

## 11/2/2015 - YANIS VAROUFAKIS TALK IN THE 11<sup>TH</sup> FEBRUARY 2015 EUROGROUP MEETING

Mr President, (Jeroen Dijsselbloem)

Dear Colleagues,

It is a great honour for me to join this Eurogroup meeting as finance minister in the newly elected Greek government.

On January 25<sup>th</sup>, the Greek people strongly mandated us to terminate the cycle of austerity that has caused economic damage and immense social costs.

The new government led by Alexis Tsipras has committed to bring back hope, dignity and pride to Greek citizens and to implement a comprehensive policy agenda to deal with the roots of Greece's socio-economic under-performance.

For five years now, many of you have spent endless hours discussing ways and means of dealing with yet another episode of the endless saga that seems to be the Greek crisis.

I understand your fatigue. I understand that Europe has had enough of Greek dramas. But believe me: The Greek people themselves have had much more than enough of it too.

It is our aim and hope that this meeting, and maybe one or two more, will be the last ones to feature Greece on the agenda. My government was elected in order to stabilize, to reform, to grow Greece and thus to take it out of the headlines and off the Eurogroup's future agenda.

But first things first. First, we must earn a very precious currency without depleting an important capital good: We must earn your trust without losing the trust of our people – of the voters amongst which we enjoy, for now, sizeable approval ratings. For such approval is an important capital good in Europe's struggle to sort Greece out and to render it stable and, indeed, normal.

In this time of change, we hear your concerns about our government's intentions. We need, clearly, to put them to rest.

I am here today to convey to you a clear message on the new government's program and commitments to its Eurogroup partners.

*(Government Commitments)*

Greece, as a member of the Eurozone, is fully committed to find a solution jointly discussed between partners, in order to strengthen our monetary union.

We are committed to cooperate in good faith with all our European and international partners, on an equal footing.

Our citizens have rejected the role of the 'Troika' in Greece. Our government will however maintain dialogue and continue to cooperate fully with the European Commission, the ECB and the IMF as a member country of the European Union, the Euro Area and the Fund. Our future cooperation should be based on mutual trust and respect and channelled primarily through the European Commission while we work with each of our partner institutions in their specific areas of expertise and competence.

We are committed to sound public finances. Greece has made a vast adjustment over the past five years at immense social cost. Its deficit is now below 3% in nominal terms, down from 15% in 2010. Its primary surplus has reached 1.5% at the end of last year, its structural balance, as measured by the IMF, has reached a surplus of 1.6%, the best performance in the EU.

The new government takes this adjustment as its point of departure. We wish now to move forward, on the basis of a new mutually beneficial partnership with our European partners.

We are committed to deep structural reforms.

Our reform agenda aims at re-creating confidence among Greek citizens, growth in the economy, and credibility in Europe. It recognizes the need for deep reforms to anchor the long-term prosperity of Greece within the Eurozone.

Our government will be the most reform-oriented government in Greek modern history, and among the most enthusiastic reformers in Europe. Why? Simply because we are not tied to any interest groups. We will deliver results for the people, not for friends or patrons.

We will not only commit to reforms, we will deliver them.

This morning the OECD Secretary General has agreed to assist us in this task. Your help, the Commission's help, the IMF's help, will also be necessary in important areas where powerful opposing interests are entrenched and the political challenges are especially great. We may be an inexperienced government but we have sizeable support from a fed up population to cut through not just red tape but also to cut through the Gordian knot of vested interests.

We stand ready to support structural reforms previously agreed with our Eurogroup partners with regard to tax collection, public financial management, public administration reform, improvement of the business climate, reform of the

judiciary, spatial planning and fight against rent-seeking. They are fully consistent with our political mandate, and we will even accelerate them.

We will take unprecedented action to fight corruption, to fight tax evasion and ensure tax enforceability, with an emphasis on transfer pricing in large corporates active abroad.

We want to discuss legislative proposals to reinforce the legal framework for an independent tax authority.

Technical assistance from you on these issues will be critical, not least because it will enhance trust between us and you.

A full legislative package will create favourable conditions for the economy, improve the business climate and undermine rent-seeking, in particular in the oil sector, procurement, the construction sector, the financial sector, and the media.

We will make public procurement procedures more transparent thanks to a more centralized system, efficient monitoring and e-procurement.

We will improve the overall efficiency of the public sector to increase the quality of services delivered to every citizen and tackle administrative burden.

In addition, we will propose a new set of home-grown reforms to support investment, restart growth, and improve economic efficiency.

Investment should be revived, in Greece and in the whole Europe.

We want to revive infrastructure projects with public and private investors and the support of the EU. Indeed, we have some innovative ideas of our own that may help mobilize idle savings into productive investments throughout the Continent, in support of the current efforts of the Commission to enhance investment and of the European Central Bank to stem deflationary forces.

Returning to Greece, we want to invest to reduce energy costs for medium and large scale industries, to support innovation, start-ups and to promote a shift towards sectors with comparative advantages and export potential such as pharmaceuticals, organic agriculture, light manufacturing, energy resources, with the emphasis naturally on renewables.

On privatization and the development of publicly owned assets, the government is utterly undogmatic; we are ready and willing to evaluate each and every one project on its merits alone. Media reports that the Pireus port privatisation was reversed could not be further from the truth. Indeed, quite the opposite holds as foreign direct investment will be encouraged as long as the state secures a

stream of long term revenues and a say in labour relations and environmental issues.

Quick fire sales of public property, at a time when asset prices are deeply depressed, is not something that anyone would advocate.

Instead, the government will create a development bank which will incorporate state assets, enhance their equity value through reforming property rights and use them as collateral for the purposes of providing, in association with European investment institutions such as the European Investment Banks, funding to the Greek private sector.

We want to take additional measures to clean-up non-performing loans in the banking sector to render the banks able to support SMEs and households.

Several misleading reports have caused misunderstandings with our partners by insinuating that we have rolled back previous reforms and added to our state budget. On the contrary, the measures announced by the Prime Minister with respect to rehiring tax office cleaners, school guards and the staff of the public broadcasting network: (1) have no adverse effect on competitiveness and (2) have no fiscal bearing as they will be paid for entirely by other savings in the state budget. For example, the wrongfully dismissed staff that will be rehired number 2013 people, a tiny number that must be juxtaposed against the 15 thousand hirings that are already inscribed in the 2015 budget that the previous government passed.

