

EUROGROUP MEETING – FEBRUARY 11, 2015 – BRUSSELS NON-PAPER FROM THE GREEK GOVERNMENT

On January 25th, Greek citizens sent an unequivocal signal of change and endorsement of the new social contract for political stability and economic security proposed by SYRIZA.

The new government is committed to implement policies that will deeply reform Greece's social economy, reduce rent-seeking, anchor euro membership and reflect the will of the Greek people. These policies will address the humanitarian crisis, enhance social cohesion, restore justice and dignity, put the Greek population back on its feet and restore economic growth.

The government knows that improving citizens' daily lives requires macroeconomic, fiscal and financial stability. As such, the Greek authorities intend to maintain sound public finances and to preserve financial sector stability. They stand ready to commit to realistic and reasonable quantitative targets in that regard.

There is a way to foster policies that will restore growth and maintain fiscal stability, while addressing the most pressing needs of the people. These policies should be part of a new agreement between Greece and its Eurogroup partners that focus on economic development, investment, social conditions and improved public management.

Greece has made an extraordinary adjustment over the course of the past five years. Its deficit is now below 3% of GDP, down from 15% in 2010. Its primary surplus has reached 1.5%, its structural balance, adjusting for the output gap as measured by the IMF, has reached a surplus of 1.6%, one of the highest in Europe.

The new government takes this adjustment as its starting point. The task now is to stabilize the Greek economy and society, which has paid an immense and unsustainable price, and this requires changes to the previous policies. However, agreeing on a new policy framework between Greece and its partners will take time. The government proposes to its Eurogroup partners to agree immediately on a bridge and stabilization program for the next seven months (e.g. up to end-August), with a 90 day-period for negotiations on the terms at the beginning. These will provide the appropriate time-frames to agree on and to begin to implement policies that will repair society, restore confidence, and support growth and development in Greece.

Greek Government Policy Objectives & Commitments

The government is ready to commit to the following:

Sound and Sustainable Public Finances

The government commits to maintain a 1.5% primary fiscal surplus in 2015, when the domestic situation has stabilized, and to maintain that objective until such time as normal conditions are restored and the debt ratio is on a clear downward path.

To meet this objective, the government will refrain from spending measures that might derail the budget target and it will increase efforts to improve tax collection. Increases in spending will focus on investments financed by the European Investment Bank and other outside sources, and on measures addressing the humanitarian crisis including a food stamps

program, minimum electricity and heating and basic transport. Insofar as these must rely on domestic resources they will be balanced by additional revenues or offsetting spending reductions, as required to maintain the fiscal objectives.

Unrealistic fiscal targets are self defeating and must be revised. The primary surplus target of 4.5% of GDP over the medium term and 4% over the long-term was entirely artificial, has no historical precedent resembling Greece's circumstances, and has essentially no support from among reputable economists. In practice pursuit of such a target is also unsustainable, and the goal of putting debt-to-GDP on a clear downward path requires that it be revised.

Uncertainties surrounding the electoral period in Greece and the ultimate status of Greece with respect to Europe have affected economic activity and fiscal performance over the last two months. As a first step, it is essential to stabilize the banking system immediately and to restore confidence in Greece as a full and permanent member of the Eurozone. The Government of Greece requests immediate affirmation and assistance from its Eurogroup partners to this end.

Maintaining Financial Sector Stability

The stability of the Greek financial sector is of utmost importance to the government and an immediate concern for the Euro Area as a whole.

Following the ECB Governing Council's decision on Feb. 4th, Greek banks will remain fully secured as they rely on Bank of Greece's Emergency Liquidity Assistance (ELA).

The government expects that an agreement with its Eurogroup partners on a bridge program will allow the Governing Council to renew the waiver for eligibility of Greek paper to Eurosystem refinancing operations.

In the medium term, additional action is required to support further the banking sector. The government would like to discuss with its partners the mobilization of remaining unspent resources available to the Hellenic Financial Stability Fund (app. EUR 8 billion) to further strengthen the banking system. The government stands ready to make a concrete proposal on how the remaining HFSF assets could be used to clean out the banks from their NPLs. Moreover, HFSF management should be made more transparent and efficient.

Addressing Immediate Financing Needs

Covering gross financing needs is an immediate concern for the Greek authorities.

