

# **CUIDADO, PORTUGAL**

**Do you know the impact of your government's  
actions on your Citizens' Wealth?**

**Paul B. Kazarian**

JAPONICA PARTNERS

THE CHARLES & AGNES KAZARIAN FOUNDATION

**Guest Lecture for  
ISCTE-IUL Professor Sofia Vale**

14-16 May 2019

*Lisboa, Portugal*

# **CUIDADADO, PORTUGAL**

## **Two Big Picture Observations**

- 1. A critical weakness of a democratic political system is that political actors can buy votes with promises and hide the future traumatic financial consequences.**
- 2. To avoid repeating the financial trauma of the past, the voting public (you) should understand the impact of your government's actions on your Citizens' Wealth.**

# **CUIDADO, PORTUGAL**

## **Main Topics**

**Prelude: Mutual introduction**

- 1. Citizens' Wealth\* - simplified**
- 2. Government Debt**
- 3. Total Government Balance Sheet and Citizens' Wealth**

\* Simplified.

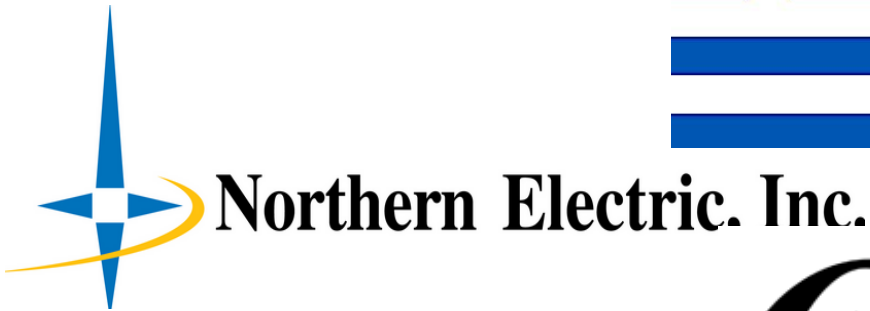
# Mutual Introduction

Since 1988, **Japonica Partners** has built our track record by creating transformational investments with low risk and high return.

Since 1998, **The Charles & Agnes Kazarian Foundation** core mission is to improve public financial management and financial literacy.

# JAPONICA PARTNERS

## Transformational Investments: 1988 to 2018



# Japonica Partners Transformational Investments Are Built With Our Delta Investment Framework



# Charles & Agnes Kazarian Foundation: Highlights

- Educated Greek key stakeholders on the importance of PFM
- Established the Kazarian Center for Public Financial Management
- 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
- Cited, profiled, and/or co-authored in numerous leading publications on PFM related topics
- William Pitt the Younger Award 2016



RESEARCH REPORT

*Thinking ahead for Europe*

No. 2019/10, March 2019

# Beyond Public Debt

The Hidden Rapid Erosion of EU Government  
Balance Sheets is a Financial Threat to Society

*How to stop it*

Authors: Jorge Núñez Ferrer and Roberto Musmeci

Sole Special Advisor: Paul B. Kazarian



# **CEPS Task Force Report: "The Hidden Rapid Erosion of EU Government Balance Sheets is a Financial Threat to Society. How to stop it."**

- Overview: <https://www.ceps.eu/publications/beyond-public-debt>
- Preview Video: <https://youtu.be/S2-lckvU1c0>
- Commentary: <https://www.ceps.eu/publications/beyond-public-debt-commentary>
- Task Force Report: [https://www.ceps.eu/system/files/Beyond%20Public%20Debt\\_0.pdf](https://www.ceps.eu/system/files/Beyond%20Public%20Debt_0.pdf)

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## **Main Topics**

**#1. Citizens' Wealth\* - simplified**

**#2. Government Debt**

**#3. Total Government Balance Sheet  
and Citizens' Wealth**

\*Simplified.

# **CUIDADO, PORTUGAL**

## **Topic # 1. Citizens' Wealth\* - simplified**

\*Simplified.