On two other emotive topics, let me clarify that the restoration of the pension cuts we announced concern pensioners living at or below the poverty line and comes up to less than 2 euros per day per eligible pensioner – at a grand total of around 9.5 million. The reason we made this announcement is one that I shall return to, as I must, during our discussions: The appalling humanitarian crisis caused by the debt-deflation.

On the minimum wage, the government will phase in its restoration to the 2012 level gradually, from September onwards and after consultation with employers and trades unions. As it applies only to the private sector, its fiscal impact will be, if anything, quite positive, as its multiplier effect is large and likely to boost tax revenues beyond the affected employees. Will it reduce competitiveness of the private sector? The government commits to reforms, e.g. in social security, reducing the tax wage that will ensure it does not.

*(A New Partnership)*

The new partnership we propose to you should be based on realistic goals and efficient policies.

We recognize that the previous adjustment program reflected commitments made by both Greece and its Eurogroup partners.

We recognize the tremendous efforts made by your countries' taxpayers to support Greece's debt and maintain the integrity of the euro.

However, unrealistic, self-defeating fiscal targets have been imposed on our country and population and hence must be revised. A primary surplus target of 4.5% of GDP year-in-year-out has no historical precedent in any situation resembling that of Greece today. It will simply not be possible for our country to grow if we remain on the growth sapping austerity path imposed on our economy. It is also quite inconsistent with achieving a sustainably reduced debt-to-GDP ratio.

The new contract we propose to discuss with you should recognize this evidence.

Continued primary surpluses will remain our mantra. We propose a maximum 1.5% of GDP primary surplus objective, from as soon as the present disturbed economic situation has stabilized and for as long as necessary to achieve the underlying goals. This objective can be shown to be sufficient, under very reasonable assumptions, to put the debt trajectory on a downward path.

The new contract will build upon reforms that are 'owned' by citizens' and domestic institutions, using many elements from the previously agreed policy agenda. This also means that the hope of shared prosperity must be revived.

We wish to discuss with you this home-grown agenda that reflects both our potential and specific constraints. We wish our growth to be inclusive, based on investment, and productivity gains. Growth based on further labour cost compression cannot work in Greece and has been rejected by our people.

Based on more realistic primary surplus targets and our home-grown, wholly owned, reform and growth agenda, the new contract we propose will restore a sustainable debt trajectory.

We invite the IMF to work with us to assess Greek debt sustainability building on the government's commitments. This new DSA should reflect the concessional features of Greek debt due to its very long maturity and low interest charge.

It is probable however that additional measures will be required to ensure Greece's capacity to re-access the financial markets.

Eurogroup committed in November 2012 to tackle this issue once Greece would post primary surpluses, which was the case in 2014 and will be the case in 2015

once the current situation stabilizes. This discussion should be reopened when we will discuss our new contract.

Greece will stand ready to make concrete proposals to its partners, in due time, on a menu of innovative instruments to reduce the debt burden efficiently, including debt swaps.

Moreover, we believe that a broader discussion on debt issues in Europe is necessary. We welcome Mr Dijsselbloem's recent statement in our joint press conference in Athens that the Eurogroup is the proper forum to act as a permanent European debt conference, addressing debt problems in Euro area member States. We therefore propose to create a specific Eurogroup working group gathering member states' representatives and experts.

*(A Bridge Program)*

Agreeing on a new policy framework between Greece and its Eurogroup and international partners will take some time.

In the meantime, covering Greece's financing needs over the next months is an immediate concern for all of us.

Until June, Greece faces €5.2bn payments to the IMF: our government is fully committed to honor these payments, possibly directly to the IMF.

To meet our immediate payment obligations, we ask the Eurogroup to disburse to Greece the outstanding €1.9bn SMP bond-related Eurosystem income, in accordance with its previous commitments. We are, in fact, open to the idea that the ECB transfers these funds directly to the IMF in lieu of Greece' outstanding repayments.

Moreover, we propose to work urgently on a bridge financing mechanism to ensure Greece's liquidity position over the coming months.

In July and August, €6.7bn repayments are scheduled to the ECB (as the holder of SMP bonds), on top of additional payments to the IMF. These payments create very exceptional pressure on Greece's funding needs in 2015.

We are confident that an agreement can be reached before the summer, notably with the IMF's input, that would provide solutions and funding sources to cover these needs.

*(Technical Extension)*

Let me conclude now on the technical and legal issues concerning the existing loan agreement.

We fully understand that the dates associated with the existing loan agreement must be moved forward in order to provide stability, to give time to the discussions, and allow for the disbursement of SMP bond-related funds and possibly other funds. We remind you that the present deadline of 28/2/2015 are entirely artificial, and were the product of the previous government's electoral strategy and desire to confront us with these difficulties on taking office. It is time, in good faith, for these maneuvers to stop and for serious work to begin.

We stand ready to ask for a revision of these dates in view of the next scheduled Eurogroup meeting next Monday the 16th of February 2015.

However, let me be very clear on this: the government asks for this revision of dates on the condition that it is the starting point for genuine negotiations in good faith for forging a different contract between us, based a realistic primary surplus effort and efficient as well as socially just structural policies – including of course many elements of the previous program that we accept. We need assurances on this point.

We can accept this revision of dates as a “bridge” towards a new partnership and a necessary condition for the discussion. However, such an extension cannot be taken as acquiescence to the logic and parts of the former agenda that have been rejected by our people.

We propose the bridge program to cover the period until end-August. This will provide sufficient time to agree on the terms of our partnership. A partnership that will bind our side to deep reform but also acknowledge and address Greece's hideous humanitarian crisis, the non-availability of credit even for profitable firms, and the urgent need for investment-led growth.

Dear Colleagues,

Europe is whole and indivisible, and the government of Greece considers that Greece is a permanent and inseparable member of the European Union and our monetary union.

Surely there are various ways to foster policies that will truly nurture and enhance economic growth, maintain fiscal and financial stability, and address the most pressing needs of the people.

