The Annotated 15th June 2017 Eurogroup statement on Greece:
Extending (again) the extending-and-pretending Eurogroup policy on Greece's never-ending crisis

Back in August 2015, while sitting gloomily in the Greek Parliament during the sad, long night leading to the voting in of the 3rd MoU, I found solace in annotating the MoU's text. Last night, I felt the need to repeat that wretched ritual once more, this time with the 15th June 2017 Eurogroup statement on Greece. (In blue you see the Eurogroup's statement text – my annotations in red)

1. Orwell's doublespeak revisited, as the troika rejoices at having agreed to pay itself, once again

The troika, that hides behind and is the motive power of the Eurogroup, has imposed upon Athens, once again, an 'agreement' according to which the troika will re-pay to itself a part of Greece's unpayable debt on conditions that guarantee (a) another postponement in the country's return to growth and (b) a deepening of the structural imbalances characterising public finances and private enterprise. In truly Orwellian form, the Eurogroup has exercised again, and with no compunction, its unique capacity for truth inversion. Here is how they phrased this new phase of extending-and-pretending:

The Eurogroup welcomes that agreement has been reached between Greece and the institutions on a policy package of structural measures, which aims at shoring up growth and addressing the underlying structural imbalances in public finances and paves the way for a successful completion of the second review of the ESM programme.

2. More austerity by which to sink Greece's private sector deeper into insolvency and its people further into the arms of despair

The Eurogroup also welcomes the adoption by the Greek parliament of the agreed prior actions for the second review, notably the ambitious post-programme fiscal package, which is composed of an income tax reform broadening the tax base and a pension reform.

Here we go! "Income tax reform broadening the tax base" & a "pension reform". Let's see what these entail:

Together they deliver net savings of 2% of GDP which will underpin the fiscal targets post-2018.

In short, poor pensioners will annually forfeit one of their twelve monthly pension payments, as a result of a reduction in the threshold above which income tax is withheld. For a country where one in two families have no one working in it, and thus have to survive on some small pension that a grandparent collects, this is a socially devastating cut. Moreover, it will also lead to further small business failures (due to the large multiplier effect of reducing a small pension: when poor families reduce their spending in local shops already on the brink, many of these will go under), the result being more people on the scrapheap of unemployment and fewer contributors to the stressed pension funds.

It also contains a contingent expansionary package to enhance the growth potential of the Greek economy and to improve the Greek social safety net that will be implemented provided that the agreed medium-term targets are met.

Note the "also contains…" phrasing. The Eurogroup is, indirectly, admitting that the pension and fiscal reforms are recessionary but hastens to add that they "also contain" expansionary elements. What are those?

We also welcome the adoption of a package of decisive measures to effectively address non-performing loans (NPL), such as establishing an active secondary market, an Out-of-Court Debt Workout framework, as well as all actions to make the Hellenic Corporation of Assets and Participations (HCAP) fully operational.

Non-performing loans are, indeed, a scourge. But when the troika speaks of "decisive measures" to deal with them, they mean the sale of those loans to vulture funds and the simultaneous activation of evictions (though a summary-execution mechanism that bypasses the courts) followed by electronic auctions of the foreclosed properties. In an economy where real estate prices have been plummeting for years, the troika's "package of decisive measures" is only going both to boost homelessness and undermine the housing market further.

3. Workers' and trades unions' rights will <u>not</u> be restored while mass dismissals made easier

Moreover, the policy package includes a large number of structural measures aimed at enhancing the growth potential of the Greek economy.

And what might these structural measures, that will enhance Greece's growth potential, be?

With regard to labour market reforms, the Eurogroup welcomes the adopted legislation safeguarding previous reforms on collective bargaining and bringing collective dismissals in line with best EU practices.

I see! "Safeguarding previous reforms on collective bargaining" refers, of course, to the 2012 removal of the right to collective bargaining and the end to trades union representation for each and every Greek worker. Our government was elected in January 2015 with an express mandate to restore these workers' and trades unions' rights. Prime Minister Tsipras has repeatedly pledged to do so, even after our falling out and my resignation in July 2015. Now, yesterday, his government consented to this piece of Eurogroup triumphalism that celebrates the 'safeguarding' of the 2012 'reforms'. In short, the SYRIZA government has capitulated on this issue too: Workers' and trades' unions' rights will not be restored. And, as if that were not bad enough, "collective dismissals" will be brought "in line with best EU practices". What this means is that the last remaining constraints on corporations, i.e. a restriction on what percentage of workers can be fired each month, is relaxed. Make no mistake: The Eurogroup is telling us that, now that employers are guaranteed the absence of trades unions, and the right to fire more workers, growth enhancement will follow suit! Let's not hold our breath!

