How to Accelerate the Turnaround of Greece Government Finances by Asking the Right Question

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ΠΑΝΕΠΙΣΤΗΜΙΟ ΠΕΙΡΑΙΩΣ

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Three things you should know:

#1. You can help accelerate the turnaround of Greece government finances by asking the right question.

#2. Greece government debt is a huge competitive advantage, not a suffocating debt mountain.

#3. The Greece government is a classic financial turnaround.

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#1. You can help accelerate the turnaround of Greece government finances by asking the right question.

What is the present value of Greece government net debt, compared to other European countries?

Answer: 22%

Ποια είναι η τρέχουσα αξία του ελληνικού καθαρού χρέους ως ποσοστό του ΑΕΠ σε σχέση με αυτό των ομότιμων χωρών;

Απάντηση: 22%

#2. Greece government debt is a huge competitive advantage not a suffocating debt mountain.

- Present value of net debt
- Annual net debt service
- Interest payments
- Debt relief
- Future face value of debt

Similar answer.

The international rules to measure Greece debt and debt relief are harmonized.

The Macroeconomic Rules:

- <u>2008 SNA</u> (System of National Accounts 2008): Produced under joint responsibility of the EC, IMF, OECD, UN, and WB.
- <u>ESA 2010</u> (European System of National Accounts); Passed by EU Parliament with the force of law.

The International Accounting Rules:

- <u>IPSAS</u>: The only international public sector standards.
- <u>IFRS</u>: The only international commercial sector standards, and followed by select countries such as the UK.
- <u>US GAAP</u>: Used by multi-nationals worldwide.

Greece Present Value (PV) of Net Debt to GDP was 22% of peers.

(€, Billions; 2013 data.)

		Greece % of Peers	Greece	Peer Average	Post-Programme Countries: Ireland	Spain	Portugal	Italy
1.	Future Face Value of Debt/GDP		**175%**	**120%**	124%	94%	129%	133%
2.	GDP		€ 182		€ 164	€ 1,023	€ 166	€ 1,560
3.	Future Face Value of Debt		€ 319		€ 203	€ 961	€ 214	€ 2,069
	International macro-economic and accounting rules:							
4.	PV of Debt		€ 124		€ 189	€ 940	€ 185	€ 2,069
5.	PV of Debt/GDP	**60%**	68%	113%	115%	92%	112%	133%
6.	Financial Assets		€ 91		€ 65	€ 292	€ 69	€ 317
7.	Financial Assets/GDP		50%	32%	39%	29%	42%	20%
8.	PV of Net Debt		€ 33		€ 125	€ 647	€ 116	€ 1,752
9.	PV of Net Debt/GDP	**22%**	**18%**	**80%**	76%	63%	70%	112%
10.	PV Impact		€ 195		€ 14	€ 21	€ 29	€ 0
11.	PV Impact/GDP		107%	7%	8%	2%	17%	0%

GREECE PV OF NET DEBT WAS INDEPENDENTLY VERIFIED ON 15 AUGUST 2014.

Note: Japonica calculations based on EC, Eurostat, and IMF data.

Greece net debt service, which is interest expense and principal payments less rebates and deferrals adjusted for financial assets, is slightly below 22% of peers.

		Net Debt Service % of GDP*	Debt Service % of GDP
1.	Greece	2%	6%
2.	Ireland	7%	10%
3.	Italy	13%	15%
4.	Spain	9%	13%
5.	Portugal	7%	11%
6.	Peer Average	9%	12%
7.	Greece % of Peer Average	18%	47%

Notes:
*Debt service ratio converted as PV of net debt as a percentage of PV of debt.
2016 estimates based on Bloomberg, EC, and IMF data. Excludes T-Bills. Greece adjusted for deferred interest and SMP/ANFA rebates.

Greece Cash Interest is slightly above 22% of peers.

