HELLENIC REPUBLIC
MINISTRY OF FINANCE

MINISTER

Euclid Tsakalotos
Minister of Finance

Keynote Speech
at the American-Hellenic Chamber of Commerce
27th Annual *THE GREEK ECONOMY* Conference

Athens, 28 November 2016

Ladies and Gentlemen,

I would like to thank the organizers, the USA Ambassador as well as Benoit Coeure for his kind words. As the president of the Greek-American Chamber of Commerce mentioned earlier on, today is a crucial day. Next month is crucial as well. It is probably the most crucial month, since July-August 2015.

In September 2015 we had the national elections. The Greek Government at the time had worked out a road map on how to get out of this crisis. According to that roadmap, we had to do the following steps: implement what was agreed with creditors (i.e. issues on which there was complete agreement) as well as negotiate on issues that were still ambiguous or under a negotiation process; we then had to complete the two reviews, start the discussion about the debt, enter QE, regain access to the markets, and finally, in August 2018 conclude the programme.
To put it the other way round: without concluding the second review there will be no discussion and no solution on debt. With no such solutions, we will not enter the QE. Not entering QE will not give the

Greek government access to the markets in late 2017, or early 2018. Therefore, our European partners and us will have to see what happens at the end of the programme. And I assume that the purpose of any programme is a country's exit from it when completed.

Let us see what the discussion in December is about: There are three major building blocks:

- The **first** is the structural reforms and how to meet the fiscal targets in 2017 and 2018.
- The **second** is what happens with the fiscal targets after the program, especially in 2019 and 2020 and if other measures, or some commitment mechanism, are necessary for this period.
- The **third** concerns the debt.

Let me start with **the building block** that deals with **reforms.** I think that the reform programme that we have seen in the past year is unprecedented, not only with regards to the product market, the closed professions, the Independent Authority of Public Income, the pensions, or the financial issues that Mr. Coeure mentioned in his analysis earlier on; it is unprecedented on all aspects of the Greek economy and state. Of course, the IMF raises a few objections to the quantity and quality of reforms, yet I must tell you that I cannot figure out where this skepticism comes from.

Let me just mention three issues that are still under discussion. The first is the *labour market reforms*. In our view, the Greek government is negotiating entirely within the framework of the MoU signed in 2015, according to which the Greek government will legislate a number of changes, in line with EU best practices. And, indeed, in order to ensure an objective process, we, along with the institutions, proceeded with the establishment of a 'Committee of Experts' which then reached some conclusions with reference to what are the best practices in the EU. It has to be said that on a large number -almost the majority of what we want to legislate now- the unanimous decision of this committee was in favour of the Greek government and our positions on collective bargaining and collective redundancies.

Let me make a small criticism to the European institutions, at this moment. Although they have done many things to help the Greek government reach a compromise on labour market issues -and obviously have, themselves, made some compromises in order to integrate the IMF, it is my view that European institutions cannot negotiate on labour market issues outside the framework of European Union or EU best practices. The European institutions have a duty towards European citizens to negotiate within the above mentioned context; moreover, they have a duty not to assume that a country that is in a programme has diminished rights. I think this is neither ethically right nor appropriate for the current state of the Eurozone. The reason why the Greek government aims to restore collective bargaining, is that both employees and workers should have the feeling that now that the economic recovery is in prospect, they will be part of it. The main reason we have right-wing populist tendencies in Europe, and hence centrifugal trends within the Eurozone, is that more and more workers do not feel part of the recovery process; on the contrary, they feel that they carry the burden of crisis and when things tend to get better they feel excluded.

The second issue that I would like to stress here concerns the *3.5% primary surplus* in 2018. A fiscal gap has been noted and that is because we have introduced a programme -starting in 2017- for the Minimum

Guaranteed Income, which will offer to the poorest of our fellow citizens great relief. Of course, this gap should be filled and I am happy to say that after successive discussions with the institutions the distance that separated us has now been reduced to a number not higher than 0.1% of GDP.

Let me also say something about pensions for those who want to reopen this debate. I have heard the argument that pensions are too generous in Greece. I have to say that if we take total social spending per person older than 65, we are at 65% of the EU average and 55% of expenditures in Germany. This shows that we are not generous, that social expenditure in terms of percentage of GDP is not generous. On the contrary, the opposite is true. And of course if you are an organization that supports that growth cannot go hand in hand with inequality and social exclusion, it is important that this does not only affect the organisation at the highest levels only, but should also be visible at the lowest levels, when negotiating with a government.