4. Small business to be driven off the cliff with greater alacrity

The Eurogroup also commends the Greek authorities for adopting legislation to implement OECD recommendations to strengthen competition, to facilitate investment licensing, and to further open-up regulated professions. We welcome the commitment by Greece to continue on its reform path.

One of the first things I did when I became finance minister was to enter into discussions with the OECD in order to replace the so-called OECD toolkits (that took aim at small businesses) with reforms targeting the oligarchic corporates responsible for the worst type of rent-seeking behaviour. OECD Secretary General Angel Gurria and I agreed to proceed along those lines. Alas, after the government's surrender, the troika forced Athens to jettison the new reform agenda that we had developed in conjunction with the OECD and to return to the regressive, ineffective OECD toolkits that even OECD Secretary General Gurria had referred to as 'unhelpful'. Why? For a simple reason: The troika, and in particular the IMF, cannot tolerate the existence of small-scale, family owned businesses and want to see them close down before being replaced by chain-stores controlled by multinational companies (e.g. close down family pharmacies and replace them with drugstores owned by corporates in which the pharmacists work as proletarian labour).

5. European structural funding to decline

The Eurogroup also commends Greece and the European Commission for the exceptional mobilisation of EU Funds to boost investment in support of jobs and growth since July 2015, for a total amount of nearly EUR 11 bn. The Eurogroup calls upon the Greek authorities to work closely with the European Commission to ensure that additional EUR 970 million made available following the review of the national cohesion policy funding envelopes for the period from 2017 - 2020 are fully absorbed. Furthermore, we commit to continue to provide high-level experts to support the design and implementation of reforms through technical assistance projects.

This all sounds very impressive. Until, that is, one realises that the above-mentioned structural funding for the period (2015-2020) is 25% less than its equivalent for the period 2010-2015. In other words, cuts in structural funding are misleadingly portrayed as a great source of future growth.

In parallel the Eurogroup invites Greece together with the institutions as well as relevant third parties by the end of this year to develop and support a holistic growth enhancing strategy including improvements of the investment climate. Further options for mobilizing additional funds from national development banks and other international financial institutions (such as the EIB and EBRD) should be explored.

That's excellent: It is like a lifesaver tying a ball-in-chain on the leg of a weakened swimmer, throwing him back into deep waters, and then inviting him to "develop and support a holistic buoyancy-enhancing strategy, including improvements in the swimming climate".

6. Establishing the National Development Bank Greece needs while denying it the capitalisation necessary to make it macro-economically significant

The Eurogroup supports the efforts of the Greek authorities to work with the European institutions on the creation of a National Development Bank that would coordinate the implementation of development and promotional activities. The Eurogroup calls upon Greece, the European Commission and IFIs to work together to strengthen the pipelines of viable investment projects. Efforts should be made to step up the technical assistance from the European Investment Advisory Hub with a view to facilitating the preparation of investable projects and the establishment of investment platforms.

This is precisely that which I was working towards and arguing in favour of in 2015: the creation of a Greek National Development Bank. Excellent news, one might think. Except that the Eurogroup forgot to say where the capital base for the new Bank will come from. My proposal, that the troika and the Eurogroup treated with contempt, was that most remaining public assets be passed on to the new Development Bank so that the latter can use them as collateral (i.e. as its property/capital base) in order to generate the home-grown investments into the same public assets so as to boost their value and create jobs. Of course the troika does not want this, since they want all public assets to be sold immediately to their favourite bidders (usually from Germany) with the tiny proceeds used to pretend to pay the mountains of Greece's debt. So, instead of capital and property the new Development Bank that the Eurogroup is happy to 'support' will be given "technical assistance" and advice from the troika's own folk!

7. No debt relief. Period!

Today the Eurogroup discussed again the sustainability of Greek public debt with the objective that Greece regains market access at sustainable rates. Which, of course, means that, again, one more time, they decided not to decide. The Eurogroup reconfirmed the commitments and principles contained in the statements of May 2016. OK, it's clear now: They reconfirmed that they were committing to absolutely no debt relief! (After all, the May 2016 statement said that they agreed to disagree and to, therefore, do nothing about debt relief until some unspecified moment in the future - most probably after we are all dead.) We noted that the implementation of the agreed short term debt measures already contributes to a substantial lowering of the gross financing needs (GFN) of Greece over the medium and long term and significantly improves the profile of Greek public debt. Yes, yes, yes, we got it! The Eurogroup thinks that Greece's debt is viable and nothing needs to be done about it.

8. Hence, insane primary surplus targets until 2022 followed by ludicrous debt repayments until 2060

The Eurogroup welcomes the commitment of Greece to maintain a primary surplus of 3.5% of GDP until 2022 and thereafter a fiscal trajectory that is consistent with its commitments under the European fiscal framework, which would be achieved according to the analysis of the European Commission with a primary surplus of equal to or above but close to 2% of GDP in the period from 2023 to 2060.

