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Improving Your Financial Literacy of an EU Government Balance Sheet Framework Can Help Save Europe from Financial Ruin

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Since 2002, there has been a massive destruction of the EU Bottom 5 worst performing government balance sheets <u>hidden from the public</u> with minimal economic growth.

An obsessive focus on debt and cash deficit framework is enabling financial ruin in the EU Bottom 5, which includes France, Greece, Italy, Portugal, and Spain.

Improving Your Financial Literacy of Government Balance Sheets Provides a Framework to Reverse the Financial Destruction and Save Europe from Financial Ruin

Total Assets − Total Liabilities = Net Liabilities

Net Liabilities is also known as
Net Worth or Taxpayer's Equity or Net Position

With the Obsessive Focus on Debt and Cash Deficit, Almost 3/4 of EU Bottom 5 Government (€16 Trillion) Assets and Liabilities are Hidden from Public Management

(31 December 2017; €, trillions)

SN	Balance Sheet Item	Amount	% of Total Assets and Liabilities Combined
1.	Financial Assets	€ 1.6	7%
2.	Non-Financial Assets	€ 3.8	17%
3.	Total Assets	€ 5.4	24%
4.	Financial Liabilities	€ 6.2	28%
5.	Non-Financial Liabilities	€ 10.7	48%
6.	Total Liabilities	€ 16.9	76%
7.	Net Liabilities	**(11.5)**	100%

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

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These Indicators Provide a Framework to Improve Your Financial Literacy of an EU Government Balance Sheet

- Compare EU Bottom 5 with EU Top 23 and EU total
- Changes over time, especially from 2002 to 2017
- Per Citizen
- Formulaic relationships with balance sheet line items, GDP, and population
- As a percentage of gross domestic product (GDP)

Government Balance Sheets - 2002 and 2017: EU 28, EU Bottom 5*, EU Top 23

(€, Trillions)

	EU 28 Total	EU Bottom 5*	EU Top 23
	2017	**2017**	**2017**
Financial Assets	€ 4.9	€ 1.6	€ 3.3
Non-Financial Assets	€ 11.1	€ 3.8	€ 7.3
Total Assets	€ 16.0	€ 5.4	€ 10.6
Financial Liabilities	€ 12.7	€ 6.2	€ 6.5
Non-Financial Liabilities	€ 18.3	€ 10.7	€ 7.6
Total Liabilities	€ 31.0	€ 16.9	€ 14.1
Net Liabilities	**(15.0)**	**(11.5)**	**(3.5)**
	2002	**2002**	**2002**
Financial Assets	€ 2.2	€ 0.8	€ 1.4
Non-Financial Assets	€ 8.3	€ 3.3	€ 5.0
Total Assets	€ 10.5	€ 4.1	€ 6.4
Financial Liabilities	€ 6.1	€ 3.0	€ 3.1
Non-Financial Liabilities	€ 10.0	€ 5.6	€ 4.4
Total Liabilities	€ 16.1	€ 8.6	€ 7.5
Net Liabilities	**(5.6)**	**(4.5)**	**(1.1)**

*EU Bottom 5 includes France, Greece, Italy, Portugal, and Spain.

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

Government Balance Sheet Indicators - Change Per Citizen from 2002 to 2017: EU Bottom 5 vs. EU Top 23

