

Eurogroup Flash Report – 22 May 2017

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Discussion starts 16:15

Part one - state of play on reforms

COM (Moscovici): briefs on state of play with prior actions - 104 done (Declan: closer to 110 now since more done today). Huge effort made by Greek authorities. Further 21 marked pending. Need final push to complete. Can be done by end of May. Areas where issues still open: labour market; collective bargaining (explanatory notes to legislation need revising); anti-corruption measures need to be assessed by GRECO, Council of Europe Group of States against Corruption. Trust that Euclid will be ready to complete remaining measures in coming days.

ECB (Draghi): Also welcome the SLA. Important step towards recovery and bringing in IMF; now need to focus on implementation. Protracted uncertainty has hurt growth, agreement has benefitted Greece via much improved position on markets, yields down. Swift implementation of NPL legislation v important. Also a plea to EL authorities to implement actions on ELSTAT that have been agreed in the context of the programme. Current and former ELSTAT presidents should be indemnified against all costs arising from legal actions against them and their staff.

ESM (Regling): A year since conclusion of first review, has been costly.

Agreement on policy package is showing positive results.

IMF (Thomsen): Also welcome package, we can support with a programme if supplemented with debt measures. We have only seven prior actions. Recent legislation covers three of them, some corrections needed on these - pensions reform, constitutional concerns about this raised by court of auditors, we are seeking legal opinion to ensure robustness of this reform and commitment to address problem should it be overturned. On labour market, collective bargaining language includes specific date for reversal, not agreed with us. Other actions to be completed should not be problematic.

EL (Tsakalotos): Was a very big effort, is a very strong package. On ELSTAT, we are happy for this to become a key deliverable before July. Some drafting issues are small and do not add much, e.g. on collective bargaining. Happy to address and find and honourable compromise. On NPLs, happy to address. Just to recall that as nothing is agreed until everything is agreed, want to underline that Greece has done its side of the bargain and more than most expected.

No comments from floor.

EWG (Wieser): Once the issues mentioned have been addressed we will receive a full implementation report and have pencilled in provisionally a conference call for 6 June to discuss the final compliance report and full EWG meeting on 9 June.

Depending on what is agreed today, relevant national procedures could take place in parallel so that ESM Board could take place in margins of Lux EG meeting on 15 June, ECOFIN would take implementing decision on 16 June and ESM Board of Directors would agree disbursement same day so that disbursement could take place in second half of June. But all this depends on what happens on DSA and debt measures, which you will discuss later today. So implementation report is the easy part, now we come to the more difficult part...

Debt discussion

PEG: IMF has made clear needs more specificity on debt to come on board. EG has made clear 1) we need to stay within framework of May 2016 and 2) decisions on debt relief would be taken at end of next year. What we need to see is whether we can now bridge the gap between these points. We have designed a EG draft statement which we will discuss now.

COM (Moscovici): 2% primary surplus target could be consistent with compliance w EU fiscal framework. COM will look at all dimensions of fiscal framework; take on board relevant considerations to cater for highly concessional character of EL debt; avoid mechanistic interpretation of targets. Will expect EL to remain in preventive arm; provide for margin of tolerance of up to 0.25%; look at average primary surplus path over longer time horizon.

ECB (Draghi): Agreement needs to convince markets that debt has been addressed on a permanent basis. Needs to be based on credible baseline and adverse scenarios. Fully defer to COM on application of fiscal rules.

ESM (Regling): Running numbers, need to confirm. May be in line with our scenarios.

IMF (Thomsen): Understand why you are proposing to proceed in this way, but don't think it is going to work this way. Ignores a number of issues that should be addressed. Last May we agreed on a framework, based on GFN. An objective - 15/20%. That there should be no final calibration or approval or entry into force at this stage. But we also agreed that the Fund would need to be able to conclude that this universe of measures could allow for us to come on board, but we are not there. Will not be able to tell our board today on this basis that the conditions are in place. We have not agreed on primary surplus targets, nor on growth assumptions. Would need something considerably more specific or you will not be able to get us to agree on this. We can live with the avoidance of haircuts and fiscal transfers but that means extensions of maturities not only for EFSF but also two other European facilities. I am very far away from being able to tell our board that we are close to a strategy that we can agree to.