(€, Billions; 2015, except Debt)

		Greece % of Peers	Greece	Peer Average	Post-Programme Countries: Ireland	Spain	Portugal	Italy
1.	Revenue		€ 81		€ 67	€ 408	€ 79	€ 778
2.	Interest Expense		€ 7.5		€ 7.0	€ 33.9	€ 8.8	€ 70.0
3.	Interest Expense % of Revenue	**96%**	**9.3%**	**9.7%**	10.5%	8.3%	11.2%	9.0%
4.	EFSF Non-Cash Interest		€ 1.4					
5.	ANFA/SMP Rebates		€ 3.9					
6.	Cash Interest Payments		€ 2.2		€ 7.0	€ 33.9	€ 8.8	€ 70.0
7.	**Cash Interest Payments % of Revenue**	**29%**	**2.8%**	**9.7%**	10.5%	8.3%	11.2%	9.0%
8.	Cash Interest Payments % of Debt (2014)	**20%**	**0.7%**	**3.5%**	3.4%	3.3%	3.9%	3.3%
	Potential Better Financial Asset Management							
9.	Other Interest Income on Fin. Assets		TBD					
10.	Cash Net Interest Expense		TBD					

Notes: Based on EC and EFSF data. 2015 data except Debt, 2014.

Present value of debt from Greece 3rd Programme debt relief is slightly above 22%.

- **Total 3rd Programme size:** €86 billion.
- **Total Debt Relief:** €64.6 billion.
- **Present Value of Debt:** €21.4 billion (25%) with corresponding increase in government net worth.
- **Terms:** Interest expense currently approximately 1% with maturities approaching 50 years, and grace periods of 20 years.
- **Measurement Rules:** International macroeconomic rules 2008 SNA and 2010 ESA and international accounting rules IPSAS/IFRS.
- **Disbursements to Date:** €13 billion (August 2015).

Destructive obsession with politically symbolic Greece nonsense future face value of debt and debt relief numbers.

- Greece is a victim of the €300+ billion debt mountain.
- The cause of Greece current problems is the debt mountain and prevents prosperity.
- More debt relief on the debt mountain is the holy chalice.

Future face value of restructured and concessional debt is a senseless number.

- Breaks both international macroeconomic and accounting rules.
- Ignores that time impacts the value of money.
- Ignores interest rates, maturities, re-payment provisions, and market realities.
- Would value €1,000 paid in 100 years earning no interest as worth €1,000 today.
- Can be found in "undeveloped" guidelines or "unilateral" lender covenants.

Examples of recent comments on correctly assessing Greece government debt using PV or debt service and not future face value.

- International accounting authorities, including IFAC, CIPFA, IPSASB
- Harvard Business School case study by George Serafeim
- Leading think tanks incl. CEPS, CESIfo, Bruegel, Peterson
- Apolitical economists / historians incl. Pelagidis, Soll, DeGrauwe, Weder di Mauro
- German Chancellor Angela Merkel and Dep. Fin. Minister Jens Spahn
- Eurogroup President Jeroen Dijsselbloem
- ESM Managing Director Klaus Regling and ESM annual report
- IMF DSA – June 2015

3. The Greece government is a classic financial turnaround.

A. 15-year track record of management induced financial underperformance.

B. Low hanging fruit could create €50 billion in value.

#3. The Greece government is a classic financial turnaround.

A. 15-year track record of management induced financial underperformance.

Greece has created only 10 cents in value for each euro of debt added, which is 90 cents in value destruction.

			Peer	*Peer Countries*			
SN	**GDP Increase / Debt Increase**	**Greece**	**Average**	**Ireland**	**Italy**	**Spain**	**Portugal**
1.	Historical (2001 to 2014)	**10%**	**40%**	41%	41%	52%	25%
2.	Forecast (2015 to 2017)	**1%**	**223%**	372%	103%	91%	327%
3.	Forecast / Historical	10%	563%	903%	253%	174%	1332%

SN	**Metric**	**Delta 2001-2014**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
1	GDP	25.4	177.6	180.4	191.2	207.0	226.0	237.5	242.0	232.7	217.9	199.2	193.7	178.9	163.5	152.2
2	Gross Debt - Face	260.2	317.1	319.2	304.8	356.0	330.3	301.0	264.6	240.0	225.3	195.4	183.2	168.0	159.2	151.9
3	**GDP Δ / Debt Δ (Annual)**		**NM**	**-75%**	**NM**	**-74%**	**-39%**	**-12%**	**38%**	**101%**	**63%**	**45%**	**98%**	**175%**	**154%**	
4	**GDP Δ / Debt Δ (Cumu.)**	**9.8%**	**15%**	**17%**	**26%**	**27%**	**41%**	**57%**	**80%**	**91%**	**90%**	**108%**	**133%**	**166%**	**154%**	

Notes: EC and IMF data. Greece Gross Debt Delta 2001-2014 adjusted for PSI.

