

Was it worth it for Schäuble? What did he gain by blocking Varoufakis' 11 February proposal?

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On 11 February Greek finance minister Varoufakis outlined his request for help and the concessions his government was willing to make in front of the Eurogroup. According to reports it was mainly his German counterpart Schäuble who blocked any agreement on this basis until the Eurogroup finally agreed on a [statement](#) on 20 February. It is instructive to compare the wording and content of this agreement with what Varoufakis had offered and asked for ([in German here](#) with links to original documents) nine days earlier.

Request for Extension in Eurogroup Statement of 20 February

Statement: *The Eurogroup notes, in the framework of the existing arrangement, the request from the Greek authorities for an extension of the Master Financial Assistance Facility Agreement (MFFA), which is underpinned by a set of commitments.*

Varoufakis: "We fully understand that the dates associated with the existing loan agreement must be moved forward in order to provide stability, to give time to the discussions, and allow for the disbursement of SMP bond-related funds and possibly other funds. We remind you that the present deadline of 28/2/2015 are entirely artificial, and were the product of the previous government's electoral strategy and desire to confront us with these difficulties on taking office. It is time, in good faith, for these maneuvers to stop and for serious work to begin."

"We stand ready to ask for a revision of these dates in view of the next scheduled Eurogroup meeting next Monday the 16th of February 2015. We can accept this revision of dates as a "bridge" towards a new partnership and a necessary condition for the discussion. However, such an extension cannot be taken as acquiescence to the logic and parts of the former agenda that have been rejected by our people."

Assessment: Greece is asking for an extension of the financial support, which it needed to be able to pay back expiring bonds and credit contracts. The Eurogroup puts this in the context of the "existing arrangement", a vague term, which avoids the name programme but does point to the fact that – somehow - a reform programme is attached to this ongoing financial support. This vagueness is clearly a tribute to Varoufakis unwillingness to "acquiescence to the logic and parts of the former agenda that have been rejected by our people." **Nothing in the statement can be construed as Athens accepting the programme in its entirety, as Schäuble had demanded.**

Purpose of Extension

Statement: *The purpose of the extension is the successful completion of the review on the basis of the conditions in the current arrangement, making best use of the given flexibility which will be considered jointly with the Greek authorities and the institutions. This extension would also bridge the time for discussions on a possible follow-up arrangement between the Eurogroup, the institutions and Greece.*

Varoufakis: "Agreeing on a new policy framework between Greece and its Eurogroup and international partners will take some time... However, let me be very clear on this: the

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government asks for this revision of dates on the condition that it is the starting point for genuine negotiations in good faith for forging a different contract between us, based a realistic primary surplus effort and efficient as well as socially just structural policies – including of course many elements of the previous programme that we accept. We need assurances on this point.”

Assessment: There is no mention of “successful conclusion of the programme”, nor of “programme” in the text. Instead a successful conclusion of the review of the “conditions in the current arrangement” is the new condition. Again, this concedes to Varoufakis that he does not have to acquiesce to the parts of the programme he rejects. Flexibility is jointly discussed with Greece. A possible follow-up agreement is mentioned. **Varoufakis got what he wanted.**

List of reform measures

Statement: *The Greek authorities will present a first list of reform measures, based on the current arrangement, by the end of Monday February 23. The institutions will provide a first view whether this is sufficiently comprehensive to be a valid starting point for a successful conclusion of the review. This list will be further specified and then agreed with the institutions by the end of April.*

Varoufakis: “Our citizens have rejected the role of the ‘Troika’ in Greece. Our government will however maintain dialogue and continue to cooperate fully with the European Commission, the ECB and the IMF as a member country of the European Union.”...“Our future cooperation should be based on mutual trust and respect and channelled primarily through the European Commission.”

Assessment: The measures already in the programme agreed with the Troika are not sacrosanct any more. Athens can come up with their own list, taking the current “arrangement” only as the basis. The new Greek government is thus accepted as a negotiation partner, not as a passive executor of all the measures that have been agreed by the former government. It is accepted that this list of measures, if considered sufficient by the “institutions” can be the basis of the required successful conclusion of the review. “Institutions” instead of “troika” means that the Greek government will put their proposals to and have them be judged by the three institutions themselves, not by the group of emissaries called the Troika. The programme does not need to be concluded, only the review. It is Athens which further specifies the list after it has been assessed by the institutions and the institutions will agree or not at the end of April, making it clear that the institutions do not draw up a list of measures. Varoufakis got most of what he wanted. As regards his suggestion/demand that cooperation should be channelled through the commission, the statement is silent. **Schäuble did not seem to get anything here.**

Support

Statement: *Only approval of the conclusion of the review of the extended arrangement by the institutions in turn will allow for any disbursement of the outstanding tranche of the current EFSF*

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programmeme and the transfer of the 2014 SMP profits. Both are again subject to approval by the Eurogroup. In view of the assessment of the institutions the Eurogroup agrees that the funds, so far available in the HFSF buffer, should be held by the EFSF, free of third party rights for the duration of the MFFA extension. The funds continue to be available for the duration of the MFFA extension and can only be used for bank recapitalisation and resolution costs. They will only be released on request by the ECB/SSM.