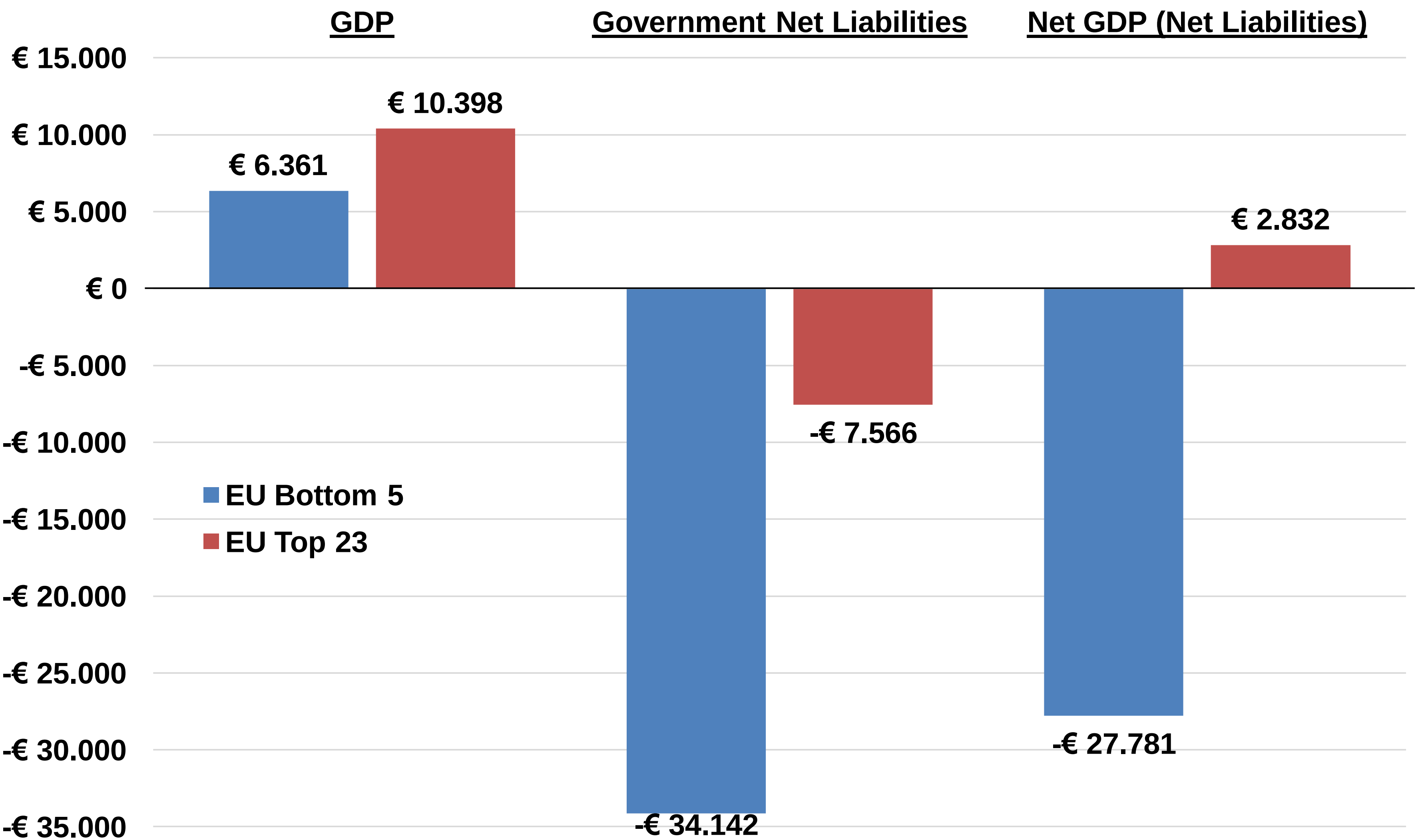
(Per Citizen Data)

		Change from 2002 to 2017	
		EU Bottom 5	**EU Top 23**
1.	GDP	€ 6,361	€ 10,398
2.	GDP (ex-Inflation)	€ 1,087	€ 5,794
3.	Government Debt	€ 15,558	€ 10,411
4.	Government Net Debt	€ 11,797	€ 4,560
5.	Government Net Liabilities	-€ 34,142	-€ 7,566
6.	Net GDP (Net Debt)	-€ 5,436	€ 5,838
7.	Net GDP (Net Liabilities)	-€ 27,781	€ 2,832
8.	Fiscal Multiplier (Net Debt)	54% (46%)	228%
9.	Fiscal Multiplier (Net Liabilities)	19% (81%)	137%
10.	ROA	-10%	-5%

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources. Fiscal Multiplier is change in GDP over change in net debt or net liabilities.

Important to Your Financial Literacy to Understand the Difference Between the Net GDP Per Citizen of the EU Bottom 5 and EU Top 23

(Change per Citizen from 2002 to 2017)



Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

Impact of Mismanagement of Bottom 5 EU Government Balance Sheets on the Total EU 28: Value Created and Destroyed 2002 – 2017 Change

EU 28 Liabilities increase:
€14.9 trillion

(€ 8.3T for EU Bottom 5
€ 6.6T for EU Top 23)

EU 28 value change

EU 28 Result:
49 cents per € created
51 cents per € destroyed
Net GDP: (€4.6T)

EU Top 23 value change

EU Bottom 5 value change

EU Top 23 Result:
137 cents per € created
0 cents per € destroyed
Net GDP: €898 billion

EU Bottom 5 Result:
19 cents per € created
81 cents per € destroyed
Net GDP: (€5.5T)

EU, EU Bottom 5, EU Top 23 Government Balance Sheets: 2002 and 2017

(Percent of GDP)

	EU Total	EU Bottom 5	EU Top 23
	2017	**2017**	**2017**
Financial Assets	32%	29%	33%
Non-Financial Assets	72%	69%	74%
Total Assets	104%	98%	107%
Financial Liabilities	82%	113%	66%
Non-Financial Liabilities	119%	195%	77%
Total Liabilities	201%	307%	142%
Net Liabilities	**-97%**	**-209%**	**-35%**
GDP	€ 15.4	€ 5.5	€ 9.9
Population	512,500,000	195,300,000	317,200,000
	2002	**2002**	**2002**
Financial Assets	21%	20%	22%
Non-Financial Assets	80%	83%	79%
Total Assets	101%	103%	101%
Financial Liabilities	59%	75%	48%
Non-Financial Liabilities	96%	140%	69%
Total Liabilities	155%	215%	117%
Net Liabilities	**-54%**	**-113%**	**-17%**
GDP	€ 10.4	€ 4.0	€ 6.4
Population	489,100,000	181,600,000	307,500,000

Note: Balance sheet financial information based on KCPFM research and government financial statement, EC AMECO, Eurostat, and IMF sources.

