# Green proposals and policy options for the way forward in Greece

A key benchmark for assessing how and whether a sustainable debt trajectory can be reached is the amount that according to the conditions of the programme the Greek public sector needs to devote to servicing the debt burden on a yearly basis. It has also to be noted that most of the current debt is actually external debt and therefore the amounts devoted to debt servicing are actually essentially allocated to foreign debt holders. The expected primary surplus as foreseen in the programme is of around 3% in 2015 and 4.5% onwards under baselines assumptions of rather robust nominal GDP growth (around 5% per year in the first few 'catching up' years and 3.7% in the medium to long-term). **Historical experience shows however that it is economically utterly unrealistic and politically unreasonable to assume that a country will pay 4.5% of GDP to service its mostly external debt burden over more than twenty years in a row, especially if the same country leaves basic fundamental services unattended and underfinanced as it is currently the case in Greece.** A country which has endured such a socio-economic disaster does not have the capacity to devote key resources to high amounts of external debt. Such situation needs therefore to be taken properly into account when assessing the 'socially responsible capacity to pay external debt' of a specific country. In that perspective, **the public debt sustainability concept needs to be reviewed on the basis of a fundamental rights oriented approach**. **If debt service obligations represent an obstacle for the provision of sufficient minimum resources for financing essential services and hence for fulfilling fundamental rights obligations, then such a debt should be deemed unsustainable.** In order to fulfil the objective of reaching a debt service burden consistent with a fundamental rights oriented approach, **Greece will need further measures to reduce the burden of debt**. A few measures could in that perspective facilitate such objective while creating some necessary conditions for a sustainable recovery of the Greek economy.

## *A prudent and fair reduction of the public debt burden for Greece*

The overall methodology of the 'Debt Sustainability Assessments' made by the troika in Greece need to be thoroughly (and publicly) assessed, reviewed and updated. The accumulated experience shows that the two adjustment programmes have been too overoptimistic. Such complacency has led to rapid slippages affecting the overall adjustment process and leading to the never ending vicious and punitive circle of more austerity in exchange of more time for adjustment and more loans. **The 'Precaution Principle' would command in the current context to adopt a highly prudent approach regarding GDP forecasts and in all circumstances the establishment of precautionary mechanisms in case of adverse shocks. More concretely, a**

**certain number of specific measures would help replacing the 4.5% of GDP primary surplus target by 2016 and onwards as it is unethical to require from a country in a humanitarian crisis to prioritize the repayment of debt over urgent social needs. The primary surplus target should be replaced by 3.5% for the long-term with a starting target of 1.5% for 2015 which could gradually increase towards the long-term target.** Such path should be sufficient for keeping track with a long-term trajectory of debt stock reduction consistent with EU legal obligations[1] as well as with a gradual return to market financing while providing a safety mechanism in case of adverse shocks.

1. A recent study provided by Bruegel[2] identifies a certain number of options for reducing the Greek debt burden **without creating losses for euro area creditors and hence without incurring into outright fiscal transfers**. Such options basically extend the maturity of the current loans and reduce the interest rate paid[3]. According to these estimations the combined effects of such measures would represent a reduction of 17% current GDP of the net present value of the Greek public debt burden. **Such reduction translates into an annual relief of the debt-servicing burden of around 0.5% of current GDP over the next 35 years.**

2. One additional feature for providing a safety mechanism in case of adverse shocks would be **to index official loans to Greek GDP and more specifically by swapping debt held by public creditors with GDP linked bonds.** Such indexing would allow foreseeing ex ante measures such as a further debt extension or additional grace period for interest and principal payment if the economy deteriorates unexpectedly below the baseline scenario. Conversely, if GDP growth is better than expected in the baseline scenario, official creditors would benefit of an interest or principal payment bonus and/or early reimbursement and/or buy-backs.

3. **A substantial wealth levy needs to be put in place so as to ensure a socially fair burden of the efforts provided by the Greek society so far**. The current investigations regarding tax evasion represent a key opportunity for allowing the Commission helping the Greek public sector to identify the destination of large capital outflows that the richest part of society carried over the last years and recover a meaningful mount of public resources.

[1] According to our estimations such a primary surplus path is consistent with a Debt/GDP ratio which would decline from the current 175% to around 135% by 2020 under a conservative nominal GDP growth of 4% and to around 125% under a nominal GDP growth path of 5% per year. Assuming baseline nominal GDP growth after 2020 such a primary surplus path would subsequently allow for an onward reduction of the debt/GDP stock of around 5% per year which is consistent with the debt/GDP reduction path foreseen in the six-pack and the fiscal compact.

[2] See document at http://www.bruegel.org/nc/blog/detail/article/1533-how-to-reduce-the-greek-debt-burden/

[3] Such options include in particular a reduction of the lending rate on the Greek Loan Facility (bilateral loans made by euro area Member States to Greece, an extension the maturity of the loans in the Greek Loan Facility, an extension of the maturities of EFSF loans as well as swapping the current floating interest rate loans to fixed rate loans.

4. On top of these options it is important to remind that an amount of 48 billion EUR have been allocated for the recapitalisation of the banking sector through the 'Hellenic Financial Stability Fund'. In consistency with the Eurogroup statement of 20 June 2013 regarding the main features for the operational framework for European Stability Mechanism (ESM) direct recapitalisation instrument[4], **a significant debt relief could be provided to Greece by means of an ex-post direct recapitalization of Greek banks.** Such an operation would consist in swapping the participation of the Greek public sector as a shareholder of the already recapitalized banks by an ESM direct participation[5]. Such measure could be envisaged once a new programme is on track and that there is a successful completion of the intermediary targets within a few years. In any case such measure would need to take fully into account the need to guarantee a fair treatment to the other Member States under programme.