Put a little more clearly: The Eurogroup remains committed to an insane level of austerity (for this is what 3.5% of GDP means) until 2022. After those further four years of mind&soul numbing recession, for those Greeks that remain in the country (and who have not migrated as a result of the utter misery the Eurogroup has spread all over the land), the austerity will be a little lessened until… 2060. (We are really experiencing levels of cynicism that have never been observed in Europe, or indeed anywhere else, before!)

The Eurogroup concluded that debt sustainability should be attained within the framework of the debt measures envisaged by the Eurogroup in May 2016. In this regard, the Eurogroup recalled the assessment of debt sustainability with reference to the agreed benchmarks for gross financing needs: GFN should remain below 15% of GDP in the medium term and below 20% of GDP thereafter so as to ensure that debt remains on a sustained downward path.

Behind the fancy acronym (GFN) hides an interesting proposition: That Greece's state will be paying to its creditors 33% of its tax revenues until 2022 and 44% of its tax revenues from 2022 onwards. Usury has now acquired a new term in troika-speak: debt sustainability!

9. Greece may be given some of its own money back (to be paid back to the lenders). What generosity!

The Eurogroup recalls that it stands ready to implement a second set of debt measures to the extent needed to meet the aforementioned GFN objectives, in line with the Eurogroup statement of 25 May 2016. This includes abolishing the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme, the use of 2014 SMP profits from the ESM segregated account, the restoration of the transfer of the equivalent of ANFA and SMP profits to Greece (as of budget year 2017), liability management operations within the current ESM programme envelope taking due account of the exceptionally high burden of some Member States, and EFSF reprofiling within the maximum Programme Authorised Amount.

The SMP profits referred to above are profits that the European Central Bank has been making since 2010, when the ECB purchased from German and French banks a wad of Greek government bonds (without benefitting the Greek state by a single euro), at the expense of the Greek government (since these bonds would have been haircut by up to 90% had the ECB not purchased them). The Eurogroup agreed back in 2012 that these profits should be returned to Greece, and be used to repay part of our debt (primarily to the IMF, as I was suggesting). Since 2014 the Eurogroup has reneged on this promise. Now, the same Eurogroup is announcing with fanfare that, after all these years, it may return these profits to Greece. Hurray! (-even though it makes not an iota of a difference to the Greek State's insolvency)

10. Eurogroup admits that all of the above is based on the lack of <u>any</u> debt sustainability analysis

The Eurogroup stands ready to implement, without prejudice to the final DSA, extensions of the weighted average maturities (WAM) and a further deferral of EFSF interest and amortization by between 0 and 15 years. As agreed in May 2016, these measures shall not lead to additional costs for other beneficiary Member States.

"Without prejudice to the final DSA". What does this mean? It means that the Eurogroup's pronouncements are not based on a proper Debt Sustainability Analysis (DSA). In other words, the IMF (which is the only troika institution with some expertise to carry out a DSA) thinks that the Eurogroup's claim that Greece's debt is sustainable is utter tosh!

As for the idea of a "further deferral of EFSF interest and amortization by between 0 and 15 years", when coupled with the pledge that there will be "no additional costs" to the lenders, this means only one thing: The Eurogroup may allow Greece to skip some of its interest and capital repayments while the long debt burden grows and grows. As every mortgage 'owner' knows, when the bank allows you to skip payments, you end up with a much larger debt to pay in the long run. Easy payments are the opposite of debt relief!

In order to take into account possible differences between growth assumptions in the DSA and actual growth developments over the post-programme period, [Noticed the delicious declaration of incompetence here? The Eurogroup is saying effectively that: "As we have been wrong for 7 years in a row, and ridiculously over-optimistic, regarding Greece's return to growth, here is what we propose to do when it turns out, yet again, that we erred badly:"] the EFSF reprofiling would be recalibrated according to an operational growth-adjustment mechanism to be agreed. [Back in 2015 I proposed a link between nominal GDP levels and growth rates with our debt repayments. The new French administration, to its credit, has brought back the idea. Except that, as we shall see in the next sentence, the Eurogroup is only paying lip service to it in prose in order to deny its essence in practice:] This mechanism will be fully specified as part of the medium-term debt relief measures, following the successful implementation of the ESM programme to make sure the GFN benchmarks defined above are respected and to ensure that the ceiling established by the EFSF Programme Authorised Amount is respected. The Eurogroup mandates the EWG to work further on this as of 2018. [They shall start working in 2018 on something Greece needed in… 2010! What a relief!]

11. New austerity locked in for 2018 and beyond – just because they can!

At the end of the programme, conditional upon its successful implementation and to the extent necessary, this second set of measures will be implemented.

