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Greece – Recalculated

Large investor Paul Kazarian sees government debt below 60 percent.

► Economists calculate otherwise at about 180 percent.
► Companies suffer under the poor image.

Parlament in Athen: Zu keinerlei

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Paul Kazarian has a message: Greece is more creditworthy, than official figures show. The financier, tirelessly works to convince other investors, and also the Greek government, to switch the accounting to the modern IPSAS standard that is similar to the IFRS method, which is common in enterprises. Here liabilities and assets are not recognized as nominal amounts, but according to economic value.

The result of this new standard: The Greek public debt is below 60 percent of gross domestic product. The main reason for this surprisingly low rate is the numerous concessions in interest rates and repayment periods, the international creditors have granted the country. According to this calculation, Kazarian working with several major accounting firms have determined, Ireland's debt ratio is 76 percent, Italy at 112 percent, Spain 63 percent, and Portugal at 70 percent.

Kazarian also has his own interest: He is one of the largest remaining private creditors of the government in Athens - a large part of Greek debt is in public institutions. The secretive financier does not specify, but he has obviously invested well over a billion dollars. The Holding company, Japonica, which he leads himself and a handful of unknown partners, has more than ten billion dollars in volume.

Kazarian had predicted last fall in an interview with Handelsblatt, Greece will be able to finance in 2014 for less than five percent again. Currently, the return is for a five-year term at just 4.9 percent and for ten years at around 6.4 percent.

The investor is not alone in his criticism of the traditional accounting. The International Monetary Fund recommends IPSAS method at least as a supplement to traditional accounting. Klaus Regling and, chief of the European bailout fund, had the nominal debt of Greece, which is nearly 180 percent, as "not meaningful" because it does not account for the terms on the loans already enacted about a year ago.

6.4%

Interest is charged for Athens ten-year bonds.
Source: Bloomberg

It is surprising at first glance that Kazarian's efforts with the Greek Government have been met with strong resistance. He wants to convince the politicians in Athens to publish monthly the real debt after IPSAS to enter the capital market as a more realistic picture of the economic situation. But apparently the government in Athens is not willing to experiment- probably out of concern that a new accounting could be seen as an attempt to whitewash their own situation. The investor thinks this is a mistake.

Kazarian's figures do not include a complete conversion to IPSAS, he has calculated only the new debt; that measures the debt ratio in terms of economic performance where there is no difference. The enormous difference of real to nominal debt arises from the fact the debt qualified as IPSAS loans with discounted interest rates with correspondingly lower payments than market interest rates. In addition, deferred payments with lower interest amounts paid later are not taken into consideration as they would be at companies.

The investor has mainly taken over distressed companies in the past and sat on their restructuring gains. His investment in Greek bonds follows the same logic, only that this time it is equal to an entire country.

Kazarian lists additional indicators to demonstrate that Greece's debt is more sustainable than it looks at first glance. Thus, the residual maturity of the government securities are on average after the accounting, a whopping 19 years, while Ireland are at eleven, Portugal and Italy and Spain at eight in six years. A related concern is that only about 15 percent of the debt in Athens, until mid-2016 are due. Ireland is here with nine per cent even lower, but Portugal lands at 24 percent, Italy 29 percent and Spain even at 36 percent. The government in Athens has therefore a relatively large time margin to repay their debts.

As a special problem for Greece, but also its creditors, Kazarian cites the fact that the European Central Bank treats Greek government bonds, because they are supposed to be riskier, with a discount of 57 percent when accepted as collateral, compared to only 13 percent for Portugal and five percent for the other problem countries in the Euro-zone. Thus, these bonds are unattractive to banks. In addition this lessens the high returns hedge funds want to pry on their own funds with loans.

Kazarian stressed that company borrowing is more expensive due to the bad image that is left in the public finances of Greece and so ultimately suffers the whole economy. He cites some examples: For Gerresheimer Glass in Germany he cites interest cost of 1.7 percent for a five year term against Frigo Glass in Greece with 6.9 percent. Ultimately, his own interests coincide with those of the Greek economy.

English translation
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