

Greece's Secret Huge Competitive Advantage

-- Keynote Speaker --

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Forbes
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The ABCs of Greece's Secret Huge Competitive Advantage

- A. How can IPSAS reveal Greece's secret huge competitive advantage
- B. What is the huge competitive advantage
- C. Action items to educate Greece and the world on Greece's huge competitive advantage

The ABCs of Greece's Secret Huge Competitive Advantage

- A. How can IPSAS reveal Greece's secret huge competitive advantage

A. What is IPSAS

IPSAS: International Public Sector Accounting Standards

- IPSAS is the public sector version of IFRS, the international accounting standards used by leading companies world-wide and in Europe
- Full set of 32 accrual standards
- Exposure drafting process
- Independent standards setting board
- Objective and continuously improving

Sea Change in Government Accounting

- 1995: Three major public sector entities had accrual accounting (New Zealand, Sweden, and World Bank)
- Today and in the near future: over 40 have accrual accounting
- Includes: UK, France, Austria, Portugal, Spain, Ireland, Estonia.
- Ten (10) IPSAS Q&A for Senior Executives - Handout

Video Presentations

- **Hon. David Walker:** Former US Comptroller General and head of the Government Accountability Office (NESAS-London)
- **Hon. Ruth Richardson:** Former Finance Minister of New Zealand (NESAS-London)
- **Dr. Ian Ball:** Chairman, CIPFA International, former CEO International Federation of Accountants
(World Congress of Accountants, 4,000+ senior most accountants)

Building Trust and Confidence

- Consistent advice from successful global leaders
- The cornerstone of good government
- Starts with highest integrity financial reports
- Taxpayers within Greece
- Globally with investors
- Professor Jacob Soll's book "The Reckoning: Financial Accountability and the Rise and Fall of Nations"

Better Management of Government Finances

- Greece government is responsible for managing
 - €80 billion annual budget
 - 650,000+ employees
 - Approximately 50% of the economy
- Better manage financial and privatization assets and government liabilities
- Better manage spending and revenues
- You cannot manage what is not correctly measured

IPSAS Protects Against Debt-Fueled Growth

- Focus on no increase in net debt
- High integrity net debt numbers
- Monthly net debt numbers within weeks of month-end
- Disclose potential impact on net debt prior to major financial decisions
- Maastricht debt covenant stays in place

Difference between Debt at Fair Value vs. Debt at Legal Contract Value

IPSAS:

- Fair value at initial recognition or substantial modification
- Includes discounted present value of all three streams of future cash flows (time-value-of-money)
- Financial assets

Maastricht debt:

- Contract value for legal covenant purposes

The ABCs of Greece's Secret Huge Competitive Advantage

B. What is Greece's huge competitive advantage

B. Greece's Huge Competitive Advantage

- Greece net debt to GDP:
 - Significantly below 60% (Significantly below)
 - One-third (1/3) of peers.
- Greece cash net interest payments:
 - Close to ZERO.
 - Even gross payments are one-third (1/3) of peers

Contact Japonica if you'd like to know the exact numbers. Greece debt number third party independently verified using IPSAS.

Greece Unique Capital Structure

- €275 billion of Greece €319 billion debt (86%) has concessionary and/or reschedule terms, including:
 - Zero cash interest for 10 years
 - Subsidized interest rates vastly below market
 - Massively extended maturities up to 40 years
 - Debt with interest and principal rebates
 - €30 billion in financial assets funded with Official Sector loans
- 104 debt instruments required IPSAS adjustment

€340 Billion Wealth Transfer to Greece

Greece creditors have already sustained €340 billion in present value losses from debt relief to provide Greece extremely generous breathing space.

	<u>Creditor Funds Provided</u>	<u>Value of Funds Post Debt Relief</u>	<u>Creditor PV Losses</u>
Private Investors	€ 199 Bil	€ 50 Bil	-€ 149 Bil
Official Investors	€ 243 Bil	€ 52 Bil	-€ 191 Bil
Total	€ 442 Bil	€ 102 Bil	-€340 Bil
% of GDP			189%

GDP estimate of €180 billion.