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Summary: Understanding the Destruction of EU Bottom 5 Government Balance Sheets since 2002 by the Numbers

1. EU Bottom 5 governments have added a massive burden of €34,142 in net liabilities (total assets less total liabilities) for every man, women, and child. At year end 2017, each citizen is now burdened with €58,786 in government net liabilities.
2. By comparison, GDP increased only €6,361 per citizen (1.7% annually) and adjusted for inflation has almost insignificantly grown by €1,087 per citizen since 2002.
3. Net GDP per Citizen has decreased in the EU Bottom 5 by €27,781 and increased in the EU Top 23 by €2,832.
4. For every one euro addition in government net liabilities burden, citizens saw only 19 cents increase in GDP, which means citizens suffered 81 cents in value destruction for each one euro addition in government net liabilities.
5. Government net liabilities as % of GDP have deteriorated by almost double to 209% from 113%.

EU Bottom 5 includes France, Greece, Italy, Portugal, and Spain.

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Examples of the Consequences of the Destruction of EU Bottom 5 Government Balance Sheets

- Dilapidated government infrastructure including: bridges, buildings, and roads.
- Large increases in opaque government liabilities such as the current value of government employee legally contractual pension obligations.
- Government assets sold to private investors who have earned above risk adjusted market returns (e.g. sale and lease backs and concessions).
- Recurring explosion of hidden government liability guarantees (e.g. indemnification on assets sold).
- Value destruction not value creation in government services and regulations (e.g. lack of value for money management).
- Very little economic growth relative to the burden of increasing net liabilities for citizens.

EU Bottom 5 includes France, Greece, Italy, Portugal, and Spain.

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600 Years of History Teaches Us that Governments Managing with a Proper Balance Sheet has an Important Role in the Financial Rise and Fall of Nations

Professor Jacob Soll, author of “The Reckoning: Financial Accountability and the Rise and Fall of Nations”, conclusions from studying the past 600 years of European government finance and accounting:

1. Good accounting and good financial management of government finances go hand in hand with the financial rise and fall of nations.
2. Government financial declines are preceded with those who deny the destruction of government balance sheets.
3. With only rare exceptions, good management of a government’s balance sheet requires a major financial crisis.
4. European and US greatest financial administrators (Jacques Necker, Jean-Baptiste Colbert, William Pitt, and Alexander Hamilton) knew the importance of managing a government balance sheet and double entry accounting.

Euro Area Government Bond Collective Action Clauses (CACs): An Alternative with Financial Ruin Consequences

- Since 2013, the EC has mandated investor hostile collective actions clauses (CACs) in all euro area government bonds.
- As currently written, in certain circumstances 51% of the bond holders can agree to change the terms of the bonds and substantially reduce the bond obligation value.
- The changes can include reducing the amount due at maturity, cutting the interest rate, and extending the maturity.
- And, as currently written, government affiliated bondholders are not prohibited from voting.
- Each new issue of government bonds contains the updated CACs.
- **<u>By 2020</u>, most euro area government bonds will contain the updated CACs and offer a legal option to reduce government debt.**

How to Stop It

- There is no quick fix.
- There is a deep lack of <u>*trust*</u> in the Eurozone due to the track-records of member states.
- Public expenditures are not all "investments" nor do they all have a positive impact on the economy, which can be seen in the net GDP per capita losses despite the large net liability increases.
- Broad brush austerity has not been "the" answer, but the one available due to the lack of transparency and responsible public financial management.
- Adequate public financial management and public accounting standards can lead to value creation, and a fiscal space capable of reducing the burden for the motors of the economy.
- Reforms are not only essential for the EU, but also crucial for the single member states. These reforms are a national priority.

Greek Government Successes Consistent with Gaining the Benefits of a Balance Sheet Framework Focus: Highlights

1. Prime Minister Alexis Tsipras's speech in which he stated that Greece improving the legislative framework for fiscal management is a **most important reform**, increasing both transparency and accountability in the management of public finances. (See video of the speech).
2. Legislation **adopting IPSAS-based framework**. See: http://www.mostimportantreform.info/Greece_Government_Related_Resources.html
3. Recognized the importance of progressing to the benefits of the **New Zealand Model** of public financial management. Six major categories of Greek government **PFM reforms**. http://www.mostimportantreform.info/Greece_PFM_Reforms.pdf
4. **Monthly reporting** among best in Eurozone. http://www.minfin.gr/web/guest/deltia-ekteleses-proupologismou

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