Greece GDP Per Capita has declined from 192% of the average of EU Bottom Half Countries to 119%.

(GDP per Capita data in euros)

SN	Country	2001 GDP per Capita	2001 Rank	2015e GDP per Capita	2015 Rank
1	Bulgaria	2,025	10	6,355	10
2	Croatia	6,034	6	10,192	8
3	Cyprus	16,345	1	19,788	1
4	Czech Republic	7,352	5	15,168	6
5	Estonia	5,001	7	15,513	5
6	**Greece**	**13,899**	**2**	**16,111**	**4**
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11	Portugal	13,107	3	17,113	3
12	Romania	2,036	9	8,454	9
13	Slovak Republic	4,439	8	14,255	7
14	Slovenia	11,726	4	18,418	2
15	Average	7,240		13,526	
16	**Greece as a % of Average**	**192%**		**119%**	
17	Greece Debt (Face) as a % of GDP	100%		180%	

Note: IMF and EC data.

Greece Real GDP has declined 7% from 2001 to 2015 while the EZ average has increased 32%.

(€, Millions; at 2010 reference levels)

		REAL GDP		
Rank	**Sample EZ Country**	**2001**	**2015**	**% Change**
1	Slovakia	43.3	75.5	74%
2	Lithuania	19.5	33.5	72%
3	Latvia	13.2	21.5	63%
4	Estonia	11.3	17.7	57%
5	Ireland	130.8	193.2	48%
.	.	.	.	.
.	.	.	.	.
.	.	.	.	.
17	Portugal	170.4	172.1	1%
18	Italy	1583.8	1548.6	-2%
19	**Greece**	**197.7**	**182.9**	**-7%**
	EZ Average (ex-Greece)			**32%**

Note: EC AMECO database.

Greece has overspent on average 120% of Government Revenue each year since 2001.

SN	Fiscal Balance / Total Revenue	Greece	Peer Average	*Peer Countries* Ireland	Italy	Spain	Portugal
1.	**Historical (2001 to 2014 Average)**	**-20%**	-12%	-16%	-7%	-11%	-14%
2.	Forecast (2015 to 2017 Average)	**-7%**	**-6%**	-5%	-5%	-9%	-6%
3.	Forecast Less Historical	**13%**	**6%**	11%	3%	2%	8%

SN	Metric	2001-2014 Avg.	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
1	Revenue	82.0	82.3	87.2	88.6	91.1	93.3	92.4	98.4	93.9	85.3	75.2	70.6	67.3	63.0	59.9
2	Fiscal Balance	-16.4	-6.3	-22.5	-16.9	-21.2	-25.3	-36.0	-24.6	-15.6	-13.0	-10.9	-13.8	-9.9	-7.7	-6.5
3	**Fiscal Bal / Revenue**	**-20%**	**-8%**	**-26%**	**-19%**	**-23%**	**-27%**	**-39%**	**-25%**	**-17%**	**-15%**	**-14%**	**-19%**	**-15%**	**-12%**	**-11%**
4	Expenditures	98.5	88.7	109.6	105.5	112.3	118.6	128.4	123.0	109.5	98.3	86.1	84.3	77.1	70.7	66.5
5	**Expenditures / Revenue**	**120%**	**108%**	**126%**	**119%**	**123%**	**127%**	**139%**	**125%**	**117%**	**115%**	**114%**	**119%**	**115%**	**112%**	**111%**

Note: EC and IMF data.

The value destroyed and annual overspending numbers would be even worse if adjusted for €100+ billion in debt avoided through EU net grants.

