487	NZ\$13,156
Net Debt Change	€ 4,193	A\$7,325	C\$747	-NZ\$2,289
Generation 1 Net GDP Change	-€ 1,653	A\$2,097	C\$6,741	NZ\$15,445
Net Worth Change	-€ 22,052	-A\$11,410	-C\$1,909	NZ\$5,724
Generation 2 Net GDP Change	-€ 19,512	-A\$1,989	C\$5,578	NZ\$18,881
Return on Assets Average	-27%	-11%	-4%	2%
Value Destroyed	88%	17%	0%	0%

Note: Balance sheet data from government financial statements; population and GDP data from EC AMECO database.

A Comparison Between Conventional Metrics and Balance Sheet Metrics for EU Bottom 5 Governments Highlights Massive Hidden Financial Destruction (Combined: France, Italy, Spain, Portugal, and Greece)

	<u>2002</u>	<u>2017</u>	<u>Change</u>
Government Conventional Metrics:			
Gross Debt - % of GDP	74%	112%	37%
Gross Debt - Per Citizen	€ 16,321	€ 31,674	€ 15,353
GDP - Per Citizen	€ 22,001	€ 28,362	€ 6,361
			29%
Government Balance Sheet Metrics:			
Net Debt	€ 3,995,500,000,000	€ 5,538,900,000,000	€ 1,543,400,000,000
Net Debt - Per Citizen	€ 12,062	€ 23,860	€ 11,797
Net GDP (Net Debt)	€ 1,804,900,000,000	€ 879,280,100,000	-€ 925,619,900,000
Net GDP (Net Debt) - Per Citizen	€ 9,938	€ 4,502	-€ 5,436
Net Liabilities	€ 4,475,424,952,471	€ 11,480,437,222,208	€ 7,005,012,269,737
Net Liabilities - Per Citizen	€ 24,643	€ 58,786	€ 34,142
Net Liabilities % of GDP Per Citizen	112%	207%	95%
Net GDP (Net Liabilities)	-€ 479,924,952,471	-€ 5,941,537,222,208	-€ 5,461,612,269,737
Net GDP (Net Liabilities) - Per Citizen	-€ 2,643	-€ 30,424	-€ 27,781

Notes: Net GDP equals GDP less Government Net Debt or plus Government Net Liabilities. Data from EC AMECO database accessed 30 October 2018.

Almost 3/4 of EU Governments (€32 Trillion) in Assets and Liabilities are Hidden from Public Management

(31 December 2017; €, billions)

SN	<u>Balance Sheet Item</u>	<u>Amount</u>	<u>% of Total Assets and Liabilities Combined</u>	<u>% of GDP</u>
1.	Financial Assets	€ 4,862	10%	32%
2.	Non-Financial Assets	€ 11,110	24%	72%
3.	Total Assets	€ 15,972	34%	104%
4.	Financial Liabilities	€ 12,739	27%	83%
5.	Non-Financial Liabilities	€ 18,268	39%	119%
6.	Total Liabilities	€ 31,007	66%	202%
7.	Net Liabilities (Taxpayer's Equity)	-15,036		-98%
8.	GDP			€ 15,374

7 Lessons from Centuries of History on Government Finances

***The Reckoning: Financial Accountability and the Rise and Fall of Nations.* Professor Jacob Soll.**

- Lesson #1.** Government financial cycles should be looked over centuries, not over decades. Declines are preceded by beliefs that government balance sheet destruction does not matter.
- Lesson #2.** Double entry accounting and a proper balance sheet started in 1340, first with government (Genoa, Italy) and given its success then migrated to business.
- Lesson #3.** The most successful government financial administrators, such Jacques Necker, Jean-Baptiste Colbert, William Pitt, and Alexander Hamilton used a proper balance sheet to earn a place in history by taking their countries from crisis to financial strength.
- Lesson #4.** Balance sheet literacy in the citizenry and in the government administrators has historically been part of government successful financial management, e.g. Netherlands (year) and Genoa (year)
- Lesson #5.** Periods of successful government financial administration are destroyed by those seeking to prevent the transparency and accountability of a proper government balance sheet, e.g. France (year) and Spain (years).
- Lesson #6.** Governments that have senior ministers skilled in balance sheet management can better weather financial crises. e.g. the UK and New Zealand.
- Lesson #7.** For centuries, government officials have sought to use financial schemes that hide the economic reality of their actions from disclosure in a proper balance sheet.

Examples of the Benefits of Using a Government Balance Sheet as Key Part of Public Financial Management

- Reverse the economic destruction of government balance sheets
- Assist the government to create and not destroy value
- Combat corruption
- Better manage financial crises
- Strengthen the economic education of citizens

The Enablers Who Encourage Governments to Destroy Balance Sheets

- Italian Deputy PM comment
- Hired gun economists
- Legal schemers

Obvious Flaws in Current Government Cash and Debt Accounting/Reporting/Management

Background to better understand the situation:

1. Every single European citizen has on average a burden of 28,100 euros from government net liabilities.
2. Government debt is often only one-quarter of total assets and liabilities, which means 75% of balance sheet is outside of focus.
3. Since 2006, France government net debt has increased 19 percentage points relative to economic output (GDP) but government net liabilities has declined by 47 percentage points.
4. In contrast, New Zealand, where the government has used a proper balance sheet to manage and report, positive net worth has increased on average 7% per year.

Examples of obvious flaws in current government accounting:

1. No difference between an expense and an investment spending.
2. Changes in contractual commitments to future government employee pensions and other benefits has no impact on financials today.
3. Assets can be stolen, destroyed, or sold for below fair value without any financial impact.
4. Not revaluing of fixed assets creates incentives to allow the assets to deteriorate and hides the ever greater financial burdens of repairing those assets.
5. Little management of changes in government net liabilities or return earned on government assets.

Increasing Size and Role of Government

- Governments in Europe are becoming almost 50% of the economy.
- Increasingly, workers need to work half the year to pay for a wide range of taxes and other payments to the government.

Current Status of Public Financial Management and Publication of Government Balance Sheets

From a public financial management perspective, a proper government balance sheet is prepared using double entry accounting, has all assets and liabilities (with sufficient details and footnotes) for which the government has a responsibility to manage, and seeks to report the economic reality of the numbers.

- We have identified only 9 sovereign governments worldwide that produce proper government balance sheets. However, it is very common for cities and states to produce proper balance sheets.
- Only three sovereign governments worldwide produce proper monthly balance sheets: Australia, Canada, and New Zealand.
- Only two sovereign governments worldwide balance sheets projections: Australia and New Zealand.

Examples of Governments Seeking to Hide Financial Impact of their Vote Buying