EL (Tsakalotos): We think any proposal should be realistic and credible and send a clear signal to markets that Greece has turned a page and growth needs to be supported, needs to supply that clarity now. I think that if this is published as it stands, spreads will increase and Greek economy will suffer. We had very

difficult negotiation with IMF, which was given a veto by DE and NL So I had a very weak hand. We have met IMF conditions and effectively have an IMF programme. And we think that as such, now the ball is in your court. I am happy to support any compromise. We will not mention QE...but a proxy for that is that the markets get what they are expecting, and a compromise would be that the markets get a signal that Greece has changed. Investment is the reason why the economy is stagnating and to change that we need to give a signal to markets that Europe is not kicking the can down the road again.

FR (Le Maire): Want to congratulate Greeks on the measures adopted, know how difficult that was. We want to support a compromise, but that needs to be based on clarity, and we do not see that here. We have difficulties with IMF growth assumptions, with maturities (we'd prefer 17 years); and with primary surplus targets (prefer 2%). But main difficulty is that this does not give clarity about whether the IMF is on board - and not half on board. And unless they are on board, the ECB will not be able to provide QE.

DE (Schäuble): Quotes from May 16 statement..."measures to be agreed if needed" etc. DE law is that any DE finmin has no mandate to negotiate a programme without a mandate of the federal parliament in advance. Cannot negotiate a new mandate now so we need to work on this basis. DE and NL have not given IMF a veto. We have supported all three programmes for DE and all three had IMF on board. I would like to remind IMF that at beginning of programme in 2010 we agreed on a big bazooka of 750bn of which 500 from EA and 250 from IMF. Participation of IMF has been constitutional part of programme always and without that, I would have to negotiate a new programme, and that would fail.

Statement goes a long way beyond the May 2016 statement, and goes well beyond what we agreed. Not acceptable that each compromise leads to another compromise. I have no mandate, if this is the way, then good luck. We will not find a solution.

IT (Padoan): First, we just heard reports on the significant efforts made by Greek authorities, and this is a step forward for Greece. Markets waiting for signal. Second, document presented can be improved but it represents a good platform. Third, a question to institutions: why cannot we agree on a technical basis on the impact of given measures? Ideology? After so many months. We all know what it takes: please explain to me why we cannot agree on this. Fourth, I would like to hear from the Fund their reaction to the paragraph about the role it could play.

In short I do not accept the view that there is no possible room for discussion on this important topic.

SK (Kazimir): I did not expect to be back here to discuss debt measures quite so soon, but I want to be constructive. We have all made mistakes including IMF: or we would not be here. What matters here for us is that none of these measures should have a negative impact on EFSF and ESM. Now, on growth -

are we really saying EL is not expected to grow by more than 1% for so many years? This is alchemy but this is not my alchemy...

IMF (Thomsen): Perhaps was not sufficiently clear. My problem is that this statement further restricts the universe compared to May 2016. I think we can respect the main principles, no haircuts, no transfers, but this further constrains us. I think we need to go beyond the universe of measures foreseen; this further restricts it.

PEG: Let me explain. May 2016 did not only specify what could not be done, but also what could be. And there are constraints there. It's not open-ended. And one is that there is a maximum programme authorised amount. We cannot go back to parliaments and ask to increase EFSF guarantees - NL parliament would not accept that I can tell you. On growth, we have not put this in, we know there are different assumptions. We have addressed this where we say we will assess what is needed based on an IMF DSA, i.e. based on an IMF growth figure. We spent long hours discussing the May 2016 agreement with the IMF and this was clear.

AT (Schelling): IMF told us DSA was not credible, needed new measures. Now still not credible? 1% growth over 40 years? then what was the point of the programme? We agreed this programme based on expectation the IMF would come on board. Is my understanding correct that we can disburse but cannot do so because of IMF? We need to decide, are you coming on board or not? Cannot be discussing new measures every four weeks. Poul, why don't we make a bet? If COM is right, you pay double what was expected? If you are right, you pay nothing because you are not on board. We can make this bet, but you will lose.

SI: Cannot go beyond May 2016 statement, also the part of that statement that there would be no exceptionally high burden on some MS is missing from this one.

PEG: This does not replace the May agreement, it builds on it. May statement is valid.

ESM (Regling): Text here says there could be an additional interest deferral by up to 2037. (10+up to 15). To argue that this is not very far reaching underestimates the impact of this.

ES (De Guindos): I can live with this statement, but my impression is that it is not OK for IMF and EL govt. How to square this circle? Different involvement of IMF? For us it is not a necessary condition but see that it is for others. What about the model of the Spanish programme w IMF in advisory role? You cannot be 50% pregnant, and IMF seems to be that now...