Greece Cash Net Interest Payments Could Be ZERO

(Euros, billions)

You cannot cut what is not there. Credit peers are 10% of revenue.

		<u>Interest</u>	<u>% of €80B Revenue</u>	
1.	ESA Interest Expense	7.3 billion	9.4%	←
2.	EFSF Non-Cash Interest	2.4 billion		
3.	ANFA/SMP Rebates	2.7 billion		
4.	Gross Cash Interest Payments	2.2 billion	3.4%	←
	Return on Better Managed Financial Assets Funded with Official Sector Borrowings:			
5.	11 billion Cash Buffer at 500bps above T-bills	0.6 billion		
6.	20 billion in Bank Investments Earn 8%	1.5 billion		
7.	Cash Net Interest Payments	0.1 billion	0%	←

ANFA and SMP Payments Should Reduce Interest Expense, NOT Inflate Primary Balance

- The Government received €2.7 billion in 2013 and was budgeted to receive €2.4 billion in 2014 from the ECB and national central banks.
- These payments are from interest expense and principal payments paid by the government on its bonds.
- Economic reality and proper accounting is that these rebates should be netted against interest expense and not inflate primary balance.

Greece vs Peer Borrowing Cost Examples (1 of 3)

Greece Government Borrowing Cost
Above Peers: (7.8% vs. 2.0%)

580 bps Above



Greece Corporate Borrowing Cost
Above Peers: (8.7% vs. 1.2%)

650 bps Above



Greece Corporate Net Margin
Below Peers: (1.2% vs. 5.7%)

450 bps Below

Greece vs Peer Borrowing Cost Examples (2 of 3)

Greece Issuer	5yr Borrowing Cost	Net Margin	EU Peer Issuer	5yr Borrowing Cost	Net Margin
Intralot	7.8%	0.7%	Gtech SpA (Italy)	1.4%	8.6%
Frigoglass	11.4%	0.6%	Gerresheimer (Germany)	1.2%	5.4%
Hellenic Petroleum	7.2%	0.4%	Neste Oil (Finland)	1.8%	3.0%
Public Power Corp	8.3%	3.0%	Swissgrid AG (Switzerland)	0.3%	5.7%
AVERAGE:	8.7%	1.2%	AVERAGE:	1.2%	5.7%

Greece vs Peer Borrowing Cost Examples (3 of 3)

Greece Banks

	Issue	Years to Maturity	Issue Date	YTM
	<u>Issue</u>	<u>At Issue</u>	<u>Date</u>	<u>11/21/14</u>
1. Piraeus	5.000% due 3/27/2017	3 years	3/27/14	8.45%
2. NBG	4.375% due 4/30/2019	5 years	4/30/14	7.91%
3. Alpha	1.500% due 12/18/2028	15 years	12/18/13	9.70%
4. Eurobank	4.25% due 6/26/2018	4 years	6/26/14	7.73%
	9.000% due 3/8/2019	7 years	3/8/12	8.82%
5. Average				8.52%

Peer Banks (5-Year Bonds)

	YTM
	<u>11/21/14</u>
6. Bank of Ireland (Ireland)	1.61%
7. Unicredit (Italy)	1.01%
8. Bankia (Spain)	1.43%
9. Banco Comercial Portugues (Port.)	3.20%
10. Average	1.81%

Greece Borrowing Cost Disadvantage to Peers (bps)

671

ECB “40% Penalty” on Greece Collateral Compared to Peers 5%

- Borrowing costs significantly inflated relative to peers and freezes liquidity.
- Potential investors need to commit 8X the collateral to buy Greek bonds compared to peers
- Banks, as big buyers of government bonds, are effectively precluded from buying GGBs
- Peer collateral adjusted bond yield as more attractive (higher) than Greece bond yields.
- Suggest you read an ICMA study “Collateral is the New Cash”

ICMA on Collateral Constraints: Highlights

- Mandatory haircuts for securities financing transactions increase cost and lower liquidity.
- The systemic risks arising out of regulation that inhibit collateral fluidity would have broad and severe repercussions, not only for the financial markets, but throughout the real economy.
- Regulation should avoid inhibiting, and ideally seek to enhance collateral fluidity.
- Please ask Japonica for additional articles on this topic.