(€, Billions)

SN	Period	EU Annual Net Grants *(Period Average)*	10 Year Borrowing Cost *(Period Average)*	Cumulative Debt Avoided
1	2001-2005	€ 3.3	*5%*	€ 18.4
2	2006-2010	€ 3.9	*6%*	€ 47.7
3	2011-2015	€ 4.4	*10%*	€ 104.5

Notes: 1996-2012 Grant data from ECB; 2013-2015 estimates from ECB, EU Budget, and EC data. Borrowing cost data from Bloomberg.

Greece €400+ billion in debt relief and forgiveness is almost 25 times the average of other EU programme member states.

SN		**Greece**	**Peer Average**	**Cyprus**	**Ireland**	**Portugal**	**Spain**
1.	Debt Relief & Forgiveness as % GDP	**230%**	**12%**	22%	8%	17%	2%
2.	Months in Programme(s)	66+	30	30+	36	37	18
	Official Sector Debt Relief:						
4.	Pre-2015	€ 201	€ 17	€ 4	€ 14	€ 29	€ 21
5.	2015-2017 3rd Programme	€ 65	€ 0	€ 0.1	€ 0	€ 0	€ 0
6.	Total Official Sector Debt Relief	€ 266	€ 17	€ 4	€ 14	€ 29	€ 21
7.	Private Sector Debt Forgiveness	€ 149	€ 0	€ 0	€ 0	€ 0	€ 0
8.	Total Debt Relief and Forgiveness	**€ 415**	€ 17	€ 4	€ 14	€ 29	€ 21
9.	2013 GDP	€ 180		€ 18	€ 179	€ 170	€ 1,031

Note: EC and IMF data.

3. The Greece government is a classic financial turnaround.

B. Low hanging fruit could create €50 billion in value.

Public administration without turnaround management experience.

1. Has yet to use the rules to educate that Greece has a huge debt competitive advantage, not a debt mountain.
2. Has no financial statements, has no balance sheet, and cannot measure change in government net worth*.
3. Uses single-entry cash-basis accounting systems.
4. Has no turnaround managers.
5. Cannot successfully manage what is not accurately measured.

*92% of OECD non-Asia general government and public company expenditures utilize or are in the process of utilizing accrual basis financial statements.

Low hanging fruit goals for 5-star turnaround management.

1. **Educate**: Use the rules to educate the world on why Greece debt is a huge competitive advantage at 22% of peers. Stop playing the destitute victim.

2. **Build Confidence**: Build confidence by showing the financial statements of the government are being accurately reported and used in decision-making.

3. **Create Value**: Create €50 billion in value for all in Greece through professional management processes.

Opportunities to create €50+ billion in value: 2015-2017.

1. Lower sky high borrowing costs for everyone.
2. Increase government deeply depressed asset values.
3. Significantly increase FDI.
4. Renew optimism in local equity markets.
5. Increase real estate values to reduce NPLs.

Real estate collateral values increase 50%+ when GGB yields decline pushing down investor required returns.

Simplified Example:

Recent Value	€ 145,000
Loan-to-Value	126%
Annual Rental Income	€ 16,000

	10-Year Gov't Bond Yields	Real Estate Risk Premium	Required Rate of Return (Cap Rate)	Real Estate Value	% Increase from Current Value	Loan-to-Value
Recent Value	**8%**	**3%**	**11%**	**€ 145,000**	**NA**	**126%**
	7%	3%	10%	€ 160,000	10%	115%
	6%	3%	9%	€ 178,000	23%	103%
	5%	3%	8%	€ 200,000	38%	92%
Origination	**4%**	**3%**	**7%**	**€ 229,000**	**58%**	**80%**
	3%	2%	5%	€ 320,000	121%	57%

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Answer: 22%

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Απάντηση: 22%

Turnaround Greece: Reading

"Greece's New Agreement with Europe: This Time Different?" Intereconomics. September/October 2015. **Pelagidis, Theodore and Kazarian, Paul B.**

"Greece's Debt Sustainable?" Harvard Business School Case Study. June 2015. **Serafeim, George**

"The Reckoning: Financial Accountability and the Rise and Fall of Nations." Basic Books. 2014. **Soll, Jacob**

"Greece Adopts IPSAS!" Public Finance International. May 2015. **Ball, Ian**

"Public Administration and the Tragic Trident" (Publication pending.) **Jacobides, Michael G.**

See also: www.MostImportantReform.info