16/2/2015 - YANIS VAROUFAKIS TALK IN THE 16TH 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 publics 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.

135%.

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.

Where is the net debt?

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%*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). 2.5%

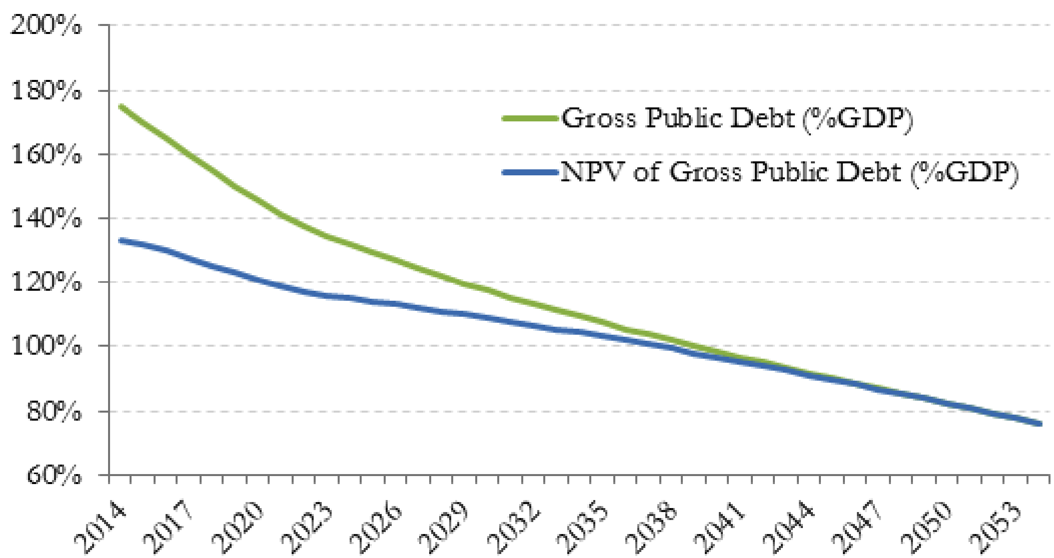
In an interview in September 2013, head of ESM Klaus Regling strikingly stated that DSA analyses undertaken by the IMF are "meaningless". A key argument from Regling is that the debt parameters are as important to assess debt sustainability as the debt nominal level itself: EFSF loans are very long term, with very concessional interest rate reduced to EFSF funding cost of approximately 2% plus an operational margin cost of c. 50bp.

133%

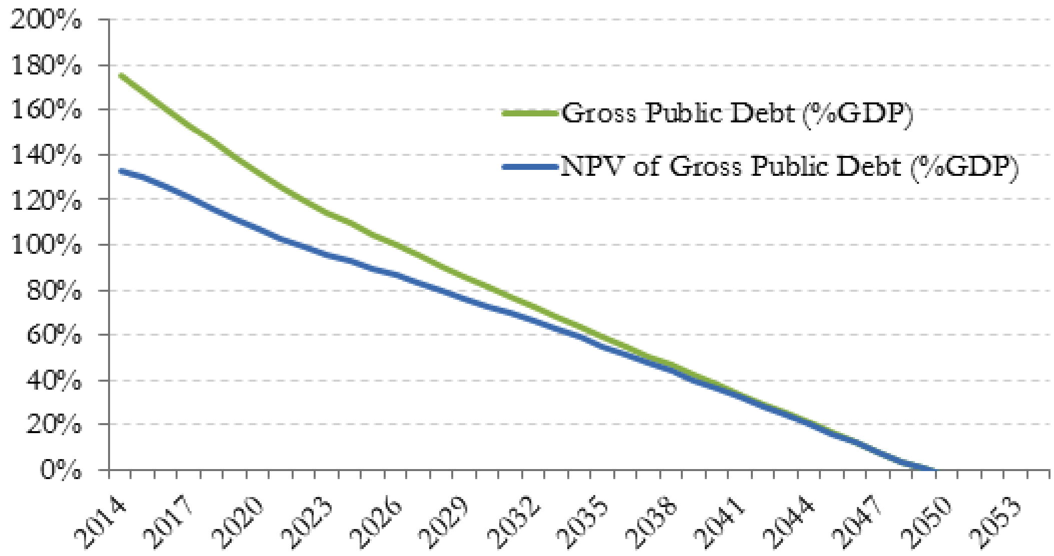
Indeed, if Greece's debt was calculated in NPV terms, say with a 5% discount factor, the Debt-to-GDP ratio would already be as low as 133% of GDP (see below), and reach 127% in 2020 (as expected by the IMF in nominal term) with a primary surplus maintained at 1.5% of GDP instead of 4.5%.

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 16TH 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 I- 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.

Παράρτημα ΙΙ- Προσχέδιο Dijsselbloem

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 filed 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 Eurogoup 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.