Let us now go to the **second building block**, that has to do with the **budgetary targets** and the **primary surplus** beyond the program; namely regarding the years 2019 and 2020, and whether there is or there is no need for further measures. We along with the IMF, the European institutions and many European countries believe that for an economy it is very difficult to maintain a primary surplus of 3.5% for many years. These targets cannot be supported either economically, or in social terms. Indeed, very few countries have achieved something like this; Norway managed to do it, which had oil revenues, and next to Norway we can add only small number of other exceptions to the rule. This is the position that is also supported by the vast majority of economists. The IMF tells us that this is their analysis as well, and that there should not be large primary surpluses after 2018; that this would be bad for the economy. This is also in agreement with the views of President Obama and Prime Minister Renzi, in that it creates recession and austerity, which, in the case of Greece, has reached its limit. However, the IMF says that if you Greeks agree with the Europeans for higher primary surpluses, then there is nothing we can do: we should force you to take additional measures to reach this 3.5%! This is not a position that Zorba in Kazantzakis' book would have called "courageous or honourable". In short, the IMF instead of standing up to the strong players in Europe, those that resist to agree to measures on debt, they are shifting the burden on a country, Greece, which is in a weak position and where we all agree that we should finally abandon austerity.

I want at this point to say something about the countries that are reluctant to agree to a solution on debt in order to enable a reduction of surpluses after 2018. And I have to make a specific proposal, which will be heard for the first time. If, according to some countries, the main problem for Greece is not debt but competitiveness, my proposal is this: to agree on reducing the primary surplus from 3.5% to 2.5% and the Greek government will commit to the use of this 1% reduction, the entire fiscal space emerging from this reduction, only towards the alleviation of taxes and social contributions for SMEs in order to enhance competitiveness. It is possible that after a discussion with the institutions we can elaborate this further and specialize it more to apply only for specific SMEs by sector, e.g. those that have new technologies. If the problem is the competitiveness of Greece, I cannot think of a better measure to reduce surpluses. So we could have the following compromise: any budgetary room created by us due to the efforts to combat tax evasion, increase the collectability of VAT, reduce smuggling in tobacco or oil, we can use it for social purposes or any other reason we might wish, while the reduction of primary surpluses is used in the above mentioned way.

What the Greek Government cannot accept though is that if primary surpluses are not reduced, the difference between IMF and some EU countries, will lead to a compromise that shifts the whole burden on to the Greek people; for instance with a Eurogroup decision something like the following: "Legislate now more measures to be implemented in 2019 and 2020, to meet 3.5% primary surpluses". This seems neither fair, nor economically sound. The Greek government has implemented the MoU to the letter, we have implemented all measures agreed, we have negotiated in a constructive manner some things we considered unreasonable or against social cohesion. Therefore, we cannot take any other measures, just because there is a disagreement between IMF and some European countries. Moreover we think -as the European institutions do- that we can reach 3.5% without any other measures, especially if one considers that a number of non-parametric measures, not counted in the programme, will begin to kick in. Non parametric means measures include those against tax evasion or smuggling of fuel – they are not easily measurable, however one cannot believe that after two years we will not have any revenues from them.

I think that the compromise can be reached, but this compromise should take into account both the current state of Greek economy and Greek society.

The **third building block is the debt** and it should be noted that great progress has been made in the short-term measures of ESM. Increasingly the ESM has become more ambitious in its effort to help reduce the risk associated with the Greek debt. We are looking forward, with great interest, to the post December 5 debate on the medium and long term debt measures. The expectation of the Greek government is this: after December 5, all three building blocks bind together so that the IMF will, in the end, have at hand everything -that is to say, measures, reforms, debt, objectives and the budgetary measures needed (or not needed)- in order to reach a decision.

I will conclude with the following thought. I think few people believe that Eurozone is currently going through a golden era. One of the reasons why this is not happening is that it does not always prove that it can solve problems; it gives the impression, quite a few times, that it chooses to kick the can down the road. If this happens again, this time for Greece, it will not only be bad for Greece, but -as Mr. Coeure hinted- it would be bad for the Eurozone as well. This time the Eurozone needs a success. And 'successful' means to be able to solve political problems, to give a country a clean runway so that investors, Greek and foreign, and Greek citizens know what to expect in the next two to three years. Success is when you manage to pass the message to the people of Europe that political solutions are achieved in a way that includes labour.

Thank you.