This is unique nastiness, even by the troika's standards: For the first time in the history of Bailoutistan, the Eurogroup is imposing further austerity on a 'bailed out' member-state to kick in after the 'program' is 'successfully concluded'. Till now, imposed austerity was a condition for loan tranches, to be implemented during the period under which disbursements are made. Now that the Tsipras government has already legislated all the awful austerity measures asked of him, the Eurogroup insisting on new austerity that kicks in after the present loans run out in 2018. There is only one explanation for this: The Eurogroup knows that they will have to extend-and-pretend well beyond 2018, by means of a 4th loan agreement in 2018. This is the price one pays for extend-and –pretend loans: one must keep them coming!

The exact calibration of these measures will be confirmed at the end of the programme by the Eurogroup on the basis of an updated DSA in cooperation with the European institutions, so as to ensure debt sustainability and compliance with the European fiscal policy framework. In other words: "We are clueless on what we shall be doing then!" This DSA, while based on cautious assumptions, will also take into account the impact of growth enhancing reforms and investment initiatives. [Good to know!]

12. Eurogroup will look at delaying debt repayments (that boost the total debt burden) if Greece continues to wither after 2019

For the long term, the Eurogroup recalls the May 2016 agreement that in the case of an unexpectedly more adverse scenario a contingency mechanism on debt could be activated. [No one can accuse the Eurogroup of not having foreshadowed yet another ludicrous predictive failure. This is the second time in the same statement that they pre-announce it.] The activation of this mechanism would be considered subject to a decision by the Eurogroup and could entail measures such as a further EFSF re-profiling and capping and deferral of interest payments. More extending-and-pretending, therefore, is to be expected if (or, more precisely, when) their extending-and-pretending fails!

13.IMF caves in, once again

The Washington-based International Monetary Find has consistently argued that Germany and the Eurozone need to offer Athens substantial debt relief. Time and again Christine Lagarde and the IMF have threated to pull the plug – to leave the Greek 'program' if Berlin and Brussels refuse this. And time and again the IMF has caved in. All that is interesting in the following paragraph is how the Eurogroup phrases and portrays the IMF's latest cave-in.

Acknowledging the staff level agreement reached with Greece on policies, IMF management will shortly recommend to the IMF's Executive Board the approval in principle of Greece's request for a 14-month Standby Arrangement. [i.e. Christine Lagarde will propose to the IMF's Executive Board that it caves in to Berlin's refusal to grant debt relief] The IMF welcomes the further specification of the debt measures given today by Member States, and agrees that it represents a major step towards Greek debt sustainability. [In truth, the IMF is licking its wounds and its staff are, once more, angered by the fact that no specification of any genuine debt relief measures has been offered.] The IMF arrangement will become effective with resources made available in accordance with its terms, provided that the programme stays on track, when IMF staff can assure to the IMF's Executive Board that there is an agreement on debt relief measures, that, appropriately calibrated at the end of the programme, would secure debt sustainability. [The IMF will pretend to be happy and to be part of the troika but it will stay at an arm's length, lending no money to Athens before the debt relief measures that the Eurogroup alludes to but refuses to specify are… specified.]

14. Troika to take €8.5billion this July and hand it over to the… troika

In view of the full implementation of all prior actions and subject to the completion of national procedures, the ESM governing bodies are expected to approve the supplemental MoU and the disbursement of the third tranche of the ESM programme amounting to EUR 8.5 bn to cover current financing needs, arrears clearing, and possibly room to start building up a cash buffer.

This is what it has all been about: How to justify legally the troika's transfer of €8.5billion to itself this coming July. The reason the troika is keen to do this is that Athens must pay the ECB around €7billion. Of course Athens in bust and has no chance of doing it. So, the troika will take that money from one of its pockets (i.e. from the bailout fund, called ESM) and put it in its other pocket, the ECB. To 'allow' the troika to pay itself in this way, Athens has had to swallow the above-mentioned toxic austerity and anti-labour measures…

It is also worth explaining why the additional sum of a little over €1 billion that will be handed over to Athens: Since 2015, Athens has been paying out of its state's bare coffers considerably more back to the ECB and to the IMF than it was supposed to under the loan agreements with the troika. The reason was the delayed disbursements by the troika. Those monies that the Greek state was paying to the ECB and to the IMF were coming out of the already depleted hospital, school and local government budgets. Some of those arrears are now being returned in the form of delayed loan tranches. In essence, money that Greece should not have paid to the IMF and to the ECB, but it did, is now replaced with more loans.

15. Eurogroup to help Greece return to the markets in 2018

In view of the ending of the current programme in August 2018, the Eurogroup commits to provide support for Greece's return to the market: the Eurogroup agrees that future disbursements should cater not only for the need to clear arrears but also to further build up cash buffers to support investor's confidence and facilitate market access.

A little like promising pigs that they will be offered flying lessons!