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ECONOMIE DOCUMENT

'We underestimated their power': Greek government insider lifts the lid on five months of 'humiliation' and 'blackmail'

08 JUILLET 2015 | PAR CHRISTIAN SALMON

In this interview with Mediapart, a senior advisor to the Greek government, who has been at the heart of the past five months of negotiations between Athens and its international creditors, reveals the details of what resembles a game of liar's dice over the fate of a nation that has been brought to its economic and social knees. His account gives a rare and disturbing insight into the process which has led up to this week's make-or-break deadline for reaching a bailout deal between Greece and international lenders, without which the country faces crashing out of the euro and complete bankruptcy. He describes the extraordinary bullying of Greece's radical-left government by the creditors, including Eurogroup president Jeroen Dijsselbloem's direct threat to cause the collapse of the Hellenic banks if it failed to sign-up to a drastic austerity programme. "We went into a war thinking we had the same weapons as them", he says. "We underestimated their power".

A senior member of Greece's negotiating team with its European creditors agreed to a meeting last week in Athens with Mediapart special correspondent **Christian Salmon**. Speaking on condition that his name is withheld, he detailed the history of the protracted and bitter negotiations between the radical-left Syriza government, elected in January, and international lenders for the provision of a new bailout for the debt-ridden country.

The almost two-hour interview in English took place just days before last Sunday's referendum on the latest drastic austerity-driven bailout terms offered by the creditors, and opposed by Prime Minister Alexis Tsipras, and which were finally rejected by 61.3% of Greek voters.

While the ministerial advisor slams the stance of the international creditors, who he accuses of leading a strategy of deliberate suffocation of Greece's finances and economy, he is also critical of some of the decisions taken by Athens. His account also throws light on the personal tensions surrounding the talks led by former Greek finance minister Yanis Varoufakis, who resigned from his post on Monday deploring "a certain preference by some Eurogroup participants, and assorted 'partners', for my 'absence' from its meetings".

The advisor cites threats proffered to Varoufakis by Eurogroup president Jeroen Dijsselbloem, warning he would sink Greece's banks unless the Tsipras government bowed to the harsh deal on offer, and by German finance minister Wolfgang Schäuble, who he says demanded: "How much money do you want to leave the euro?"

The interview follows below and over the following three pages presented in a continuous series of extracts (editor's notes appear in italics within hard brackets):

From early on I disagreed that it was only a negotiation - we give this, you give that, you come closer. Because what happened was they had some negotiations, some details about fiscal policy, about conditions, et cetera. So, through these discussions it was the government that was coming, coming - coming close to the Troika, without them making any move towards us, and never discussing the debt: debt restructuring, debt sustainability, and also, you know, financing. We are going to get some new financing, is the ECB [editor's note: European Central Bank] going to lift all these caps, all these restrictions, these limits on how much the banks can borrow, the state can borrow from the banks? Because we can't borrow.

We used to. Up until February, we could still issue treasury bills. Short-term, three-month fixed bonds, mostly one-year. But this government was never allowed to do that because it was finished. No more treasury bills [...] You see, the problem with treasury bills, [is that] it is the Greek banks who buy it. And the ECB said: "No more treasury bills". So the state could not borrow from the banks.

So, from March, April onwards, we started economizing from the state, pulling together all the cash reserves from different branches, agencies, local authorities, things like that, in order to manage to pay the IMF [International Monetary Fund]. We paid once, we paid twice, and [we had] to pay wages as well. We paid wages from earnings, from tax receipts. But it's not enough to pay the IMF. We have a problem with the primary surplus, we couldn't pay the IMF, so we had to scrape around.

So basically this has created a domestic shortage of liquidity, liquidity in cash. Banks, export companies, good companies, could not borrow, people could not pay back their debts, they couldn't get any extensions to their credits and basically the credit system started to disintegrate, to not function. Of course, the banks themselves had some security reserves, but when they reached the point they said the banks can't even borrow even from the ELA [Emergency Liquidity Assistance fund] at all, they had to shut down, because they would deplete their reserves.

