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*** strange offer to Greece on June 24 knowing about upcoming IMF report; Greek government could get haircut for major privatizations; theory of Varoufakis on the nature of crisis is wrong**

After the Referendum – 15 Points for Solving the Greek Economic Drama

1. The referendum of July 5 has resulted in the refusal of the latest offer of the creditor euro countries. This was to be anticipated **after 5 years of recession.**
2. The Greek government has suggested that after a referendum a quick compromise will be achieved – **within 48 hours; this, however, is illusory**. Any agreement will take much longer to be completed since ESM money would have to be mobilized to give Greece additional loans.
3. Alexis Tsipras has argued that the referendum will bring EU integration back to more political cooperation, in the sense of an expansion of new/social policy goals: This, however, is wishful thinking and based on an inadequate analysis – similar to the **fallacious hypothesis of Mr. Varoufakis who had argued that Greece would be like Italy, Spain and Portugal.** However, the reaction of financial markets with regard to these countries' interest rates on July 25 and 26 – after the collapse of the talks between Greece and the Eurozone partners – has been very small so that the Varoufakis hypothesis is not valid.
4. The creditor countries of the Eurozone have negotiated with Greece on July 24 without offering any debt haircut; however, this was not convincing in a situation in which the German government had declared that cooperation with Greece would be based on the involvement of the IMF; the IMF, in turn, had already indicated in a report on Greece in late June that a haircut on Greek debt would be needed to achieve sustainable debt-GDP ratios which is the basis to keeping the IMF on board; the IMF report Greece. Preliminary Draft Debt Sustainability Analysis was published on June 26, however the findings were certainly available a few days in advance for all EU member countries(!!).
5. The ECB is likely to extend for a short period ELA (Emergency Liquidity Assistance) credits, in order to allow Greek banks to operate at a minimal level.
6. However, on July 20 the ECB is expecting repayment from Greece. Should this payment not be made, a prolongation of ELA (possible for solvent banks) is unlikely since non-payment to the ECB implies the bankruptcy of Greece; this in turn undermines banks' equity capital – **banks are facing insolvency**.
7. **There is no confidence of investors in the Tsipras government.** Hence the investment GDP ratio that had already fallen from 25% in 2007 to 12% in 2014 is likely to decline further and this implies that **Greece will face a massive recession in 2015/2016**. This reinforces the need for a haircut on Greek government debt. This should have been anticipated by the leading negotiators in Brussels – this was obviously not the case.
8. **GREXIT cannot be excluded** since the Greek government has shown a lack of cooperation with its partners and its apparent lack of professionalism in economic policy could easily generate a "Grexidant" (involuntary leaving of the Eurozone). Greek's return to the Drachma would be a drama.
9. The natural starting point of Eurozone countries/the Institutions in new negotiations with Greece should be to **focus on the issue of debt**

sustainability: Here Greece itself has not delivered the promised privatization revenues; Greek government assets were estimated to be more than € 350 bill. in a 2010 IMF Report (Dec. 2010), however, by early 2015, just about 1% had been privatized. Greece could be offered a major haircut on its outstanding government debt, say about € 100 bill., if Greece seriously proceeds with privatization and reforms. If Greece should decline to cooperate along a formula of debt relief plus privatization plus structural reforms, the Eurozone countries have no reason to seek any compromise with the Greek government. **A country with more than € 300 bill. of sovereign debt which has not privatized more than € 3 bill. within five years is certainly not contributing the minimum effort to solve its serious economic problems. Such "negative solidarity" in the EU is unacceptable** – privatization was much behind all the efforts that eastern European post-socialist countries have made in the transition period of the 1990s.

10. **The ESM could take** over the current position of Greek bonds held by the ECB. The ECB's role in monetary policy should no longer be compromised through the ECB's holding of Greek government bonds.
11. **The political and psychological strategy of Eurozone countries vis-à-vis Greece has been inadequate in Spring 2015:** The impression was created that Greece could order its partners to the negotiating table almost at will. The Eurozone countries and the EU, respectively, are however, not only facing the challenge of contributing to helping Greece sort out its economic problems – rather there are major challenges in the field of economic globalization, amongst others, the rise of China as an economic power (the global No. 1 since mid-2015 – with income evaluated at purchasing power figures) and the global expansion of information & communication technology.
12. The Eurozone countries should consider delegating the task of negotiations with Greece to a **new special subgroup of negotiators**.
13. **A useful option is to shift all negotiations to the Paris Club,** which naturally will involve, as a standard ingredient for negotiations, the IMF (no Paris Club agreement without the IMF). Greece should get a first haircut of about € 10 billion upfront on the basis of an international privatization scheme which should involve the EBRD in London, an institution which has great expertise in privatizations in almost 30 countries so far. At the Paris Club, the US, Canada, Japan, Russia and the UK would also sit at the table, in addition to the Eurozone countries.
14. **Greece needs a new constitution which gives clear financial autonomy** to local and regional authorities plus universities and hospitals. If such autonomy is not guaranteed, the Eurozone countries should not sign any long-term agreement with Greece since the government in Athens could take these institutions as "hostages".
15. **A haircut of € 100 billion** for Greece would be a burden to the tax payer of about 1% of GDP (here assuming that only public creditors are involved). However, an adequate deal would raise the GDP of the Eurozone

by at least 0.1% per year, as Greek instability would be removed, so that after a decade taxpayers' costs would be close to zero.