# CUIDADADO, PORTUGAL

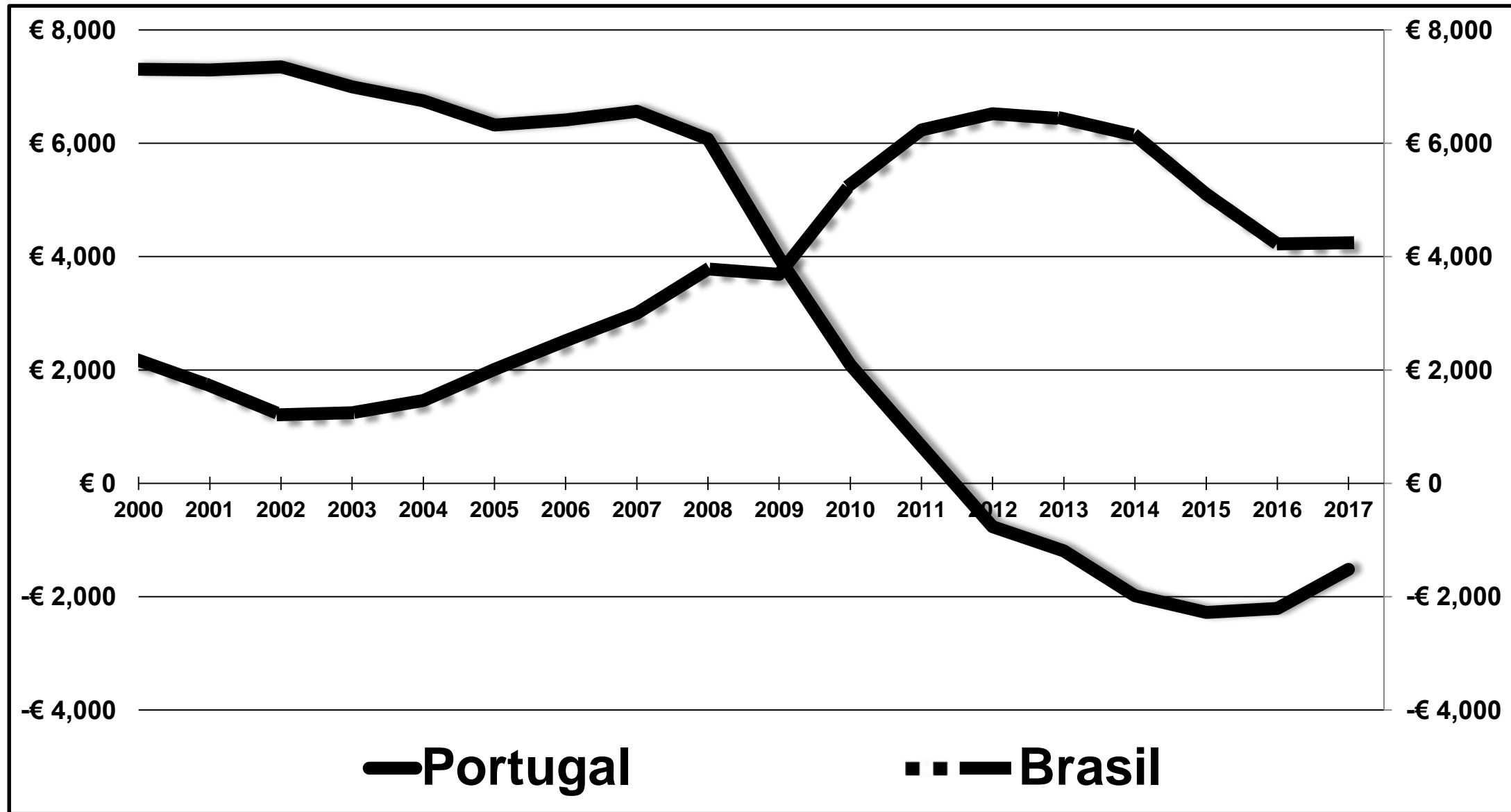
## Citizens' Wealth\* (per citizen) Portugal 2000 and 2017

	<u>2000</u>	<u>2017</u>	<u>Change</u>
<b>Total Economy GDP</b>	€12,485	€18,741	+€6,256
<b>Government Net Debt</b>	€5,178	€20,258	+€15,080
<b>Citizens' Wealth*</b>	€7,306	<b>-€1,517</b>	<b>-€8,823</b>

\*Simplified.

# CUIDADO, PORTUGAL

## Citizens' Wealth\* (per citizen): Portugal vs. Brazil



\*Simplified.

Notes: Data from IMF WEO database (April 2018) accessed 27 August 2018. Data in euros for comparative purposes.