Some of you, I know, were displeased by the victory of a leftwing, a radical leftwing, party. To them I have this to say: It would be a lost opportunity to see us as adversaries.

We are dedicated Europeanists. We care about our people deeply but we are not populists promising all things to all people. Moreover, we can carry the Greek

people along an agreement that is genuinely beneficial to the average European. In us you will find trustworthy partners who do not see these meetings as a means of extracting something out of nothing, of gaining at anyone's expense.

I look forward to discuss with you now, in a true spirit of cooperation and partnership, and to write together this new page of our relationship.

I thank you very much for your attention.



## **EUROGROUP MEETING – FEBRUARY 11, 2015 – BRUSSELS**

### **NON-PAPER FROM THE GREEK GOVERNMENT**

On January 25th, Greek citizens sent an unequivocal signal of change and endorsement of the new social contract for political stability and economic security proposed by SYRIZA.

The new government is committed to implement policies that will deeply reform Greece's social economy, reduce rent-seeking, anchor euro membership and reflect the will of the Greek people. These policies will address the humanitarian crisis, enhance social cohesion, restore justice and dignity, put the Greek population back on its feet and restore economic growth.

The government knows that improving citizens' daily lives requires macroeconomic, fiscal and financial stability. As such, the Greek authorities intend to maintain sound public finances and to preserve financial sector stability. They stand ready to commit to realistic and reasonable quantitative targets in that regard.

There is a way to foster policies that will restore growth and maintain fiscal stability, while addressing the most pressing needs of the people. These policies should be part of a new agreement between Greece and its Eurogroup partners that focus on economic development, investment, social conditions and improved public management.

Greece has made an extraordinary adjustment over the course of the past five years. Its deficit is now below 3% of GDP, down from 15% in 2010. Its primary surplus has reached 1.5%, its structural balance, adjusting for the output gap as measured by the IMF, has reached a surplus of 1.6%, one of the highest in Europe.

The new government takes this adjustment as its starting point. The task now is to stabilize the Greek economy and society, which has paid an immense and unsustainable price, and this requires changes to the previous policies. However, agreeing on a new policy framework between Greece and its partners will take time. The government proposes to its Eurogroup partners to agree immediately on a bridge and stabilization program for the next seven months (e.g. up to end-August), with a 90 day-period for negotiations on the terms at the beginning. These will provide the appropriate time-frames to agree on and to begin to implement policies that will repair society, restore confidence, and support growth and development in Greece.

### **Greek Government Policy Objectives & Commitments**

The government is ready to commit to the following:

## *1. Sound and Sustainable Public Finances*

The government commits to maintain a 1.5% primary fiscal surplus in 2015, when the domestic situation has stabilized, and to maintain that objective until such time as normal conditions are restored and the debt ratio is on a clear downward path.

To meet this objective, the government will refrain from spending measures that might derail the budget target and it will increase efforts to improve tax collection. Increases in spending will focus on investments financed by the European Investment Bank and other outside sources, and on measures addressing the humanitarian crisis including a food stamps program, minimum electricity and heating and basic transport. Insofar as these must rely on domestic resources they will be balanced by additional revenues or offsetting spending reductions, as required to maintain the fiscal objectives.

Unrealistic fiscal targets are self defeating and must be revised. The primary surplus target of 4.5% of GDP over the medium term and 4% over the long-term was entirely artificial, has no historical precedent resembling Greece's circumstances, and has essentially no support from among reputable economists. In practice pursuit of such a target is also unsustainable, and the goal of putting debt-to-GDP on a clear downward path requires that it be revised.

Uncertainties surrounding the electoral period in Greece and the ultimate status of Greece with respect to Europe have affected economic activity and fiscal performance over the last two months. As a first step, it is essential to stabilize the banking system immediately and to restore confidence in Greece as a full and permanent member of the Eurozone. The Government of Greece requests immediate affirmation and assistance from its Eurogroup partners to this end.

## *2. Maintaining Financial Sector Stability*

The stability of the Greek financial sector is of utmost importance to the government and an immediate concern for the Euro Area as a whole.

Following the ECB Governing Council's decision on Feb. 4th, Greek banks will remain fully secured as they rely on Bank of Greece's Emergency Liquidity Assistance (ELA).

The government expects that an agreement with its Eurogroup partners on a bridge program will allow the Governing Council to renew the waiver for eligibility of Greek paper to Eurosystem refinancing operations.

In the medium term, additional action is required to support further the banking sector. The government would like to discuss with its partners the mobilization of remaining unspent resources available to the Hellenic Financial Stability Fund

(app. EUR 8 billion) to further strengthen the banking system. The government stands ready to make a concrete proposal on how the remaining HFSF assets could be used to clean out the banks from their NPLs. Moreover, HFSF management should be made more transparent and efficient.

### *3. Addressing Immediate Financing Needs*

Covering gross financing needs in an immediate concern for the Greek authorities.

Before June, Greece faces €5.2bn repayments to the IMF. The government is fully committed to honor these payments. The government looks forward to a positive discussion with the IMF on renewing a financing agreement based on an updated DSA.

To meet its immediate payment obligations, the government asks the Eurogroup to disburse to Greece the outstanding €1.9bn SMP bonds related Eurosystem income, in accordance with Eurogroup previous commitments. After June, €6.7bn repayments are scheduled over the summer to the ECB as the holder of SMP bonds. This repayment creates very exceptional pressure on Greece's funding needs in 2015.

The government expects that an agreement regarding the issuance of T-bills will be obtained to cover these exceptional needs. This would not raise the amount of debt, but only change its composition.

### *4. Debt Sustainability*

Restoring debt sustainability is a key policy objective for the Greek authorities.

Additional measures will be required to restore Greece's long-term solvency and to ensure its capacity to borrow in the financial markets at reasonable cost in the near future. Eurogroup committed in November 2012 to tackle this issue once Greece would post primary surpluses, which was the case in 2014 and will be the case in 2015.

IMF technical staff should work closely with the Greek team to assist in developing a sustainable debt program, taking full account of the experience of the recent past. Buttressed with quantifiable targets audited by unconflicted parties, such an arrangement could form the type of covenant that the government and the EU partners and bilateral lenders can accept.

