

## **Greece: debt is not the issue**

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Growing chimes of economists are calling for debt relief to Greece. Those calls have been seized upon by the Greek Government to complicate the negotiations and create additional tensions. They are widely misguided. The facts speak for themselves. Under current arrangements, no payment in principal is due by Greece to its Euro partners until, at least, 2020. The average interest rate has been brought down to 1%, and Euro countries may be prepared to consider further improvements.

Therefore, all the debt falling due in the next years is to the IMF and the ECB. That must absolutely be paid back. If it were accepted that debt to the IMF can be defaulted upon or rescheduled, the whole international monetary system would be in danger. Next time a country, in any part of the world, needs IMF support, the membership will prove extremely reluctant and will ask for additional guarantees, possibly in very tangible form such as gold or real assets. This has been current practice between Sovereigns over many decades and centuries. Remember the financial relationships between US and UK, during WW II. While being the US closest ally, and truly fighting for its survival, UK was submitted to the harshest conditions and had to liquidate most of its financial and industrial holdings in the US at fire sales prices. IMF conditionality, however hard it may seem, is actually very soft as compared to the ordinary financial dealings between sovereign creditors and debtors. The counterparty is that the IMF always gets its money back.

The same holds for the ECB. The Greek Government bonds in its portfolio have been bought under the so-called "SMP" program with the only purpose to support Greece in times of turbulence and danger. If those bonds were defaulted upon, losses would be easily sustained for the Eurosystem, but such support to Greece would never, ever, materialize again. Worse, any normal refinancing of Greek banks would become impossible.

This is the reason why the "institutions" are asking Greece to run a primary surplus. One can certainly discuss the target for that surplus. But it has to be high enough to make absolutely sure that bonds held by the ECB will be repaid. And, for the IMF, there must be equal certainty that, ultimately, the program will lead to a satisfactory conclusion and reimbursement, knowing that European taxpayers will not accept to come up with any "new money".

True, there is also, in IMF rules, a requirement of long term debt sustainability. It will have to be dealt with. But not to day. It's best to negotiate debt in tranquil times, just like a surgeon would choose to administer antibiotics and wait, rather than perform an appendectomy in a hostile, non sterile, environment. Discussions should now focus on the issue that matters most: how to balance the Greek budget. At the current stage, debt can only prove an unnecessary and dangerous distraction.