Before June, Greece faces €5.2bn repayments to the IMF. The government is fully committed to honor these payments. The government looks forward to a positive discussion with the IMF on renewing a financing agreement based on an updated DSA.

To meet its immediate payment obligations, the government asks the Eurogroup to disburse to Greece the outstanding €1.9bn SMP bonds related Eurosystem income, in accordance with Eurogroup previous commitments. After June, €6.7bn repayments are scheduled over the summer to the ECB as the holder of SMP bonds. This repayment creates very exceptional pressure on Greece's funding needs in 2015.

The government expects that an agreement regarding the issuance of T-bills will be obtained

to cover these exceptional needs. This would not raise the amount of debt, but only change its composition.

Debt Sustainability

Restoring debt sustainability is a key policy objective for the Greek authorities.

Additional measures will be required to restore Greece's long-term solvency and to ensure its capacity to borrow in the financial markets at reasonable cost in the near future. 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.

IMF technical staff should work closely with the Greek team to assist in developing a sustainable debt program, taking full account of the experience of the recent past. Buttressed with quantifiable targets audited by unconflicted parties, such an arrangement could form the type of covenant that the government and the EU partners and bilateral lenders can accept.

In that framework, the authorities are ready to open discussion on options that would bring Greece the necessary breathing space and ultimately the means to restore access to financial markets. These options would be part of the "new deal" to be sealed between Greece and its partners. They would be fully consistent with (i) the new more realistic fiscal framework to be agreed; (ii) an updated IMF Debt Sustainability Analysis taking stock of these new assumptions, and (iii) a positive program for growth and social development to which the government and the Greek people are firmly committed.

Greece is ready to make concrete proposals to its partners, in due time, on a menu of instruments to reduce the debt burden efficiently, including debt swaps.

The New Reform Agenda

The Greek Government is working on a new agenda for growth and structural reforms. The new agenda will address the causes of Greek economic decline and help to modernize the Greek socioeconomic model.

The government undertakes to reduce tax evasion, tax immunity, smuggling, cartels and rent-seeking. Reforms will improve the enforcement of income tax, VAT, and social contributions, and fight tax evasion with an emphasis on transfer pricing in large corporates active abroad. The government stands ready to discuss legislative proposals to reinforce the legal framework for an independent tax authority within the Ministry of Finance.

A full legislative package will improve the business climate and undermine rent-seekers, in particular in the oil sector, the financial sector, and the media. Public procurement procedures will be made more transparent and fair thanks to a more centralized system, efficient monitoring and e-procurement. Reforms will increase the overall efficiency of the public sector, with an objective to improve the quality of services delivered to every citizen. Policies undermining social cohesion have failed and will be dropped.

Foreign investors remain welcome and the government will support their investments in Greece. On privatization and the development of public assets, the government is ready and willing to evaluate each and every project on its merits alone.

To boost domestic investment and support economic recovery, the government will create a national development bank, to which various public assets will be transferred, and to support the SMEs. The national development bank will play a leading role in channeling EIB loans allocated to private projects in Greece.

The Greek authorities have asked the Secretary General of the OECD, who has accepted, for technical assistance in devising, implementing and monitoring this new reform agenda.

A New Contract for the New Agenda

This new agenda will give impetus to many of the policy actions listed in the policy program previously agreed between Greece and its Eurogroup partners, including tax policy, revenue administration, public financial management, public administration effectiveness, collection of social contributions, promotion of business investment, spatial management and planning, and reform of the judicial system.

Over the bridge period during which this new contract will be prepared and negotiated, the government will put a priority on the implementation of those actions listed in the existing agreements that are fully consistent with its political mandate. Altogether, they would represent more than 70% of the whole list of previously-agreed actions. New initiatives announced by the government will be programmed to take effect after the completion of successful negotiations.

8. Conclusion

Europe is whole and indivisible, and the government of Greece considers that Greece is a permanent and inseparable member of the European Union and the Eurogroup. The government is committed to a relationship between Greece and its partners based on good faith, mutual trust, and a common commitment to the European project. It is confident that a relationship firmly built on this basis can work to restore the Greek economy and to anchor Greece's future as a prosperous member of the Euro Area.