In that framework, the authorities are ready to open discussion on options that would bring Greece the necessary breathing space and ultimately the means to restore access to financial markets. These options would be part of the "new deal" to be sealed between Greece and its partners. They would be fully consistent with (i) the new more realistic fiscal framework to be agreed; (ii) an

updated IMF Debt Sustainability Analysis taking stock of these new assumptions, and (iii) a positive program for growth and social development to which the government and the Greek people are firmly committed.

Greece is ready to make concrete proposals to its partners, in due time, on a menu of instruments to reduce the debt burden efficiently, including debt swaps.

### *5. The New Reform Agenda*

The Greek Government is working on a new agenda for growth and structural reforms. The new agenda will address the causes of Greek economic decline and help to modernize the Greek socioeconomic model.

The government undertakes to reduce tax evasion, tax immunity, smuggling, cartels and rent-seeking. Reforms will improve the enforcement of income tax, VAT, and social contributions, and fight tax evasion with an emphasis on transfer pricing in large corporates active abroad. The government stands ready to discuss legislative proposals to reinforce the legal framework for an independent tax authority within the Ministry of Finance.

A full legislative package will improve the business climate and undermine rent-seekers, in particular in the oil sector, the financial sector, and the media. Public procurement procedures will be made more transparent and fair thanks to a more centralized system, efficient monitoring and e-procurement. Reforms will increase the overall efficiency of the public sector, with an objective to improve the quality of services delivered to every citizen. Policies undermining social cohesion have failed and will be dropped.

Foreign investors remain welcome and the government will support their investments in Greece. On privatization and the development of public assets, the government is ready and willing to evaluate each and every project on its merits alone.

To boost domestic investment and support economic recovery, the government will create a national development bank, to which various public assets will be transferred, and to support the SMEs. The national development bank will play a leading role in channeling EIB loans allocated to private projects in Greece.

The Greek authorities have asked the Secretary General of the OECD, who has accepted, for technical assistance in devising, implementing and monitoring this new reform agenda.

### *7. A New Contract for the New Agenda*

This new agenda will give impetus to many of the policy actions listed in the policy program previously agreed between Greece and its Eurogroup partners,

including tax policy, revenue administration, public financial management, public administration effectiveness, collection of social contributions, promotion of business investment, spatial management and planning, and reform of the judicial system.

Over the bridge period during which this new contract will be prepared and negotiated, the government will put a priority on the implementation of those actions listed in the existing agreements that are fully consistent with its political mandate. Altogether, they would represent more than 70% of the whole list of previously-agreed actions. New initiatives announced by the government will be programmed to take effect after the completion of successful negotiations.

### *8. Conclusion*

Europe is whole and indivisible, and the government of Greece considers that Greece is a permanent and inseparable member of the European Union and the Eurogroup. The government is committed to a relationship between Greece and its partners based on good faith, mutual trust, and a common commitment to the European project. It is confident that a relationship firmly built on this basis can work to restore the Greek economy and to anchor Greece's future as a prosperous member of the Euro Area.

## 16/2/2015 - YANIS VAROUFAKIS TALK IN THE 16<sup>TH</sup> FEBRUARY 2015 EUROGROUP MEETING

Mr President,

Dear colleagues,

This government's task is to carry out the deep reforms that Greece needs to arrest the combined forces of deflation and negative debt dynamics, bring about investment-led recovery and, thus, maximise the net present value of our debt repayments to our creditors.

The Greek government fully respects its commitments to our partners and to the institutions that we are party to. Our difficulty in declaring a commitment to the current program, and to its "successful conclusion", is that in our estimation this program was not conducive to recovery and, thus, inherently impossible to conclude successfully.

To many, our reluctance to accept the phrase "extend the current program and successfully complete it" stems from the determination of this government never to issue a promise that it cannot keep. We fear that if we accept the priorities, the matrix, of the current program, and only work within its overarching logic, even if we change some aspects of it, I fear that we shall be giving the debt-deflationary spiral another boost, we shall lose our people's support, and, as a result, the country will be very hard to reform henceforth. As a recently appointed finance minister of a country that has a credibility deficit in this room, I trust that you will understand my reluctance to promise that which I do not believe I can deliver.

Nevertheless, there is much that we can deliver that is of mutual benefit. To do so, we need a short-term (three to six month long) agreement that will allow us to establish the "common ground" mentioned by President JD and Prime Minister AT last Thursday. It is in no one's interest if, over the next days and weeks, as a result of a political failure on our part Greece languishes under a collapse in activity, a collapse in revenue and continued deposit outflows.

We need an in-principle agreement that during this period the Greek state will be funded under a minimalist menu that solves the short term cash flow problem (e.g. transfer to the IMF, in lieu of Greece's repayments, of the €1.9 billion that the Greek government is due from the ECB 'profit'-rebate agreement; a flexible ELA, a rise in the artificial cap of T-bill issues etc.) and commits the Greek government to a number of conditionalities:

- The Greek government reiterates its commitment to the terms of its loan agreement to all our creditors
- The Greek government takes no action that threatens to derail the existing budget framework or that has implications for financial stability
- The Greek government will take no action toward a haircut of its loans' face value

The Greek government is deeply concerned about the deleterious effects of non-performing loans on the capacity of Greece's private banks to extend credit to firms and households and is, thus, keen to find means, utilising the unused capacity of the HFSF to cleanse them. Similarly, we are eager to find ways of writing off the accumulated penalties on taxpayers in arrears that have mounted up to €70 billion. Naturally, the Greek administration understands that any such write offs must be designed to avoid rewarding strategic defaulters and, most certainly, to prevent a long term tendency to delay paying debts and taxes. Still, we think that the backlog of arrears and NPLs are a major impediment to recovery. To this end, we shall seek the advice of our partners before legislating appropriately.

In exchange of the above commitment that the Greek government is prepared to give during the period of the extension/bridge, our partners ought to agree that, during the same period:

- There will be no measures that we consider recessionary such as pension cuts or VAT hikes.

Regarding the specifics of the short term financing, or of the above conditionalities, we believe that these technical issues can be resolved within a day or two, as long as the political will is present. In any case, let me remind you that we are talking about a short space of a few months of stability that is necessary to establish the parameters of the longer term framework within which Greece and Europe and the IMF will establish so as to put Greece on a sustainable path.