[...] Companies who do not pay their employees through bank accounts cannot pay cash to the employees - and there are many. Also they say "look, we don't have any revenues so I give you 500 euros instead of 800 euros and we'll see what happens after the banks reopen". So we have a situation which is escalating into a chain reaction [...] like having a heart attack. A heart attack if you view cash liquidity as the blood of the economy. On the weekend when the ECB stopped, we had the heart attack. Now we are having its after effects. Different organs are getting numb. Some stop working, others are trying but they don't have enough blood.

People are asking why he is supposed to be so unpopular with the Eurogroup and the people in power, why they don't like him. And a lot of people say they don't like him because he appears to be lecturing them, because of being arrogant. He thinks this is an academic issue, an economic issue or a technical issue. But what I think is that all these people - especially people in politics, in power, the Eurogroup, fellow

ministers - they have seen a phenomenon that is much more different than anything they have encountered in their circle, from those elected, in the normal process of politics.

Because you have a man that has his own style of dressing, he is very self-confident, at the same time he is very friendly, very open, very honest. You know, you ask him a question and he doesn't spin around, he doesn't change the subject, and so this creates difficulty, both to the politician and the journalist, [to] the media. These are two things that show that Varoufakis doesn't fit, but on the other hand he is a celebrity and he creates clashing emotions. You hate him or you love him.

On the grave immediate crisis facing the Greek banks:

The reserves were not to the amount. We are in a situation where normally the liquidity in the market, the money that circulates in the market, is around 10 billion euros, but now with all that is happening, [with] people keeping money under the mattress, it is around 50 billion. 50 billion euros of cash circulate, and the ECB has stopped [its emergency funding of Greek banks]. So this means that people who have bank accounts, say [with] 2-3-4-5 thousand [euros], they can only get 60 euros per day, and if you have more accounts, OK, you can get more per day. But what about the people who have no account, who expect to live off their salary? At the end of every month they are broke until the paycheck comes [...] From yesterday they were only giving 50 euros. Only smaller banks, like post office banks, which have fewer customers, can still give 60 euros. But the big four [banks] - National, Piraeus, Alpha and Eurobank - have run out of [notes of] 20s, so they can only give 50. So from 60 euros it has fallen to 50.

But the security reserves which they have kept, they run out of it. If all the people go and get 60 euros - even if they don't need it, but just to save something - there will come a time they [the banks] will have no cash [left]. And that's where the problem starts. And in that case, if we don't have an emergency liquidity supply from the ECB, we have no option but to start issuing some kind of [parallel] money. Of course, that would be the end of the economy because already there is fear, there is panic, that even if the banks open again, they will still need to be re-capitalised. Up to now, they have been solvent.

They were borrowing from the ELA, they should have been able to borrow from the ECB as well, but the ECB said "No, from now on we don't accept your collateral. You have to borrow more expensively from the ELA". That's another of those caps limits the banks have. But if they run out of reserves, the state paid about 40 billion to replenish the capital which the banks lost after the [2012] haircut of the old Greek bonds.

The part of the second programme of the agreement of 2012, after the haircut of the PSI [Private Sector Involvement], which was about 170 billion euros, 50 billion out of that was for the recapitalisation of the banks. Of course, there was another problem. From the PSI, the public funds suffered losses almost, if not more, in their own reserves. Why? Because they were forced under the law to save their cash reserves with the Bank of Greece, and the Bank of Greece had the right to use these funds to buy bonds on their behalf.

For me it was a big scandal because apparently what happened was a lot of

politicians, bankers, a lot of people went and gave - they had bonds that they had bought 20% - they went and they gave it to the Greek Central Bank, Bank of Greece, 100%, they got their money and then the haircut comes to the public.

