Συνέντευξη ΣΚΑΪ, με τον Γιώργο Αυτιά, για το παράλληλο σύστημα πληρωμών "I was right about the debt"

yanisvaroufakis.eu/2017/07/20/i-was-right-about-the-debt-and-you-know-it-my-reply-to-kathimerinis-latest-tirade/

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In a recent article entitled "Varoufakis and the 2015 debt talks – behind closed doors", published on the English language site of *Kathimerini*, Yannis Paleologos is putting forward an innovative new criticism of my 2015 negotiating stance regarding Greece's public debt.

His criticism's first leg is standard troika-speak, insisting that by pressing for a deep re-structuring of Greece's public debt I brought "the country to the brink of absolute disaster". As this is uninteresting and repetitive,[1] I shall concentrate on the second, more novel, leg of his accusation: That I clashed with the troika even though my analysis of the Greek debt burden was not that dissimilar to the pro-troika Samaras-Venizelos government (or to Mr Klaus Regling's, the ESM's Managing Director).

To substantiate his claim (that I was unadventurously mainstrean in my analysis while belligerent in my stance), Mr Paleologos is quoting from a non-paper that I circulated prior to the Eurogroup meeting of 16th February, 2015. The reader is encouraged to read Mr Paleologos' article in full with the following caveats in mind, before assessing his claims about my debt analysis:

The non-paper

When Mr Paleologos writes the following,

However, a document… that had been circulated by the Greek side at a Eurogroup meeting on February 16, 2015, which is at Kathimerini's disposal, shows that Varoufakis, despite his public pronouncements, was much closer to the positions of the reviled Samaras and Venizelos.

… he is neglecting to mention that it was I who had made public the said non-paper on 18th February 2015 in the context of my transparency campaign for which I was vilified by the troika, and by *Kathimerini*, on the grounds that I broke with the tradition of Eurogroup 'confidentiality'. Glad, and proud, that I released this and other important material pertaining to those crucial Eurogroup meetings, I am happy that Mr Paleologos has, at last, come around to reading and using it.

The motivated 'misunderstanding' fuelling crippling austerity

Mr Paleologos quotes my non-paper's section entitled 'A misunderstanding' in which I explain that public opinion had the wrong impression of the effective level of Greece's public debt in that, in present value terms, Greece's public debt was closer to 135% of GDP (in contrast to the headline 175% figure that referred to its face-value). Noting that my estimate was similar to that of the Samaras-Venizelos-Regling estimate, Mr Paleologos asks:

So, the question inevitably arises: if Varoufakis believed all this, then why did he lead the country to the brink of absolute disaster…?

Setting aside the inflammatory character-assassination language so beloved by *Kathimerini*, the answer to his real question (Why did Varoufakis clash with the troika over debt restructuring if his debt analysis was similar to theirs?) is, of course, obvious and clearly stated in a paragraph that he only partially re-produces:

"Indeed, if Greece's debt was calculated in Net Present Value (NPV) terms, say with a 5% discount factor, the Debt-to-GDP ratio would already be as low as 133% of GDP…, 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%." [Emphasis added]

In short, my argument was that, *even by the troika's own analysis*, we did not need a primary surplus target of more than 1.5% in order to *stabilise*, and indeed, *contain* Greece's public debt. The debt restructuring I was demanding was crucial in order (a) to reduce the short-term fiscal stress on the Greek state's finances, and (b) to signal to the world of investors that our public debt is no longer going to be at levels that they need worry about. In other words, my emphasis was, correctly, on pointing out that the troika's obsession with primary surplus levels between 3.5% and 4.5% was both absurd and damaging.

The need to end austerity is what my 2015 clash with the troika was about: An extract from a complementary non-paper

For the benefit of Mr Paleologos, and our readers, here is how I explained to my fellow finance ministers in he Eurogroup meetings of February 2015 why ending austerity was essential to restoring Greek debt sustainability (yes, the meetings when I was accused of speaking… macroeconomics!). The following is an extract from another, slightly more technical, non-paper I tabled during the same week of February 2015:

"Through massive sacrifices caused by a depression-level slump, Greece is now running a structural primary budget surplus of around 1.5 percent of GDP. Our new government is not calling for a return to primary deficits. We are merely proposing that the primary surplus be stabilised at the current structural level of 1.5%, rather than raising it to between 3.5 and 4.5 percent of GDP for the medium to long term, a fiscal stance that has few precedents in economic history.