The Greek authorities are determined to use these few months effectively, as opposed simply to buying time for the purpose of doing little. We propose to concentrate on a few reforms that are essential and which can be implemented immediately, with the assistance of the institutions plus of the Organization of Economic Cooperation and Development. Among them, we intend to:

- Cut the Gordian Knot of bureaucracy - through legislation that bans public sector departments from asking of citizens or business information,

certificates or documents that the state possesses already (and which reside in some other department)

- Tax authority reforms towards greater independence, propriety and transparency
- Create an efficient and fair tax court system
- Modern bankruptcy system
- Judicial system reforms, in general
- Creating a competitive and sound electronic media environment that enhances transparency and yields tax revenues for the state
- Dismantle the various cartels

Ladies and gentlemen, dear colleagues,

Unlike previous governments we shall not make promises which we know we cannot fulfil. I could, for instance, placate everyone by accepting for example the €5 billion privatisation target, so as to reach agreement. But I know that I cannot deliver. Just like previous governments could not deliver in a marketplace of collapsing asset prices.

Similarly with foreclosures of non-performing mortgages. Independently of our ideological differences (and whether you agree with our government that family homes should not be auctioned off in the midst of a depression on ethical grounds), the fact remains that it would be non-sensical to throw hundreds of thousands of families on the street at a time when there are no buyers and, as a result, such foreclosures will yield no capital for the banks, will fuel the already hideous humanitarian crisis and, in the end, destroy what is left of the real estate market.

To recap, our government is ready and willing to apply for an extension of our loan agreement till the end of August (or any other duration that Eurogroup may deem fit), to agree on a number of sensible conditionalities for the duration of this period and to commit to having a full review complete by the European Commission at the end of this interim period – a period that will allow Greece and its partners to design together a new Contract for Greece's Prosperity and Growth.

I trust that, despite any differences, our common ground is solid and such that we can build upon it a mutually beneficial agreement in the spirit of true European collegiality.







# EUROGROUP MEETING – FEBRUARY 16, 2015 – BRUSSELS

## NON-PAPER FROM THE GREEK GOVERNMENT

### 1. Outcome of Technical Discussions

Technical discussion took place on Feb. 13-14 between Greek officials and representatives from the EU Commission, the ECB and the IMF to identify common ground between the two parties and discuss the content of the current MoU.

On structural reforms, good progress was made to identify areas where the Greek authorities can support the ongoing reform agenda: tax reform, revenue administration reform, public financial management, fighting corruption, e-government, public procurement reform, business climate improvement, judicial system reform, implementation of EU legislation on network industries and competitive sectors.

Time is needed over the coming weeks for the new government to make a more detailed assessment of ongoing reforms. The Greek government is fully committed to continue efforts made in these areas. It considers as an essential part of its political mandate to accelerate implementation of decisive policy actions the previous government failed to implement: decisively confronting tax evaders, fighting corruption and reforming public administration. It stands ready to commit to the short-term implementation of key policy actions.

Technical discussions revealed real differences of logic on a limited number of issues. The Greek government considers current labor market reform agenda as unfit to the current situation of the economy. It will promote a different approach, with technical assistance from ILO, to ensure workers' protection in a way that is consistent with economic growth.

The government will also promote a different approach for managing public assets. Privatizations will not be stopped but assessed on a case by case basis to ensure that they are consistent with public interest. Fire sales must be prevented, and a longer time horizon, in particular with respect to the banking sector, must be considered.

On public administration reform, the government supports the goals to make SoEs more efficient and establish a more efficient civil service but systematic dismissals will end. On taxation, the government will review current policies to protect the poorest segments of the population. It will review the brackets for income tax to increase progressivity and replace the current property tax by a wealth tax. VAT reform will be reviewed.

Finally, the Greek authorities identified some areas where there is a general agreement on broad objectives but where they would like to discuss new ideas to meet the policy goals of the MoU. On banking sector reform, the

authorities would like to discuss the creation of an Asset Management Company to address NPLs. To support investment, the government considers a priority to develop the social sector and create a public development bank.

On this basis, the Greek authorities consider that there exists sufficient common grounds to constructively discuss with its European partners, on the basis of fresh views and a forward looking approach, the terms of a new commonly agreed policy agenda that will fully encapsulate the government's views. The government is committed to continue a reform agenda which takes the best elements of the current program and of its own reform agenda. These discussions should be held in an appropriate format that builds on the ECB's and EU Commission's specific mandates.

## **2. Debt sustainability**

The Greek authorities are committed to continued primary surpluses over the next decade to ensure sound public finances. However, implementing the primary surplus targets envisaged by the MoU would be counterproductive. A 3% primary surplus in 2015 and 4.5% in 2016 would jeopardize the current fragile recovery. Moreover, it is not at all necessary to put the debt on a steady declining path. A 4.5% primary surplus would lead, according to our projections, to extinguish entirely the debt by 2050. This is not the standard definition of debt sustainability.

The current program sets the objective of a 124% nominal debt-to-GDP ratio in 2020 to ensure sustainability and full market-access in 2023 when large maturities will have to be refinanced. The authorities consider this target as artificial and inappropriate. As stated by the Director General of the ESM in 2013, the structure of the Greek debt is as important as the debt-to-GDP ratio to assess sustainability. Long term maturities and reduced interest rates already entail a lower debt ratio in 2015 in net present value terms. In NPV terms, the debt stands at 135% of GDP and would fall below the bar of 120% if the same 1,5% primary surplus as in 2014 was achieved. The government looks forward to discuss with the IMF and the other institutions a more accurate assessment of debt sustainability.

Privatization receipts can contribute to improve the debt trajectory. However, past commitments made by the previous Greek government fell short of the targets. Quantitative objectives should be realistic. Forcing sales of public assets in a depressed environment is unjustified. The authorities will stop all sales that are not in the public interest.

## **3. Covering Funding Needs in 2015**

Funding needs in the year 2015 and over the coming months is a pressing and immediate concern.

### *Budget Balance*

On the revenue side, the previous period was dominated by political interventions, of varying intensity and from numerous sources that promoted uncertainty and thus affected economic activity and tax collection. Revenue shortfall as of end-January reached €2 billion compared to MoF forecast.