# CUIDADO, PORTUGAL

**Citizens' Wealth\* (per citizen): Portugal versus Brasil  
Role Reversal During the Short Eurozone Journey**

	<u>2000</u>	<u>2017</u>	<u>Change</u>
<b>Portugal</b>	€7,306	<b>-€1,517</b>	<b>-€8,824</b>
<b>Brasil</b>	€2,169	€4,243	+€2,074
<b>POR vs. BRA</b>	+€5,137	-€5,761	-€10,898

\*Simplified.

Notes: Data from IMF WEO database (April 2018) accessed 27 August 2018. Data in euros for comparative purposes.

# **CUIDADO, PORTUGAL**

## **Topic # 2. Government Debt**



# Portugal's Eurozone Journey has Massively Increased Government Debt, but Hidden by the ECB's Negative Interest Rate Policies

	<u>Before Eurozone: 1998</u>	<u>After 19 Years in the Eurozone: 2018</u>	<u>Change During Eurozone Membership</u>
<b>Government Debt as % of GDP</b>	52%	121%	69%
<b>Government Debt as % of Government Revenue</b>	136%	279%	143%
<b>Government Average Cost of Debt</b>	6.1%	2.9%	-3.2%

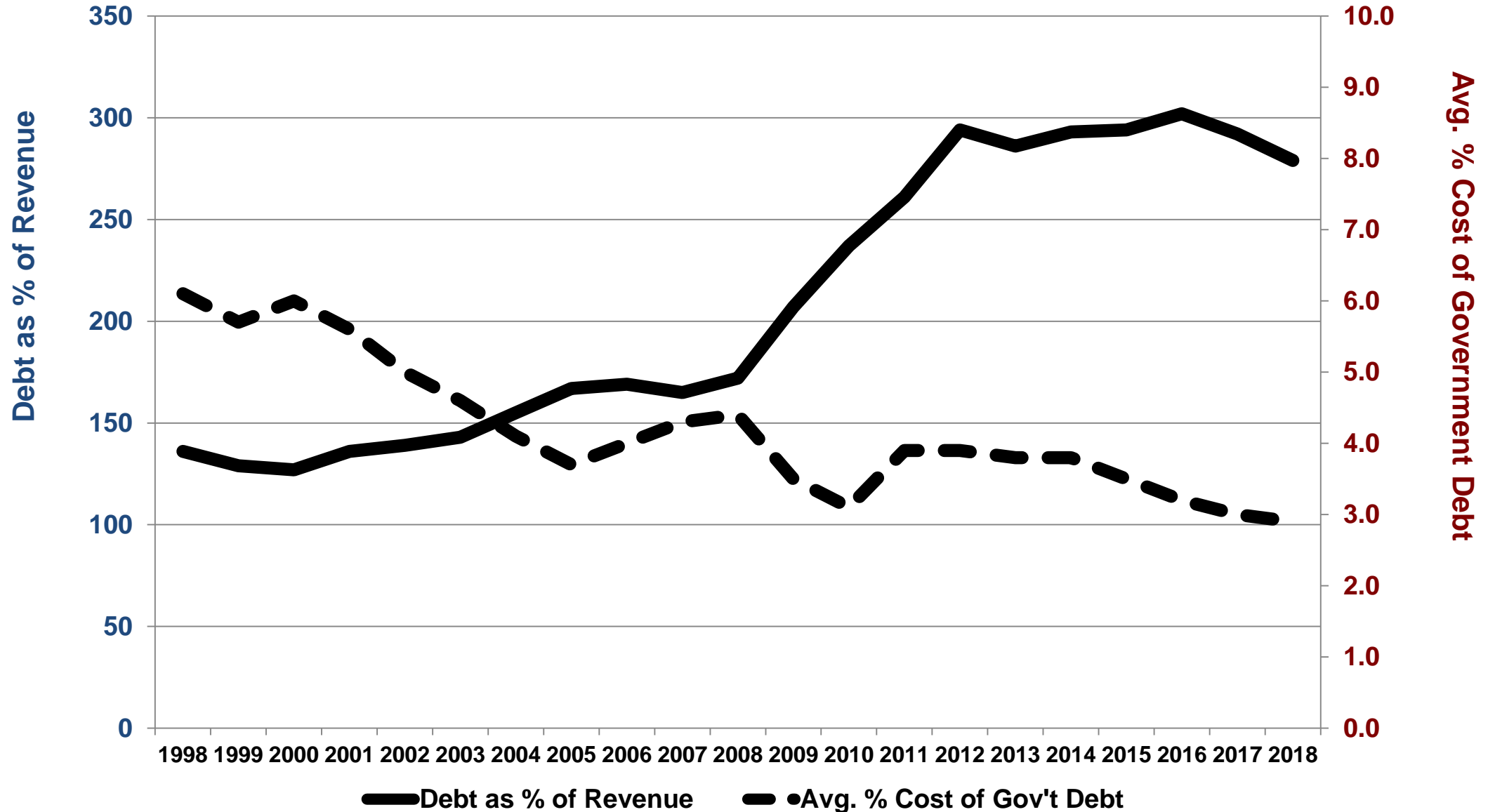
# CUIDADO, PORTUGAL

## Portugal Government Debt and Revenue Before the Eurozone (1988) and Now (2018)

	<u>1998</u>	<u>2018</u>	<u>Change</u>
Government Debt	€58 Billion	€245 Billion	+€187 Billion
Government Revenue	€42 Billion	€88 Billion	+€46 Billion
Government Debt as % of Government Revenue	136%	279%	<b>4.1X</b>

# Portugal: Government Debt as % of Government Revenue (L) and Government Average Borrowing Cost (R)

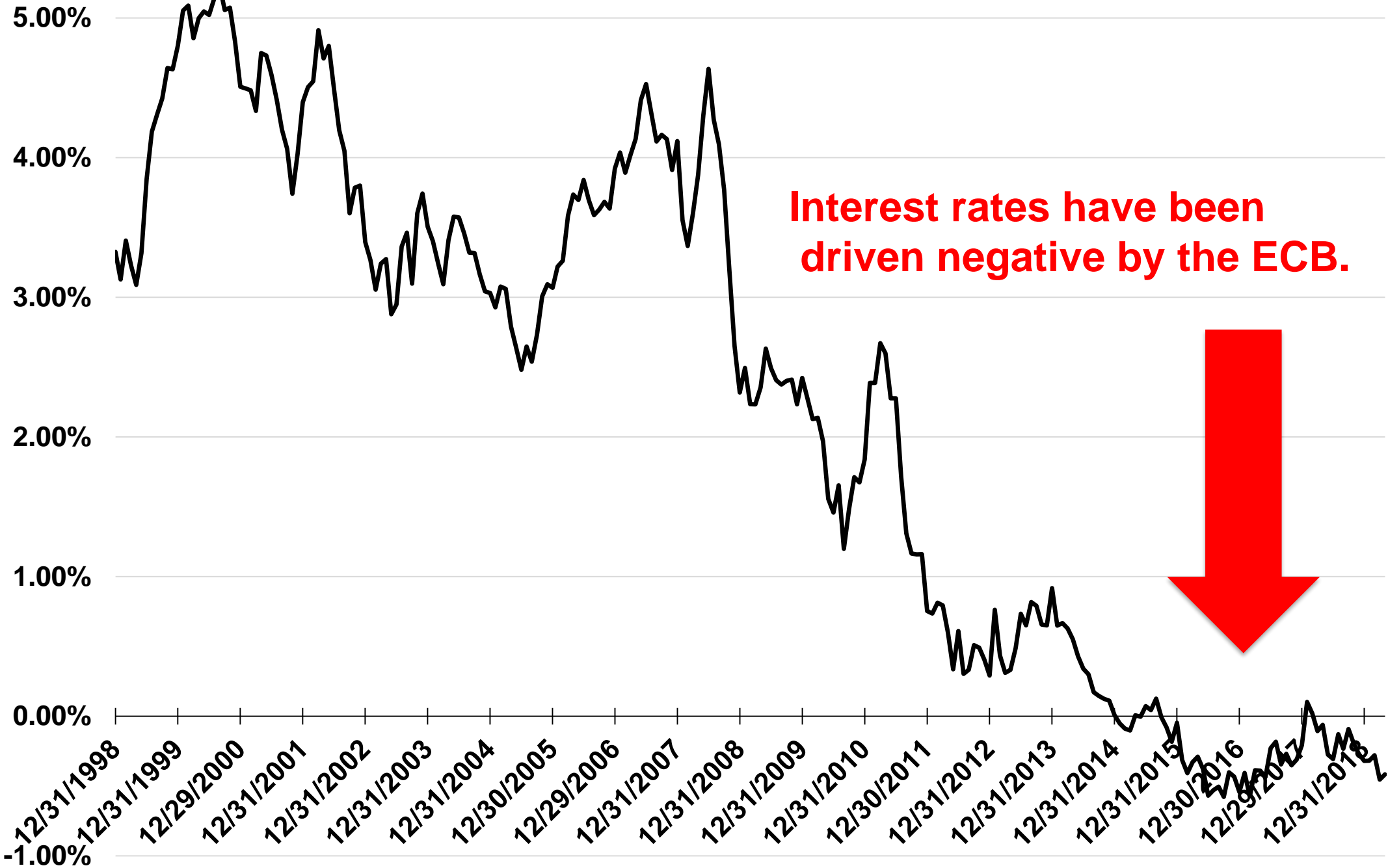
**10 May 2019 10-Year Borrowing Cost of 1.14%**