Any primary surplus target above 1.5% will lead to new shortfalls in GDP – exactly as happened since 2010 due to the underestimation of the fiscal multipliers that the IMF now readily admits to. Looking at the experience of 2010-2014 it is clear that a reasonable estimate for our multiplier is well above 1. Let us consider what will happen if our government were to agree with the demands for a primary surplus of 3.5% to 4.5%.

Any given increase in primary surplus (call it X) must equal the reduction in government spending involved (-Y) times (1-mt), where m is the multiplier and t is the effect of a one-euro change in GDP on tax revenues and/or cyclically linked spending like unemployment benefits. [i.e. X = Y(1-mt)]

Most economists, including the IMF's, these days agree that the Greek economy's m is around 1.3 and its t around 0.4. So, to get to the high primary surplus targets that the previous agreement has set, i.e.to set X to between 2% and 3% (so that our primary surplus is boosted from 1.5% to 3.5% or 4.5%), we need to impose new austerity to the tune of 4% and 6.25%. But given a multiplier greater than one, this would lead to a loss between 8 and 11 billion euros. A most self-defeating strategy.

In conclusion, it would be an own goal for both Greece and its creditors to maintain a primary surplus of more than 1.5%. This should be our red line, not just Greece's red line but the Eurogroup's as a whole.

To paraphrase Bill Clinton, "it was the new austerity, stupid!" (which the troika was obsessively insisted upon) that led to the 2015 clash with the troika. And it was our defeat that led, via the implementation of the austerity I fought against, to the tragic continuation of the Greek social economy's debt-deflationary cycle to this day and beyond.

To sum up, my argument and proposal in those Eurogroup meetings was simple:

- First, less austerity (i.e. a primary surplus of no more than 1.5% of GDP) would help contain Greece's debt, rather than the opposite.
- Secondly, there was an urgent need to frontload reductions in the debt repayments of the Greek government (e.g. in 2015 I had to find €22 billion euros just for debt repayments, out of a state revenues of no more than €47 billion).
- Thirdly, I was proposing debt swaps that would link Greece's repayments to our nominal GDP level and growth rates, in a manner that creates incentive compatibility between the Greek government and its lenders (turning the latter into equity partners of Greece's recovering economy)

Throwing in a baseless claim, for good measure

Of course, Mr Paelologos, not content to 'misunderstand' my point about the importance of lowering the primary surplus target to 1.5% and the ingenuity of the proposed debt swaps (see here and here), chose to refer extensively to the amusing musings of Paul Kazarian, of Japonica Partners – a gentleman that had the unfortunate epiphany of investing in Greek government bonds at a time when their devaluation was inevitable.

While I sympathise with any investor clinging on to wishful thinking regarding his portfolio, and thus respect Mr Kazarian's protestations that Greece's debt is sustainable, it is remarkable that Mr Paleologos chose to adopt Mr Kazarian's extraordinary claim that my proposed debt swaps would have increased the costs of Greece's public debt servicing. This results from no interpretation of the numbers consistent with even primary school arithmetic. The only reason Mr Kazarian's views have been given another airing by *Kathimerini* is that they were deemed useful in putting together another instalment in their 'Get Varoufakis!' campaign.

Conclusion

At a time when the IMF is about, once again, to proclaim Greece's debt unsustainable, and the Greek government is being pushed to issue new bonds despite its insolvency, the Greek oligarchy's official organ, Kathimerini, is continuing its valiant efforts to distort the facts about my 2015 negotiation with the troika. My recommendation to readers is: Read their articles carefully and critically. For their quasi-skilled distortions are full of insight regarding the troika's dead end in the face of a Greek 'program' that was imposed with as much brutality and the incompetence on which it was based.

Footnote

[1] Whether it was I who caused the clash with the troika or the troika that used all ways and means to suffocate our government even before we were elected, determined to avoid a serious restructuring of Greece's public debt, I shall leave to the reader to judge. My recent book *Adults in the Room* contains all I need to say on the matter.