PEG: We can have a short break and then discuss specifics of the statement. But the key issue is that our various constraints don't seem to allow us to close today. But I think that we can take a major step today: 1) giving more clarity on what we can do based on IMF. And I will ask IMF also to take a big step and

take a programme to the board...even if it cannot disburse before the debt question is resolved.

IMF (Thomsen): This is an interesting proposal which we can consider, going to board with a programme and disbursing later. I can raise this with my management but then let's not constrain this more with further limitations here. If we cannot get an agreement now, let's not specify some variables but not others.

EL (Tsakalotos): Always understood that for you to go to board you would need to have debt that is sustainable, so I don't understand this new possibility. But if it is a possibility, then it is the worst of all worlds for EL! Because it means we have negotiated very tough programme thinking IMF would come on board, say debt is sustainable and allow EL to turn the page. I don't think anyone here can say that is a good deal for us, who have negotiated in good faith. We cannot have IMF in on one bit but not the other bit. Their participation has to be based on them saying our debt is sustainable.

IMF (Thomsen): Let me explain. We have in the past approved programmes in principle, when we have agreement on a policy package that we think is good, but we do not have financing in place. So board approves in principle and then once that is done it helps catalyse what is still needed, the financing. Here it is about the DSA, not financing flows. So we can explore this, it is interesting. But then let's not limit the universe of possible measures. I can understand what Euclid says, why this would be a disappointment but the fact is that we don't seem to be converging on a debt process.

PEG: In my mind this would leave a big question mark, not give clarity to markets.

FR (Le Maire): Do not like this lack of clarity. We do not need a rollover process, we need clarity. I have a mandate from our new president to accept clarity, not a rollover process.

PEG: Undersand, but aim here is to provide more clarity because we still cannot provide full clarity. If I could knock heads together and get one figure, that would be great, but I have not yet managed. So we could make progress but not have the full deal today, which we never promised anyway.

Meeting restarts after 4 hours

PEG: Statement is not acceptable to Greece. Will give floor to Euclid to explain why and will then explain how I propose to proceed, including by taking back all copies of the two drafts of the statement circulated.

EL (Tsakalotos): Have had lots of conversations including w my PM, appreciate attempts to find common ground but have to say I am disappointed. We have made huge efforts as part of a narrative and that narrative is now not on the

timetable. This document has a lot of things that could work for the Greek economy and Greek debt sustainability but if one institutions says this does not say our debt is sustainable on this basis then the markets do not have the clarity they need. So let's take some more time. You have my personal commitment that the work to complete the prior actions will continue. We need this time to come to terms with what is on the table and work to improve it. If I signed off on this now there would be a major political crisis in Greece and if that is going to happen I need to take time to think about it.

PEG: The only conclusion I can come to tonight is that we have made huge progress on the policy package, and that EL will continue to do that so no time is lost and we will work towards a disbursement in the summer. For the rest we will continue to work in the coming weeks and that at the next Eurogroup we will try to conclude. I am personally committed to work hard for that but I want to be clear that reaching a full and comprehensive deal on debt that satisfies everyone is not possible. It is not possible.

DE (Schauble): Let's have no illusion. This is a major failure. The narrative has been that we needed clarity today, some others, not me have said this. We had a clear statement in 2016 and the narrative has been that we would get a decision on medium term measures today - not what we agreed in May 2016. I am not very optimistic that things will improve, that we will get a better solution than we had at hand today. Lesson to learn is we should stick to what we decided and not try to change the narrative with public statements. I am really disappointed because some of us moved beyond our mandate to reach a solution, and now we failed. I'm sorry.

FR (Le Maire): Understand the position expressed by Euclid especially after the difficulties in adopting the measures this week. But also agree with the position expressed by Wolfgang, some MS really tried today, 0-15 years was a positive move from DE. I hope that IMF will be able to make a similar positive move in the next weeks. You Mr President did a good job and I hope that this work will not be lost because we have a good basis for a compromise. Hope that we will be able to communicate positively on our meeting tonight, important for markets.

IT (Padoan): Let's not underestimate what has been done tonight, measures adopted will in any case help the Greek economy. A political crisis in Greece would also spark a financial crisis and those when they start we do not know how they stop. Also hope that we can conclude in three weeks and that IMF can produce a compromise, we are all members of the IMF and there is an opportunity to share these views in the IMF board.

PEG: I share your disappointment and need to work to close gap in coming ig options or tempering expectations.