Basically, what they were forced to do was to use their cash reserves, social security funds, pension funds, in order to buy government bonds that were going to be cut in real terms around 70% in present value. So the funds right now, the pension funds, are facing a bigger problem than the banks are facing. The pension funds have to plan 15 to 20 years ahead to be able to pay pensions, when the aging population is increasing and the working population is decreasing. They also have to pay unemployment benefits and so on. So, all these debt locks came to the front now.

[...] Already from the end of February and certainly by the middle of March it was obvious that the creditors were not going to honour the February 20th agreement, which says that Greece proposes reforms, the Troika - "the Institutions", as it is now called - evaluates and agrees and the reforms go on. Nothing like that happened. The institutions were continuously rejecting reforms without looking. "No, they are too generous" and Varoufakis was telling them: "Please, let us complete four to five reforms on which we all agree and view as necessary and let us implement them and you can evaluate and make an assessment of them".

[The Institutions said] "No, no, we need a comprehensive agreement before we implement these reforms, because if you implement these reforms that would be a unilateral action. We haven't approved them yet, ok, we agree, but we still haven't determined the primary surplus". So we are unable to do anything while at the same time they wanted to see our books because they didn't trust our numbers. "We want to go to the Ministry of Finance, the Bank of Greece" et cetera, and Varoufakis was saying: "No, let's start from the agreement of February 20th under which you are not supervising the Greek economy anymore and you are not assisting us or the creditors to assess the viability of the economy so as to gradually return to growth. That's the objective of the February 20th agreement, an extension of the existing programme. We amend, evaluate and complete the programme in four months. June 30th, programme finished".

But they pulled the plug on the banks and on Tuesday June 30th the programme finished, so we are not in a programme.

All the money they owe us... about 17 billion euros, [of which] 10 billion [is] from the remainder of the 50-billion-euro [Hellenic] Financial Stability Fund which, under the February 20th agreement, we would have to give back. We have not received any money from June last year, so for 12 months we have been paying around 10 billion euros to the creditors from our resources without getting a single euro from them, which they had agreed to give, of course under conditions. It was obvious they were not going to cooperate and that we needed growth and these were two problems going side by side. They didn't want to finance the money we were entitled to in order to pay the debts.

On the 'maze of pseudo-negotiations', and the 'character assassination' of Varoufakis:

All the loans we have received, 240 to 250 billion euros, go for the servicing of the debt, back to the creditors. The first bailout was a bailout of the banks to the state.

We didn't get any finance in order to pay them, we couldn't borrow short-term and we couldn't facilitate the liquidity of the economy because the ECB was putting one restriction after the other. So you have the liquidity problem and at the same time you have a financing problem. The two of them are connected in what I called from the beginning 'credit asphyxiation'.

In the middle of March, finally, some Brussels sources said to the correspondents in Brussels that "yes, the institutions – the EBD, IMF, European Commission, are using credit asphyxiation in order to force the government to comply, accept the reforms, do it quickly, et cetera.". For me it was an admission that they were using the worst kind of economic blackmail to the country. The worst kind of economic sanctions. If we [take] Iraq, and instead of doing a trade embargo they said "we cut all your assets, your banks have no money, no dollars, no anything, you have to rely on printing money, you're going to have an exposure". But they didn't do that in Iraq. It was a trade embargo, not a financial or credit asphyxiation. Because at any moment, gradually, there comes a time you die. You can't survive this much longer. Varoufakis has even called it "waterboarding", financial and fiscal waterboarding.

The assumption is that by pulling the plug, they pull the plug of the whole world. This has not happened and I am sorry. I was following how the euro was going, how it was reacting, because they did experiments. [German finance minister Wolfgang] Schäuble and Berlin are clever, they enforce artificial crises into the negotiations now and then: "Oh, the Greeks are not cooperating, they haven't understood what to do, they are not giving any figures". And instead of falling, the euro is going up. The same with European stock exchanges.