The authorities contemplate exceptional action in terms of revenue mobilization in 2015. Up to €5.5bn are expected over the year thanks to a strong effort to (i) fight illegal trading, tax evasion and corruption (ii) better control transfer pricing in companies active abroad (iii) reform arrears collection process and (iv) implement a more progressive taxation on the wealthiest.

The authorities will look forward to maintain a 1.5% primary surplus over the year. This objective depends on economic stabilization. New spending (humanitarian package) will be financed through reprioritization of expenditures and cuts in other budgetary items.

### *Debt Amortization*

Greece faces exceptional funding needs in 2015. Payments to the IMF as well as to the ECB and other creditors will amount to c. €17bn over the year.

Budget deficit itself, in cash term, will not add much to this figure, especially if the SMP profits are incorporated in the government resources.

To cover all its refinancing needs, the government proposes to open discussions with its European partners on the terms of a new contract that will provide the appropriate framework for continued support from the ECB and Member States. Technical work conducted with the three partner institutions demonstrated that there is room for a new deal. The government is confident that a fresh look at DSA will demonstrate that the objectives of the government are on target. Once an agreement is reached on the desired pattern of fiscal adjustment, the Greek government believes a holistic agreement will be on reach on structural reforms.

### *Short Term Bridge Funding*

To solve short run liquidity problems, the government foresees an agreement on a combined involvement of the Eurosystem and its ELA program (in relation to the issuance of T-bills), of the IMF through new disbursements and of the Eurogroup for allowing the release of the unused HFSF resources.

We are confident that such an agreement can be reached on the basis of the sufficient common grounds identified with the three institutions on the content of the current MoU.

## **Annex 1: Privatization Receipts**

The expected cumulative privatization proceeds are expected to reach €22.3bn by 2020 according to the IMF. However, the Greek authorities consider this target unrealistic.

### *Privatization Receipts have fallen Short of Expectations since 2011*

In 2011, under the first program, the MoU agreed with the Eurogroup expected €50 billion of privatization receipts over the period 2011-2016, with a €5bn target for 2011, €10bn for 2012 and €5bn in 2013 (€20bn total receipts at the end of 2013 and €35bn at the end of 2014).

In 2012, the second MoU stated that the €50bn target was maintained, but over a much longer time horizon. The end-2020 target was revised down to €22bn in April 2014 considering the “unsatisfactory privatization process”.

In practice, privatization proceeds amounted to €1.6bn in 2011, zero in 2012, 1bn in 2013 and were expected to reach 1.5bn in 2014 and 2.2bn in 2015.

These figures demonstrate the practical inability of privatizations to bring sizeable resources to repay public debt in the current Greek context.

### *The New Government's Intentions*

The intentions of the new Government to halt the systematic approach to privatizations will result in a shortfall over the short and medium run, but could ultimately produce higher proceeds over the long run by avoiding fire sales and/or asset disposals that are not in the interest of the Greek people.

This new attitude will inevitably deteriorate the debt sustainability over the short run and prevent Greece to reach the arbitrary target of 124% of nominal debt to GDP ratio by 2020, but it will with no doubt contribute to improve the debt trajectory over the longer run.

Regarding financing needs, privatization receipts for the year 2015 were estimated at €2,2bn by the IMF. The distribution of SMP profits for 2014 (€1,9bn) would allow to make up for most of this shortfall.

## Annex 2: Debt Sustainability

Debt sustainability is about keeping the debt-to-GDP ratio under control. This typically requires that the deficit is low enough to guarantee that the debt ratio is falling rather than rising. To compute this threshold one needs to make assumptions on growth. An economy with zero (nominal) growth needs a balanced budget. With positive growth, some deficit is consistent with solvency; all it takes is for the debt to grow less rapidly than GDP.

In the case of Greece, with a debt-to-GDP ratio at 175%, the deficit that would stabilize the debt to GDP ratio at its current level is 7% of GDP ( $=4\% \times 1.75$ ) assuming a conservative growth of 4% in nominal term. Greece has already better performed since in 2014, the deficit fell under the Maastricht benchmark of 3%. In structural terms, correcting the measure of the deficit for the output gap, Greece is actually engineering a fiscal surplus of 1.6% of GDP (according to IMF).

In other words, a 3% deficit is well within the boundaries of sustainability as conventionally defined. Given the interest bill, of about 3% of GDP today and potentially of 4.5% in the future (once the interest deferral on EFSF loans expires), a primary surplus of 1.5% is up to the task.

The attached simulation shows the downward debt trajectory until 2054 assuming a constant 1.5% of GDP primary surplus.

Discussion with the IMF over such DSA-style discussions would be critical. The 4.5% primary target is only required to bring debt below an arbitrary threshold of 124% by 2020 (according to the latest DSA) and below 120% in 2022. However, the IMF does not take into account the adverse consequences on growth of the austerity shock that is required to meet this fiscal target. Yet, GDP growth is as important, and even more important, than the primary surplus to reduce the debt to GDP ratio. Besides, any attempt to further squeeze the budget in the current context of humanitarian crisis and slight resurgence of economic growth would have a disastrous impact on both the economic and social fronts.

