

### **Don't play with fire, yet too don't sweep under the carpet**

Greece's government is absolutely right that it cannot further cut budget expenses and raise taxes imposed already on the people in order to have funds to endless repaying of the foreign debt. That would be wrong, since it is not just socially unacceptable, but also economically irrational. Thus far, the implemented policies have succeeded in fundamental shift of the debt from private banks, co-responsible for the Greek crisis, on public organizations - the European Union and International Monetary Fund. Currently, up to 80 percent of debt obligations are due to the EU institutions, the European Central Bank and the IMF.

While on the one hand the Greek public debt increased from just over 100 percent of GDP in 2010 to almost 180 percent in 2015, and Greece was pushed by external pressure to a syndrome of "triple 25" – 25 percent of recession, over 25 percent unemployment, and 25 percent of the population living below the poverty line – many banks, especially German, French, Swiss, Austrian and Cypriot, tricked out of shared responsibility, shifting the costs of their reckless lending to the European taxpayers. It's a fact that some of them have already had to write down the loss of certain credits, but it costs them much less than are their profits accrued from this whole practices.

Who has now bear the costs of imprudence and misguided policy? Definitely a greater measure of responsibility than Greece must be taken by "troika" – European Commission, IMF and European Central Bank. Of course, the previous governments in Athens and part of the Greek society are complicit. No doubt that living beyond means, avoiding taxes, inadequate fiscal system, and too soft financial policies are the root causes of the crisis. However, Greece – unlike most EU countries, including France, Great Britain, Italy, Spain and Poland – already has a primary budget surplus, what implies that not counting the cost of servicing the public debt, more to the public purse pulls than is spent. Although, the Syriza government policy guarantees continuation of such welcome trend, one of the major points of contention in hard negotiations between the debtor and creditors is the scope of primary surplus; while the Greek Government intends to keep the primary budget surplus at 0.8 percent of GDP this year and 1.0 percent in 2016 – and this is indeed an achievement – the "troika" wants to force it up to 1.0 and 2.0 percent, respectively.

One should not blackmail the Greeks, yet that's exactly what happens. The "troika" – especially Germany, which Greece owes 56 billion euros – is overly pushing them against the wall. If the Germans, and others, want their money to go back, they must finally understand that they can get only part of the value due to them. It is so, because Greece is in fact insolvent. And it is largely the fault of the countries and financial intermediaries lending in the past too easy and too much to Greece. The austerity measures imposed by "troika" have been going too far and they caused a perverse effect of long-lasting recession and shrinking of fiscal base. Indeed, the creditors have cut a branch they've been sitting on... Now the Greeks, using language of the street, are right while saying that they would be stupid to accept further cut of their pensions and the increasing bills for households' electricity.

One should not play with fire. But one should not also be cheating by sweeping the mess under the carpet. Although Greece is insolvent, there is a solution. For a long time I've been postulating a reprofiling of Greek foreign debt by deleting a half of it. That implies that under the current conditions it ought to be reduced from €320 billion to 160 billion, or below 90 percent of GDP. It still would be half more than is permitted by the Maastricht fiscal criterion, however, in such an amount the remaining debt would be repayable. Otherwise, hardly.

Understandably, such reprofiling of the debt to actual long-term capabilities of Greek economy needs to be based on continuing hard financial adjustment and appropriate structural

reforms. We, the Poles, know something about this, because 21 years ago, in September 1994, as Deputy Prime Minister and Minister of Finance of Poland I signed with the creditors of private banks grouped in the London Club agreement to reduce our debt by half. The deal was based on tough conditions and the progress in their fulfillment was relentlessly monitored by the IMF. If not for those decisions, and going afterwards smart policies, we would be by now much worse, because there would be neither normal trade relations with foreign countries, nor beneficial access to global financial markets, and both had a significant impact on the dynamics of growth in my country.

In short: Greece fails to repay the entire current debt. It's an illusion and waste of precious time to “stay the course” of ill-advised policies. Delaying a pragmatic approach only increases the costs of the crisis. We are facing acute alternatives: either Greece is allowed to fail to repay a substantial part of its external obligations in an orderly manner, dictated by common sense and realism, or it will occur anyway in a chaotic manner. The common sense choice seems to be clear: further pressure on the Greeks to keep bleeding, sweating, and crying, for the sake to satisfy reckless creditors, would be economic, social and political nonsense. Why pay more when you can pay less? Why succumb to chaos, when you can govern the process? Why fail, if you can succeed?