Varoufakis and the 2015 debt talks – behind closed doors

ekathimerini.com/220131/article/ekathimerini/business/varoufakis-and-the-2015-debt-talks--behind-closed-doors

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A few days ago, when Greece's former finance minister Yanis Varoufakis wrote about the "parallel payment system" he had been preparing in 2015, he argued that its implementation would have enhanced the government's negotiating position with international creditors.

"If they know about this, it will be more difficult for them to try to strangle us, since they will not be able to rely on the conviction that we will back off and capitulate over the big issue at stake, which is the restructuring of the Greek debt, if they threaten us with the closure of the banks," he alleges to have told the Greek cabinet about the creditors.

In the name of this "big issue," the Holy Grail of the ruling leftists SYRIZA, Varoufakis pushed the negotiation process to the extremes, with terrible consequences for the Greek people and the Greek economy.

His constant refrain ever since has been that his "conscience would not allow him to sign an agreement that would keep Greece stuck in a state of stalemate and bankruptcy." SYRIZA used to severely criticize former conservative prime minister Antonis Samaras and ex-finance minister Evangelos Venizelos of socialist PASOK, both before the January 2015 elections and after the leftists came to power, for suggesting that the Greek debt had been brought onto the path of sustainability thanks to the PSI (Private Sector Involvement) writedown of privately held debt.

However, a document (see link below) that had been circulated by the Greek side at a Eurogroup meeting on February 16, 2015, which is at Kathimerini's disposal, shows that Varoufakis, despite his public pronouncements, was much closer to the positions of the reviled Samaras and Venizelos.

In this document, the debt-to-GDP ratio is calculated in terms of net present value and estimated at 135 percent. The document dating from just three weeks after the elections – and repeatedly citing the head of the European Stability Mechanism, Klaus Regling – states in a special appendix that: "The misunderstanding regarding Greece's solvency is owed to the fact that the blunt 175 percent debt-to-GDP number does not fully describe the actual burden of public debt over the Greek economy." The borrowing conditions of the European Financial Stability Facility (EFSF) as well as Greek Loan Facility (GLF) loans (the latter being the bilateral arrangements of the first bailout) are characterized as highly concessionary.

So, the question inevitably arises: if Varoufakis believed all this, then why did he lead the country to the brink of absolute disaster, while dramatically exacerbating Greece's debt-servicing prospects?

An investor's view

Paul B. Kazarian, the CEO of Japonica Partners, which is one of the largest private holders of Greek government bonds, is infuriated with Varoufakis's behavior.

In June 2015, Japonica conducted an analysis of the Finance Ministry's proposal for debt restructuring (through the revaluation of EFSF and GLF loans and the repurchasing of International Monetary Fund loans utilizing the projected profits of the European Central Bank's SMP bond-buying program). According to the analysis, Varoufakis's proposal would more than triple cash interest payments in 2015 by 6.5 billion euros.

Japonica discovered a multitude of errors and unrealistic estimates in the Greek proposal, concluding that it did not appear to conform to either international accounting standards or government finance statistics methodologies. The analysis specifically highlighted the ministry's statement that the Varoufakis proposal did not involve a nominal haircut of Greece's obligations and that there would be no cost to creditors, while fully disproving these claims.

"I had offered to give $100,000 to his favorite charity if he would debate me in public, but he declined," said Kazarian about the former minister. "It was a crime of premeditation, he destroyed the banking system – all for his own personal aggrandizement."

The Armenian-American investor places Varoufakis in a category for which he reserves particular scorn: theoreticians. "They don't know about accounting and financial management," he said.

Kazarian places the few remaining debt "reality-denying" economists and politicians promising more debt relief in the same category, noting that the prospects for additional debt relief from the European creditors should only be viewed as insurance if all reforms are executed in a timely manner and GDP does not meet the growth targets.

Kazarian contends that he has not sold a single euro of the Greek government bonds he bought approximately five years ago. Would he buy more in a new issue? "Yes, we and other long-term holders would buy if there was a commitment to adopt international accounting standards," according to which, he says, Greece's debt-to-GDP ratio is a mere 75 percent.

Adopting international accounting standards, he insists, would be a crucial reform in order to attract the big sovereign wealth funds, which today are absent from the Greek government bond market. As regards the issuance of new bonds, he believes that a "reasonable goal" would be 5 billion euros in 10-year bonds with a 3.9 percent yield in July or August.