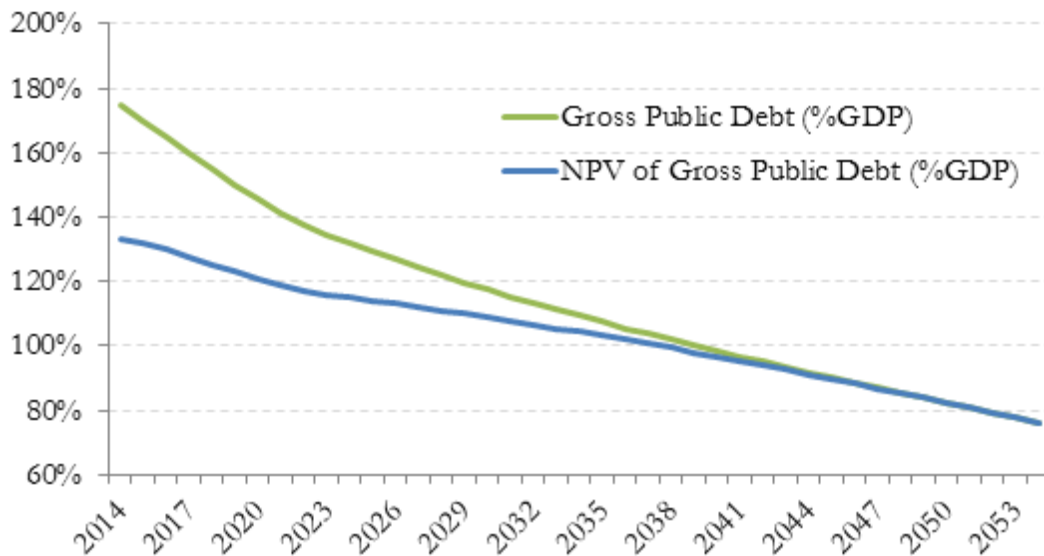
### *A Misunderstanding*

The misunderstanding regarding Greece solvency owes to the fact that the blunt 175% Debt-to-GDP number does not fully describe the actual burden of public debt over the Greek economy.

Greece currently owes the EFSF c. €142bn (75% of 2015 IMF projected GDP), bearing an interest rate of c. 2.5%, and having a final maturity of 39yrs (amortizing from year 2023 until year 2054). This high level of concessionality of the EFSF loans is not captured in the nominal debt/GDP ratio used by the IMF in the case of Greece. The same analysis can be made for GLF loans (interest rate at 50bp above Euribor, i.e. currently 0.65%, and final maturity 2041).

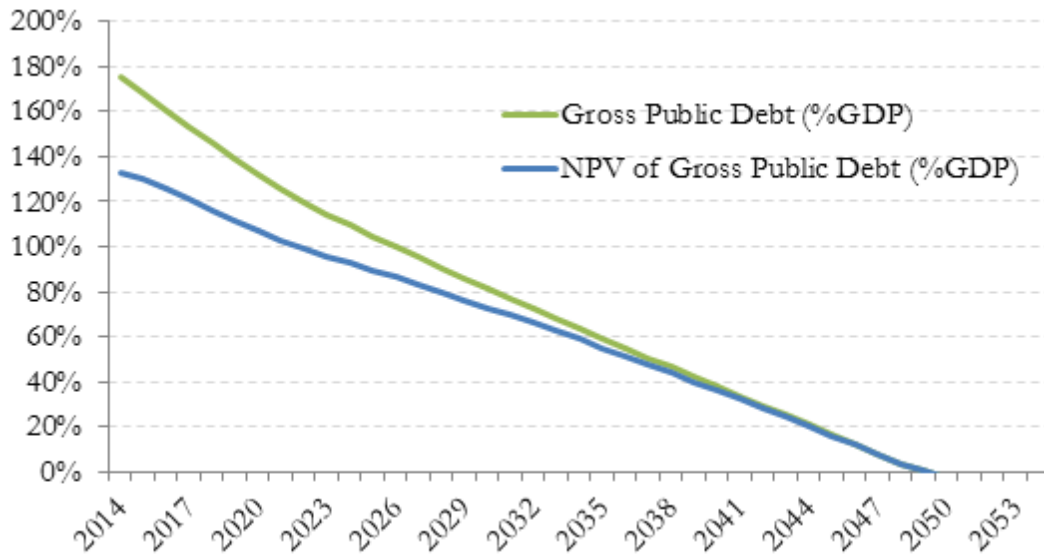
In an interview in September 2013, head of ESM Klaus Regling strikingly stated that DSA analyses undertaken by the IMF are “meaningless”. A key argument from Regling is that the debt parameters are as important to assess debt sustainability as the debt nominal level itself: EFSF loans are very long term, with

very concessional interest rate reduced to EFSF funding cost of approximately 2% plus an operational margin cost of c. 50bp. Indeed, if Greece's debt was calculated in NPV terms, say with a 5% discount factor, the Debt-to-GDP ratio would already be as low as 133% of GDP (see below), and reach 127% in 2020 (as expected by the IMF in nominal term) with a primary surplus maintained at 1.5% of GDP instead of 4.5%. We show below the debt-to-GDP ratio dynamics under the assumption of a primary surplus maintained at 1.5% and conservative assumptions of nominal growth at 4% (below IMF expectations). Under this set of assumptions, the NPV of Public debt reaches 120% of GDP in 2020.



We show below the same dynamics under the assumption of a long term primary surplus of 4% as requested by the EU. Under these unjustified assumptions, the debt would dramatically decrease and totally disappear within the next 30 yrs, which is not the definition of sustainability.





**PRESS CONFERENCE STATEMENT BY YANIS VAROUFAKIS,  
IMMEDIATELY AFTER THE EUROGROUP MEETING OF 16<sup>TH</sup> FEBRUARY  
2015**

I am pleased to report that the negotiations were conducted in a collegial spirit, clearly revealing a unity of purpose – the purpose being to establish common ground, over the next 4 to 6 months, so as to reach a meaningful, sustainable new long term contract between Greece, official Europe and the IMF. Moreover, I have no doubt that they will continue tomorrow and the day after until there is an agreement.

So, if this is so, why have we not managed to agree on a communiqué, a simple phrase, that will unlock immediately this period of deliberation?

The real reason concerns a substantial disagreement on whether the task ahead is to complete a program that this government was elected to challenge the logic of - or to sit down with our partners, with an open mind, and re-think this program which, in our estimation, and in the estimation of most clear-thinking people, has failed to stabilise Greece, has generated a major humanitarian crisis and has made reforming Greece, which is absolutely essential, ever so hard. Remember: a debt-deflationary spiral does not lend itself to successful reforms, of the form that Greece needs in order to stop being dependent on loans from its partners and from the institutions.

Last Wednesday, in the previous EG meeting, we turned down a pressing demand to subscribe to “extending and successfully concluding the current program”. As a result of that impasse, on the following afternoon (last Thursday, and prior to the Summit) EG President Jeroen Dijsselbloem and Greek PM Alexis Tsipras agreed on a joint communiqué to the effect that the two sides would

explore “common ground between the current program and the plans of the new government for a New Contract with Europe.

