The third memorandum is unsustainable just like the previous two

Michel Husson, Truth Committee on Public Debt, 25 September 2015

1. The political economy of the third MoU

The main scenario of the Third Memorandum of Understanding[1] (MoU) is summarized in the following table:

Table 1: Primary surplus targets and GDP growth path underpinning the third financial assistance programme

Year	Primary surplus target	GDP growth
2015	-0.25%	-2.3%
2016	+0.50%	-1.3%
2017	+1.75%	+2.7%
2018	+3.50%	+3.1%

Source: Jeroen Dijsselbloem[2]

We observe again the same assumption which underlay the two previous MoU and which has been proven wrong: a strong fiscal restraint is compatible with a recovery in growth.The Eurogroup President Jeroen Dijsselbloem argues that this is possible:

"The MoU foresees to achieve the primary surplus targets with the following measures:
- *Pension's savings* of around 0.25% of GDP in 2015 and 1.0% of GDP by 2016 (see pp. 13-14 of the MoU);
- Various measures in the health care sector (pp. 15-16 of the MoU);
- Tax, revenue, and financial management reforms, including various measures against tax fraud and evasion. A minimum VAT income of EUR 2.65 billion is to be ensured. Property tax rate will be aligned with market prices from 2017 and zonal property values are to be revised. The authorities are to improve the collection of tax debt arrears and introduce independent agencies and make the Fiscal Council independent and operational. Many other tax related reform measures are included in the MoU (pp. 6-11 of the MoU).
- In addition, Greece is requested to enact structural measures by October 2015, which are expected to yield at least 0.75% of GDP coming into effect in 2017 and 0.25% of GDP coming into effect in 2018 so as to help achieving the medium-term budgetary targets"

2. A blind belief in structural reforms

The second assumption is that structural reforms can by themselves boost the growth potential[3]. Additionally past failures are seen to be the outcome of only incomplete implementation of these reforms. For instance, IMF argues: "the

[1] *Memorandum Of Understanding Between The European Commission Acting On Behalf Of The European Stability Mechanism And The Hellenic Republic And The Bank Of Greece*, 19 August 2015.
[2] Jeroen Dijsselbloem, "Exchange of views with the President of the Eurogroup on Greece", European Parliament, 22 September 2015.
[3] Michel Husson, "Greece: Structural reforms, multipliers, competitiveness", Note for the Truth Committee on Public Debt, April 2015.

significant shortfalls in program implementation during the last year led to a significant increase in the financing need". But the reforms have actually been implemented in Greece, as the IMF itself recognizes in a document assessing the previous MoU[4].

The OECD finds that: "Impressive progress has been achieved in reforming labour and product markets since the beginning of the crisis, albeit from a low starting point. Since 2009-10, Greece has the highest OECD rate of responsiveness to structural reforms recommended[5]" In June 2013[6], the IMF congratulates Greece for its pension reform, "one of the main achievements of the program".

An IMF document[7] did not hesitate to affirm that: "The simulated effects of reforms are in line with developments in the Greek economy" and that: "The results are also consistent with long-term projected growth under the program ».

But in reality, Greece has been plunged into a deep recession, eventhough, or indeed precisely because it has strictly applied the structural reforms recommended and imposed by the Troika, at the cost of a dramatic social crisis.

Based on the current evidence there is no reason to consider that the new structural reforms to come could have another outcome.

3. "Greece's debt has become unsustainable"

Christine Lagarde, the IMF Managing Director[8] has recently declared:
"However, I remain firmly of the view that Greece's debt has become unsustainable and that Greece cannot restore debt sustainability solely through actions on its own."

This statement is based on a recent IMF document[9] which says that "Greece's public debt has become highly unsustainable [and] is expected to peak at close to 200 percent of GDP in the next two years, provided that there is an early agreement on a program. Greece's debt can now only be made sustainable through debt relief measures that go far beyond what Europe has been willing to consider so far."

Conclusion

The third MoU is based on the same hypotheses and postulates as the first two previous MoU. Therefore it is destined to fail, leaving the debt unsustainable.

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[4] IMF, "Greece. Ex post Evaluation of Exceptional Access Under the 2010 Stand-by Arrangement", June 2013, p.44.
[5] OECD, *Economic Survey. Greece*, OECD, November 2013.
[6] "Ex post Evaluation of Exceptional Access Under the 2010 Stand-by Arrangement", June 2013.
[7] "Greece. Selected issues", May 2013.
[8] "Statement by Christine Lagarde on Greece", IMF *Press Release* No. 15/381, August 14, 2015.
[9] "An update of IMF staff's preliminary public debt sustainability analysis", IMF, Greece Country Report No. 15/186, July 14, 2015.