All in all, a smart combination of maturity extension and reduction interest payments, in combination with indexing official loans to GDP as outlined above **would allow to freeing meaningful resources[6] to be devoted to tackle the social and humanitarian emergency in Greece** with a view of respecting fundamental rights obligations referred to in the EU Treaties. The main advantage of the proposal combining maturity extension with interest rate reductions and GDP indexing of official loans is that it doesn't involve losses or net outright fiscal transfers for the rest of the euro area Member States. Obviously, such feature cannot be underestimated when one has in mind that several bilateral creditors of Greece are also in a very difficult economic and/or political position to sell any relief measures to their domestic public opinions.

## *Towards a third programme*

**The modalities of such a debt-relief should be a part of a third programme. Such debt relief would be sufficient for ensuring a balanced budget from 2015 onwards. However, a third programme would be required for covering the roll-over of debt coming to maturity** (mostly held by public creditors) which is of around

[4] See document at http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/137569.pdf

[5] It has to be pointed out that the ESM operational framework for direct banking recapitalization provides for a ceiling of 60bn EUR for such purposes. Therefore of Greece already uses more than half of that amount it means than only less than half would be left for the rest. However, such ceiling can be modified and increased by the ESM Governing Council having in mind that the ESM has still unused resources that could potentially cover a larger direct recapitalization programme while involving other programme Member States which would request a similar treatment while still keeping 'powder dry'.

[6] As mentioned above the second programme foresees a primary surplus of 3% of GDP in 2015 and of 4.5% onwards. Limiting the required primary surplus to 1.5% in 2015 up to 3.5% over the long-term would free the difference between the surplus foreseen in the programme and the new requirements for tacking the social and humanitarian urgency. Under conservative assumptions such difference could represent at least 1.5% of GDP per year over the next four years.

28bn EUR by the end of 2016 and which totals an amount of around 55bn EUR by 2020. **Such programme could be financed by the funding already foreseen for 2015 and 2016 in the second programme (around 17bn EUR). The difference between the rollover needs by 2020 and these 17bn EUR could be covered either by additional GDP indexed bonds purchased by the ESM, an additional precautionary line in the form of an ESM 'enhanced conditions credit line' and market financing[7] and/or a combination of these three options**. Moreover, it has to be noted that a part of the overall purchases of the securities in the secondary markets could be provided by the Bank of Greece starting in the second half of the year in the context of the euro area Quantitative Easing programme. This would represent further debt relief as interest payments on the debt that would be held in the hands of Greek National bank would be paid-back to the treasury. Such programme would of course involve new conditions which from a Green perspective should focus *inter alia* on good public governance including measures for enhancing the fight against tax evasion and widespread tax fraud, measures for reforming the judicial system, the political parties financing, the media as well as measures aiming at tackling certain privileges of the oligarchs and other protected sectors such as the Church and the ship-owners. Moreover, **a comprehensive debt audit should be carried out as provided for in the 'two-pack'** and more specifically in article 7.9 of Regulation (EU) No 472/2013 which foresees that "*a Member State subject to a macroeconomic adjustment programme shall carry out a comprehensive audit of its public finances in order, inter alia, to assess the reasons that led to the building up of excessive levels of debt as well as to track any possible irregularity*". Such provision which was in fact originally a Green amendment to the initial Commission proposal has not been implemented so far and should be an explicit condition of a third programme.

Moreover and importantly **such new programme to be fully defined and negotiated outside the troika framework under the provisions Regulation (EU) No 472/2013 and hence within the community method** so as to insure full control of the European Court of Justice. The ECB should in particular play a non-negotiating role of 'silent observer' as requested by the European Parliament in its report on the troika activities.

**On top of all these measures the Greens are in favour of an EU wide conference** on debt and the future of the Eurozone which should aim at reassessing the overall sovereign debt burden on the basis of an enlarged debt sustainability concept based on a fundamental rights oriented approach. Furthermore, the conference should aim to take decisions on a common financial and economic policy for the Eurozone democratically controlled by the European Parliament. Such a conference had therefore to be at least partly organized in a form of a convention.

[7] Such market financing could include a gradual raising the T-bills issuance ceiling within the third programme timeframe and even within a mutually agreed interim bridging period ahead of the adoption of a third programme provided that such measure does not endanger the solvency of the Greek banking sector.

## *A 'Green Marshall Plan' for coping with the current social urgency and rebuilding the capacity to deliver essential services*

According to our estimates the implementation of the Green Investment Plan[8] could provide round EUR 30bn of investment stimulus in Greece over the next three years without adding public debt to the Greek public sector. Such stimulus is required on top of the debt relief measures so as to allow the Greek economy to start a recovery on a Green and sustainable basis. This would translate into a significant ' Green Recovery Plan' for Greece while catalysing a Green transition beneficial to Europe as a whole. In any case, an equivalent amount of financial resources should be earmarked to Greece in the context of the EU investment plan and the establishment of the European Fund for Strategic Investments. The modalities on such Green Recovery Plan would require a specific paper in itself which goes beyond the scope of this paper.

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[8] For more details see: http://www.greens-efa.eu/a-green-investment-plan-for-europe-13152.html