Varoufakis: "To meet our immediate payment obligations, we ask the Eurogroup to disburse to Greece the outstanding €1.9bn SMP bond-related Eurosystem income, in accordance with its previous commitments. We are, in fact, open to the idea that the ECB transfers these funds directly to the IMF in lieu of Greece' outstanding repayments....Moreover, we propose to work urgently on a bridge financing mechanism to ensure Greece's liquidity position over the coming months."

Assessment: The Eurogroup of finance ministers will decide, but only after the "institutions" have given or withheld their seal of approval. **Varoufakis might get what he wanted, though not automatically.** He would probably have agreed to this wording, at the time.

Cooperation with partners and independence of ECB

Statement: *In this light, we welcome the commitment by the Greek authorities to work in close agreement with European and international institutions and partners. Against this background we recall the independence of the European Central Bank. We also agreed that the IMF would continue to play its role.*

Varoufakis: "Our government will however maintain dialogue and continue to cooperate fully with the European Commission, the ECB and the IMF as a member country of the European Union."... "Our future cooperation should be based on mutual trust and respect and channelled primarily through the European Commission."

Assessment: The mention of the indepenence of the ECB might mean that the ECB refuses to have their part of the cooperation channeled through the Commission. **Schäuble does not seem to have gotten anything here, which he could not have gotten before.**

Structural Reform

Statement: *The Greek authorities have expressed their strong commitment to a broader and deeper structural reform process aimed at durably improving growth and employment prospects, ensuring stability and resilience of the financial sector and enhancing social fairness. The authorities commit to implementing long overdue reforms to tackle corruption and tax evasion, and improving the efficiency of the public sector. In this context, the Greek authorities undertake to make best use of the continued provision of technical assistance.*

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Varoufakis: "This morning the OECD Secretary General has agreed to assist us in this task. Your help, the Commission's help, the IMF's help, will also be necessary in important areas where powerful opposing interests are entrenched and the political challenges are especially great... We stand ready to support structural reforms previously agreed with our Eurogroup partners with regard to tax collection, public financial management, public administration reform, improvement of the business climate, reform of the judiciary, spatial planning and fight against rent-seeking. They are fully consistent with our political mandate, and we will even accelerate them.

"Technical assistance from you on these issues will be critical, not least because it will enhance trust between us and you."

Assessment: Everything that the Statement requires in terms of structural reforms has been offered by Varoufakis, already.

No haircut

Statement: *The Greek authorities reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and timely.*

Varoufakis: . "It is probable however that additional measures will be required to ensure Greece's capacity to re-access the financial markets."

Assessment: Greece will not ask for a haircut. ". This is not a small thing at first sight. However, it is unclear how far the concession goes. In other occasions, Varoufakis had already agreed to drop the word haircut from his vocabulary. The Eurogroup statement with its explicit reference to the 2012 statement is open for the interpretation of Varoufakis that concessions on rates and maturities have been promised to Greece (see below). Also, suggestions of a proposal of debt swaps that Varoufakis alluded to on 11. February would not be inconsistent with the agreed statement, as long as he does not threaten a stop of debt servicing. **Schäuble did win a concession here, but it is not clear how big it is.**

Primary fiscal surplus

Statement: *The Greek authorities have also committed to ensure the appropriate primary fiscal surpluses or financing proceeds required to guarantee debt sustainability in line with the [November 2012 Eurogroup statement](#). The institutions will, for the 2015 primary surplus target, take the economic circumstances in 2015 into account.*

Varoufakis: "We are committed to sound public finances... primary surplus has reached 1.5% at the end of last year, its structural balance, as measured by the IMF, has reached a surplus of 1.6%, the best performance in the EU... The new government takes this adjustment as its point of departure. We wish now to move forward, on the basis of a new mutually beneficial partnership

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“...unrealistic, self-defeating fiscal targets have been imposed on our country and population and hence must be revised. A primary surplus target of 4.5% of GDP year-in-year-out has no historical precedent in any situation resembling that of Greece today. It will simply not be possible for our country to grow if we remain on the growth sapping austerity path imposed on our economy. It is also quite inconsistent with achieving a sustainably reduced debt-to-GDP ratio. The new contract we propose to discuss with you should recognize this evidence. Continued primary surpluses will remain our mantra. We propose a maximum 1.5% of GDP primary surplus objective, from as soon as the present disturbed economic situation has stabilized and for as long as necessary to achieve the underlying goals. This objective can be shown to be sufficient, under very reasonable assumptions, to put the debt trajectory on a downward path.”

“This new DSA (Debt Sustainability Assessment) should reflect the concessional features of Greek debt due to its very long maturity and low interest charge...Eurogroup committed in November 2012 to tackle this issue once Greece would post primary surpluses, which was the case in 2014 and will be the case in 2015 once the current situation stabilizes. This discussion should be reopened when we will discuss our new contract. ..Greece will stand ready to make concrete proposals to its partners, in due time, on a menu of innovative instruments to reduce the debt burden efficiently, including debt swaps...We...propose to create a specific Eurogroup working group gathering member states' representatives and experts.”

