

## **The solution for the Greek sovereign debt**

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We are at the most critical phase of the negotiation, and it is imperative that Greece signs an agreement with the Europeans avoiding bankruptcy and the disaster of the New Drachma. The government says that it will accept an agreement only if it contains a solution on the debt. Before the elections, Syriza had proposed wiping out a large percentage of nominal value the debt (over 50%) to European countries and the European Stability Mechanism. This is practically impossible because every euro that Greece would win would have to be paid immediately by the European tax payers. The Greek parliament would not be willing to gift billions to the Finns, the Dutch, the French, etc.; likewise they would not be willing to give such a gift to Greece.

However, there exists another way to restructure the debt that I have proposed three years ago. Without changing the nominal values of the debt, Greece can ask for an elongation of the debt maturities of the debt to European countries and the European Stability Mechanism (approximately 180 billion) to 75 years. Also, Greece should ask for the presently variable interest rates to become fixed and stay low. If these changes are made, the present value of the debt will fall by 50%, implying that future generations of Greeks will pay only 50% of their present obligation. The Europeans have given plenty of signals that they would support such a restructuring. Therefore the debt restructuring is the easiest part of the agreement!

Having established the solution, I now comment on what Greece should not ask. First, as stated above, Greece should not ask a reduction in the nominal value of the debt, because it will be readily rejected. Second, Greece should not ask, as the Minister of Economics proposed, to pay the debt only if it has growth. There are two huge problems with this proposal.

To reach the same average of payments if Greece pays only when it grows (while it does not pay when there is no growth), Greece would need to pay huge amounts when it grows, which would be practically impossible. And if Greece accepts a treaty whereby it pays only when it grows, essentially it would be accepting supervision by the Troika for 75 years that would need to examine Greek accounts to ascertain that they correctly imply when payments need to be made and when not.

Third, the minister of economics has proposed that the European Stability Mechanism pay the 29 billion Greek debt to the ECB, and simultaneously increase Greek obligations to the ESM by the same amount. This is quite unfeasible because it asks the Europeans to give to Greece an additional loan of 29 billion without any terms! In contrast, the debt solution that I have proposed is simple and clean, and does not require any additional moneys from the European taxpayers. It is in truth the easiest part of the agreement!

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