It was a genuine breakthrough, bridging over the current program and the new contract that we are seeking with our partners.

This afternoon there was another breakthrough. Prior to the Eurogroup meeting, I met with Mr Moscovici, whom I want to thank for his highly positive role in this process, who presented me with a draft communiqué (see Annex 3 below) which, as I told him, I was happy to sign there and then – as it recognised the humanitarian crisis, and spoke of an extension of the current loan agreement, which could take the form of a [four-month] intermediate programme, as a transitional stage to a new contract for growth for Greece, that will be deliberated and concluded during this period. It also stated that the European Commission would provide technical assistance to Greece to strengthen and accelerate the implementation of reforms, effectively replacing the troika.

On the basis of this understanding between us and the Commission, we were more than happy to apply for the loan agreement to be extended, while we offered the following conditionalities:

- Reiterate its commitment to the terms of its loan agreement to all our creditors
- Take no action that threatens to derail the existing budget framework or that has implications for financial stability

Our only condition for the other side was that we should not be asked to impose measures that are recessionary – such as pension cuts or VAT hikes.

Unfortunately, that fine document was replaced by the Eurogroup President, minutes before the Eurogroup meeting, with another document that took us back not even to last Thursday – but indeed to last Wednesday, when we were pressurised to sign up to an extension not of the loan agreement but of the programme itself, being offered only the nebulous two word phrase ‘some flexibility’. When asked what that meant, we got no concrete answer. Did it mean that, over the next few months, pensions would be cut but not as much as originally prescribed? By none at all?

Under those circumstances, it proved impossible for the Greek government, despite our infinite good will, to sign the offered communiqué.

And so the discussions continue. We are ready and willing to do whatever it takes to reach an honourable agreement over the next few days. Our government will accept all the conditions that it can deliver upon and which do not reinforce our society’s long crisis.

No one has the right to work toward an impasse – especially one that is mutually detrimental to the people of Europe.

**Annex 3 (Junker-Moscovici draft here)**

**Annex 3 (Dijsselbloem draft here)**

### **Παράρτημα Ι- Προσχέδιο Moscovici**

15 Feb - close of business

Today, the Eurogroup took stock of the current situation in Greece, based on intensive dialogue between the new Greek authorities and the Institutions.

The Greek authorities have expressed their commitment to a broader, socially just and stronger reform process aimed at durably improving growth prospects. In particular, the Hellenic Government commits to implementing long overdue reforms to tackle corruption and tax evasion, and upgrade the public administration. It announced its intention to take urgent action to ensure a fairer and more effective tax system and to contain the humanitarian crisis. It will ensure that any new measures do not reverse existing commitments and are fully funded. It will refrain from unilateral action and will work in close agreement with its European and international partners.

Greece will fully respect its commitments to partners to ensure sound and sustainable public finances, by reaching and then sustaining sizeable primary balances. The feasibility of reaching the fiscal target for 2015 will be considered in light of evolving economic circumstances. Measures for reducing the debt burden and achieving a further credible and sustainable reduction of the Greek debt-to-GDP ratio should be considered in line with the commitment of the Eurogroup in November 2012.

At the same time, the Greek authorities reiterated their unequivocal commitment to the financial obligations to all their creditors.

The above forms a basis for an extension of the current loan agreement, which could take the form of a [four-month] intermediate programme, as a transitional stage to a new contract for growth for Greece, that will be deliberated and concluded during this period. When considered useful, the European Commission will provide technical assistance to Greece to strengthen and accelerate the implementation of reforms.

The Eurogroup invites the Institutions to continue technical work with the Greek authorities, including to identify intermediate financing needs, how they will be covered and the appropriate conditionalities. The Institutions will report to the Eurogroup by [21] February.

16 February 2015 [14:45]

Preliminary and confidential

**[Draft] Eurogroup statement on Greece**

The Eurogroup reiterates its appreciation for the remarkable adjustment efforts undertaken by Greece and the Greek people over the last years. Over the last week, the Eurogroup and the institutions have engaged in an intensive dialogue with the new Greek authorities.

The Greek authorities have expressed their strong commitment to a broader and deeper reform process aimed at durably improving growth and employment, prospects, [enhancing social fairness] and ensuring stability and resilience of the financial sector. In particular, the Greek authorities commit to implementing long overdue reforms to tackle corruption and tax evasion, and improving the efficiency of the public administration. At the same time, the Greek authorities reiterated their unequivocal commitment to honour their financial obligations towards all their creditors. The Greek authorities will make the most efficient use of the continued provision of the technical assistance.

We discussed the policy priorities of the new government on the basis of work undertaken by the institutions and the Greek authorities. We welcomed that in a number of areas the Greek policy priorities can contribute to a strengthening and better implementation of the current financial assistance programme. The Greek authorities have indicated that they intend to successfully conclude the programme, taking into account the new government's plans. In this context, we intend to make the best use of the existing built-in flexibility in the current programme. The Greek authorities gave their firm commitment to refrain from unilateral action and will work in close agreement with its European and international partners, especially in the field of the tax policy, privatization, labour market reforms, financial sectors, and pensions.

The Greek authorities committed to ensure appropriate primary fiscal surpluses and financing in order to guarantee debt sustainability in line with the targets agreed in the November 2012 Eurogroup statement. Moreover, any new measures should be funded, and not endanger financial stability.

On this basis, the Greek authorities expressed their intention to request a six months technical extension of the current programme as an intermediate step. . This would bridge the time for the Greek authorities and the Eurogroup to work on a follow-up arrangement. We also agreed that the IMF would continue to play its role in this new arrangement. The Eurogroup is favourable disposed to such a request by the Greek authorities.

Moreover, we were informed by the EC, the ECB and the IMF that it would be prudent to extend the availability period of the EFSF bonds in the HFSF buffer for six months, in parallel to the extension of the EFSF programme. The Eurogroup looks favourably at such an extension. Following a request by Greece, the EFSF can make the necessary arrangements. The Eurogroup emphasizes that these funds can be used for bank recapitalization and resolution costs and will only be released on the basis of an assessment by the institutions and a decision of the Eurogroup.

We remain committed to provide adequate support to Greece until it has regained full market access as long as it honours its commitments within the agreed framework.