“Collateral is the New Cash: The Systemic Risks of Inhibiting Collateral Fluidity: An ICMA presentation for EFMLG” ICMA Frankfurt 19 March 2014

ECB “40%” Penalty Limits Bank Investors

Italy 34% vs. Greece 6%

(in € billions, unless otherwise stated)

	ITALY	GREECE
Domestic Holders:		
Domestic MFIs	€430	€15 (Mostly T-Bills)
Domestic Pensions & Insurance	€279	€5
Domestic Sub-Total:	€709	€20
Total Debt:	€2,069	€319
Domestic Holdings as % of Total Debt:	34%	6%

Sources: ECB, IMF, EC (AMECO), Japonica.

The ABCs of Greece's Secret Huge Competitive Advantage

C. Action items to educate within Greece and the World
on Greece's Huge Competitive Advantage

C. Pick Your Action Item from the Menu

1. Support the adoption of IPSAS
2. Educate key stakeholders on Greece's huge competitive advantage
3. Jump start 200,000 to 400,000 sustainable new jobs
4. Champion IPSAS and win voters
5. IPSAS for all €1.0+ billion financial decisions
6. Discourage leadership selling negativity

#1. Support the Adoption of IPSAS

- Learn the IPSAS Q&A - see handout
- Distribute IPSAS materials
- Discuss with your own network
- Organize meetings and invite IPSAS experts to speak
- Encourage key stakeholders to support IPSAS

#2. Educate Key Stakeholders on Greece's Huge Competitive Advantage

- Greece Net Debt to GDP is significantly below 60% and one-third (1/3) of credit peers
- Greece net cash interest payment should be close to ZERO and are one-third (1/3) of credit peers
- Get the “40% penalty” reduced to the peer 5%

Contact Japonica if you'd like to know the exact numbers. Greece debt number third party independently verified using IPSAS.

#3. Jump Start 200,000 to 400,000 Sustainable New Jobs within the Next 24 Months

- Cut borrowing cost in half
- Double liquidity – “40% penalty” reduced to peer 5%
- Small business resurgence
- Construction markets will reawaken
- Export will increase given new competitiveness
- The value of income producing real estate will increase given lower cap rates

#4. Champion IPSAS and Win Voters

- 400,000 new job optimists with IPSAS.
- 10% new voters gained (600k/6.0M voters).
- Importantly, a 20 percentage point spread swing results if votes are taken from a single major party.

- ~1.2 million related individuals within a household impacted.
- 50% (~600,000) change vote in favor of political leaders who champion IPSAS and create jobs.

#5. IPSAS for All €1.0+ Billion Financial Decisions

Voice support for IPSAS analysis and public discussion prior to all €1.0+ billion decisions by the government, including the following:

- Debt buybacks
- Government controlled banks forced to sell or swap GGBs
- Bond issuances
- Management of financial assets
- Privatizations

#6. Discourage Leadership Selling Negativity

Examples:

- * Wall Street Journal special advertising section October 10, 2014 selling negative comments about Greece
- * Bloomberg exclusive interview with Greek political leadership October 31, 2014 selling negative comments about Greece
- * Frequent comments by political leadership selling negative comments about Greece banking system safety

Greece's Huge Competitive Advantage

Greece has a huge competitive advantage which can jump start 200,000 to 400,000 new sustainable jobs within the next 24 months.

Now is the time to judge leadership on how effectively they can educate within Greece and the world on Greece's huge competitive advantage and not on how effective they are in selling fear and loathing.