— Debt as % of Revenue    - - - Avg. % Cost of Gov't Debt

Notes: Data from EC AMECO database accessed 8 May 2019.

# Germany 5-Year Government Bond Historical Yields



**Interest rates have been driven negative by the ECB.**



Source: Bloomberg data accessed 10 May 2019.

# Lessons Learned from Select Portugal Financial Inflection Points During 45 Years of Democracy

*Revolução dos Cravos*: 25 April 1974

**IMF Bailout**: 1977 (Gov't Borrowing Cost: [TBD]%)

**IMF Bailout**: 1983 (Gov't Borrowing Cost: 11.1%)

**Eurozone Currency**: January 1999 (Gov't Borrowing Cost: 6.2%)

**IMF Bailout**: May 2011 to November 2014 (2012 Peak 10-year bond yield at 17.4%)

**The Future: ????**

# Debt Levels of Sovereigns with Repeated Debt Trauma

	<u>2000</u>		<u>2018</u>	
	Market Interest		Market Interest	
	Debt as % of GDP	Rates (USD)	Debt as % of GDP	Rates (USD)
Argentina	42.1%	8.7%	86.3%	11.5%
Ecuador	60.3%	19.3%	46.1%	10.6%
Portugal	<b>50.3%</b>	<b>4.8%</b>	<b>121.4%</b>	<b>0.6%</b>
Puerto Rico	33.4%	5.0%	54.6%	21.5%
Venezuela	28.2%	11.0%	104.3%	49.1%

Notes: Debt to GDP data from IMF April 2019 WEO Database accessed 11 May 2019; due to data availability, Ecuador is 2001 and Puerto Rico is 2006. Market interest rates from Bloomberg accessed 11 May 2019; yield to maturity for medium term bonds at year end. Venezuela 2018 Debt as a % of GDP is average of 2017 actual and 2018 estimated due to extraordinary economic circumstances.

# **CUIDADO, PORTUGAL**

## **Topic #3. Total Government Balance Sheet and Citizens' Wealth**

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## Portugal Total Government Balance Sheet Per Citizen: 2015 YE

	<u>Per Citizen</u>	<u>Amount</u> <i>(Billions)</i>	<u>% of Total</u>
Financial Assets	€ 6,600	€ 66	9%
Non-Financial Assets	€ 14,500	€ 145	20%
Total Assets	€ 21,100	€ 211	29%
Financial Debts	€ 20,800	€ 208	29%
Non-Financial Debts	€ 30,400	€ 304	42%
Total Debts	€ 51,200	€ 512	71%
Government Total Net Debts (Burden)	<b>-€ 30,100</b>	-€ 301	
Total Assets and Total Debts	€ 72,300	€ 723	100%



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Portugal 2017 Per Citizen: Citizens' Wealth\*  
(simplified) versus Citizens' Wealth with  
Total Government Balance Sheet

	<u>Citizens'</u> <u>Wealth*</u> <i>(Simplified)</i>	<u>Citizens'</u> <u>Wealth</u>	<u>Difference</u>
<b>Total Economy GDP</b>	€18,741	€18,741	€0
<b>Government Burden</b>	€20,258 (Debt)	€30,100 (Total Gov't Balance Sheet)	+€9,842
<b>Citizens' Wealth</b>	<b>-€1,517</b>	<b>-€11,359</b>	<b>-€9,842</b>

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