Assessment: The government will ensure that the surplus of income over expenditure, leaving out debt service, is high enough to achieve the steep falls in the debt to gdp relation foreseen in the November 2012 statement. This sounds tough. However, the 2012 statement promises Athens further concessions like lower rates or extended maturities of debt, if they achieve a primary surplus, which they did. Varoufakis demands that such concessions should be taken into consideration when calculating the primary surplus required for debt sustainability. The Eurogroup seems subscribe to this view at least to some degree, by demanding only that “primary fiscal surpluses OR financing proceeds required to guarantee debt sustainability”.

On the suggested working group on debt, the statement is silent.

The last sentence makes it clear that a surplus should only be aimed at if and to the degree that it is not self defeating, by ruining the economy and thus raising the debt to gdp ratio, instead of lowering it. On this big point, **Schäuble, who wanted the old austerity programme to proceed, no matter what, got nothing and Varoufakis got all he wanted.**

Admission of problematic aspects of the programme and limit to rollbacks

Statement: *In light of these commitments, we welcome that in a number of areas the Greek policy priorities can contribute to a strengthening and better implementation of the current arrangement. The Greek authorities commit to refrain from any rollback of measures and unilateral changes to the policies and structural reforms that would negatively impact fiscal*

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targets, economic recovery or financial stability, as assessed by the institutions.

Varoufakis: "We are committed to deep structural reforms...Our reform agenda ... recognizes the need for deep reforms to anchor the long-term prosperity of Greece within the Eurozone. We will deliver results for the people, not for friends or patrons. We will not only commit to reforms, we will deliver them."

"This morning the OECD Secretary General has agreed to assist us in this task. Your help, the Commission's help, the IMF's help, will also be necessary in important areas where powerful opposing interests are entrenched and the political challenges are especially great. We stand ready to support structural reforms previously agreed with our Eurogroup partners with regard to tax collection, public financial management, public administration reform, improvement of the business climate, reform of the judiciary, spatial planning and fight against rent-seeking. They are fully consistent with our political mandate, and we will even accelerate them. We will take unprecedented action to fight corruption, to fight tax evasion and ensure tax enforceability, with an emphasis on transfer pricing in large corporates active abroad."

"On privatization and the development of publicly owned assets, the government is utterly undogmatic; we are ready and willing to evaluate each and every one project on its merits alone. Quick fire sales of public property, at a time when asset prices are deeply depressed, is not something that anyone would advocate."

"...the measures announced by the Prime Minister with respect to rehiring tax office cleaners, school guards and the staff of the public broadcasting network: (1) have no adverse effect on competitiveness and (2) have no fiscal bearing as they will be paid for entirely by other savings in the state budget. ...the restoration of the pension cuts we announced concern pensioners living at or below the poverty line and comes up to ... a grand total of around 9.5 million. The reason we made this announcement is one that I shall return to, as I must, during our discussions: The appalling humanitarian crisis caused by the debt-deflation. On the minimum wage, the government will phase in its restoration to the 2012 level gradually, from September onwards and after consultation with employers and trades unions. As it applies only to the private sector, its fiscal impact will be, if anything, quite positive,"

Assessment: The Eurogroup admits that Athens has a point, that some measures in the programmes were counterproductive and that important measures were not included. Athens gets license to roll back those measures, and devise new ones, as long as this does not cost more than can be financed internally or harms the interests of partners in other ways. This includes privatizations, which are not explicitly mentioned in the statement and the several examples of hotly contested but financially almost irrelevant. The demand of the Greek government to be treated as a partner and to be given leeway to actually govern in the interest of voters is respected to a large degree by the statement. **Schäuble got nothing here that he could not have gotten already on 11 February.**

Four month extension

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Statement: *On the basis of the request, the commitments by the Greek authorities, the advice of the institutions, and today's agreement, we will launch the national procedures with a view to reaching a final decision on the extension of the current EFSF Master Financial Assistance Facility Agreement for up to four months by the EFSF Board of Directors. We also invite the institutions and the Greek authorities to resume immediately the work that would allow the successful conclusion of the review.*

Varoufakis: We propose the bridge programme to cover the period until end-August. This will provide sufficient time to agree on the terms of our partnership

Assessment: The reasons for the shorter extension and who pushed for it are not clear, yet.

Finale

Statement: We remain committed to provide adequate support to Greece until it has regained full market access as long as it honors its commitments within the agreed framework.

Summary assessment: Was it worth the hassle for Wolfgang Schäuble to play hardball and to block any agreement on the basis of proposals Varoufakis made on 11 February in front of the Eurogroup? A close paragraph by paragraph comparison of the final result with those suggestions renders the result that the only thing that Schäuble got from this, which was not already included in Varoufakis' proposals was the sentence: "The Greek authorities reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and timely. Varoufakis had already renounced the word haircut, earlier, however. Thus, over all, Schäuble and his allies got rather little what they could not have had already 11 February.

Was it worth it? Concessions to Greece relative to the rejected draft of 16 February