BRIEFING MATERIAL FOR SUMMER/FALL 2016
SOUTHERN AXIS EURO AREA MEMBER STATE MEETINGS ON GREECE

The Facts on Greece Government Financial Sustainability and Stability

(Part 1 of 2)

Supporting materials at:

www.MostImportantReform.info

Overview Points: The Facts on Greece Government Financial Sustainability and Stability

1. **Greece Government Received Massive EZ Debt Relief:** The southern axis countries have given Greece €128 billion in highly concessional loans with an opportunity cost to southern axis taxpayers of €8 billion per year. Since 2010, Greece has received €354 billion in debt relief, which is 17 times more than the EZ programme country average. The 3rd programme has already provided €23 billion in debt relief. Additionally, Greece receives on average €6.6 billion per year in EU funds which is 251% of comparable size Portugal and Ireland.
2. **Greece Government Significant Debt Competitive Advantage:** The Greece government has been given a significant debt competitive advantage, with a debt burden of about 50% of investment grade EZ member state peers, but earns worse ratings and higher borrowing costs. Greece 2015 YE Balance Sheet Net Debt, correctly calculated in accordance with international accounting or statistics rules is 41% and 58% of GDP, respectively. Greece will save €10 billion from a lower cash interest burden compared to the southern axis from 2016 to 2020. Greece debt service is 50% of EZ peers versus a gross financing needs of 123%. Greece floating rate debt is only 17% of total debt, not the 69% reported.
3. **Greece Government High Capital Spending:** The Greece government spent on average €364 million per week on capital spending from 2013 to 2015, which is 297% of comparable size Portugal and Ireland.
4. **Greece Government Total Balance Sheet of ½ Trillion Euros:** At year-end 2015, the Greece government had over ½ trillion euros in assets and liabilities to manage or mismanage, which is €48,060 per citizen.
5. **Greece Government €69 Billion Asset Value Lost:** Analysis indicates that €69 billion, or on average €625 million per week, of Greece government asset value was lost from 2014 to August 2016. From 2001 to 2015, Greece added only 10 cents in GDP for each additional euro of debt, compared to EZ peer average 45 cents.
6. **Greece Government Little Progress in Financial Transparency:** Little progress on Greece government financial transparency and accountability processes to win the trust and confidence of taxpayers. No opening balance sheet and no senior level ministers with professional turnaround, financial, or accounting experience.

Materials prepared under the direction of:

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Southern Axis countries is a phrase reported to be used by the Greek government in communicating potential September 2016 meetings in Greece of select EZ member states.

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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See www.MostImportantReform.info *IMF and Greece: 12 Facts* for two presentations recommending steps forward.