[...] Only in the last week they [the Greek government] realised it, and Varoufakis made a couple of statements, that we go to the European Court of Justice. When you reach the explosion of the crisis, legal arguments are not valid anymore, they can't help.

I said let Tsipras go to the European Parliament and say that this is how we were treated the last months. Also, refuse to implement these harsh measures. They [the Greek government] prefer to lose the elections [rather than] to enforce those measures. But every time they try political negotiation they [have been] fooled by them [the creditors]: twenty times with Merkel and five more with Schäuble. And how many Eurogroup [meetings] where they said "go back to the technical teams, go back to the Troika". The [Greek government] said "no, we want a political decision" [but they were told] "Our political decision is to go back to the technical decision, you can't have a political decision without a technical decision".

[...] At every point they were trying to undermine the prestige that the Greek [Syriza] government had won during the first months of negotiation. At the time people said "a new hope for Europe... a new hope for Germany, Spain... the Greeks are giving us the lead". If [the Institutions] said from the beginning "It's finished, we don't agree, no more negotiations" - which they said indirectly, for example [Dutch finance minister and Eurogroup president Jeroen] Dijsselbloem - then it'd be clear and we would be in a clash: "We are elected, have prestige and authority. You are wrong etc". But they didn't do that [...] They created a maze of pseudo-negotiations, time wasted, and it was on their side. All the time they were carrying negative propaganda against Varoufakis. Character assassination, and Varoufakis keeps saying that. But what did he expect?

So here we are, having lost all the economic ground of negotiating in real terms, of finding a new agreement, and also lost the credibility to force them to negotiate with us. The government, Tsipras, says that when they presented us the ultimatum "take it or leave it" [it was] with worst measures than they had presented to the previous government, the right-wing government [...] the ECB tells the parliament "You take the measures or on Monday you have no banks". But our banks were alright. So instead what [the Greek government] did, and it was correct as a move, they went for the referendum, which means that they would have to do what they did in Cyprus for a week. They believed the situation would bring them closer to a deal. They didn't want a crisis.

But they don't have enough of a global or a European crisis, or a collapse. Yes the stock exchanges fall, yes there are fluctuations, the pound is rising. But, in the end, the Europeans are not forced to come closer.

[...] Varoufakis and Tsipras say that in case of a "No" [vote in the July 5th referendum], our bargaining position is strengthened. That's why they say "No", and not to an agreement that is not on the table anymore. "No" to any kind of agreement that doesn't deal with the debt restructuring or fiscal adjustment. The amount that is left for [the European institutions] to pay, 17 billion euros - plus another 16 or 20 billion from the IMF - are lost. The programme is finished and you need a new agreement. Basically what you do is beg the Europeans for an emergency funding through the ECB. But they say that to do that they have to go back to parliaments et cetera. But you need recapitalization in order to re-enter a process of economic functioning that would allow for dealing with a new programme.

Behind the scenes with 'king' Schäuble, and when Dijsselbloem threatened to sink the Greek banks:

Of course, even to discuss Grexit is illegal since there is no legal provision in the Treaties to do that. [...] There is no safeguard that a Grexit can happen in an orderly, negotiated, peaceful manner instead of disorderly, with people running to the food-stores. If you don't have a process of exit from the euro, then exit is a weapon of mass destruction. If you threaten someone with Grexit, you push him to the limit of the banking system's ability to withstand pressure. Then you destroy the banking system quickly and then you start from scratch to create new currency, which takes months to form.

Instead of saying that Grexit is illegal, they [the creditors] say that it's as destructive and disastrous for us as it is for you. That was wrong. First, I don't agree with this position because it's blackmail - "Be careful, I'm going to blow my brains out" - and it allows others to accuse us of blackmail. It's ridiculous for the others to accuse a country destroyed over five years of blackmail. But anyway, it's the wrong argument. The correct argument is that a Grexit and all the other measures that the Greeks have suffered are illegal under international law, under labour law, under the European treaties, the European Convention on Human Rights, European declaration of labour rights [contained in the European Social Charter].

The funny thing is that in early 2014, the European Parliament and all of them started attacking the Troika, with statements that it is illegal, unaccountable, is following measures that are destroying human rights, labour rights. Of course, we had a [conservative] government that didn't want to hear about this, because it wanted to

attack the opposition and not the creditors. It failed to see that this was the greatest weapon we had.

For the weak side, there are only two methods. One is the law – an appeal for legitimacy - and the other is an appeal for the truth - who is right and who is wrong in the arguments, and in terms of human rights. Under the law, everybody is equal. [...] So, if you appeal to the European Court of Justice and say "I am not treated equally as a member of the EU, NATO" et cetera, they won't be able to dismiss it. Especially if you have a fair period of time to make your case.

If you go through the legal route – and I'm not saying to do that - you must aim [to establish the creditor institutions'] political delegitimation. Let the whole world know the eurozone is committing a crime against humanity. Prove it in ten years, I don't mind. But you make a case for the courts to say "until we examine the case, these measures must stop".

Today it's too late. It is a matter of political and ideological hegemony. Varoufakis alone, with his appeal and arguments, managed to turn public opinion in Europe, even in Germany. The Eurogroup people stood back. In the beginning of February, [Dutch finance minister and Eurogroup president Jeroen] Dijsselbloem told Varoufakis "You either sign the memorandum that the others have signed too, or your economy is going to collapse". How? "We are going to collapse your banks". He had said that. In his last interview to ERT, the national [Greek public] TV [channel], two days ago, Varoufakis said: "I didn't denounce that then, because I was hoping that reason would prevail in the negotiations with all of the Eurogroup". So he went on with the numerous agreements. And credibility as well as money was lost.

[...] The Eurogroup is not a proper democratically-functioning body. They [the Greek government of Alexis Tsipras] discovered that, again, very late, when they [the Eurogroup] wanted to throw Varoufakis out after the referendum announcement. Which was basically a gesture to humiliate. Varoufakis says "Who decides that?" Dijsselbloem says "I decide". Shouldn't there be a vote, shouldn't there be unanimity? Yes but it's not necessarily recorded, there are no minutes taken. He was taping, others too. Why? Because there are no minutes taken. So there is nothing formal.

You can't say "I went to the Eurogroup and Italy said that, Cyprus said that" et cetera. So everybody can come out and say anything they like. No-one can say: "Are you sure you said that? Let's look at the minutes". There are no minutes. Of course, nobody can come out with a tape recorder. Varoufakis said that of course he kept the minutes of his own, because he was to report to the prime minister, and the others do it too. And the others came shouting "Oh! Varoufakis admitted this, and that".

The other countries in such a set-up had to think [German finance minister Wolfgang] Schäuble is the king, he controls the others, he can raise his voice and say "no". Varoufakis has described incidents that show really how the Eurozone is completely undemocratic, an almost neo-fascist euro dictatorship. You cannot rely on what the others are saying. Varoufakis says that if he could negotiate with one at a time for an hour, the deal would be struck in a day. But you can't do that because each one has different priorities and different people telling him "no".

You cannot argue too much with Schäuble. It would be dangerous, because you won't get finance, German banks will want their money back, and so on. So it's a

institution where you cannot make your voice heard, so what's the point in encountering [them]? There was no-one else but Varoufakis talking straight. Schäuble has said "How much money do you want [in order] to leave the euro?" He doesn't want Greece in the euro at all. He was the first to raise the issue of a Grexit back in 2011.

We went to a war thinking we had the same weapons as them. **We have underestimated their power [...] It's a power that enters the very fabric of society, the way people think. It controls and blackmails.** We have very few levers. The European edifice is already Kafkaesque.

The Frenche Translation see: http://www.mediapart.fr/journal/international/070715/un-insider-raconte-comment-leurope-etrangle-la-grece?page_article=1