

19 March 2016 IMF Teleconference on Greece

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Description

The IMF would like to put debt relief for Greece on the Troika-agenda. However, IMF officials are worried that the EU is going to be paralyzed in the first half of 2016 because of the looming Brexit so that no decision is going to be made as to Greece.

IMF Europe director *Thomsen* wants to pressure *Merkel* and reiterate to her that IMF leaving the Troika is going to look bad and is going to lead to discomfoting questions in the Bundestag.

Thomsen connects the debt relief question loosely to the refugee question. He talks about the refugees and then says that the IMF will at the same time („we at the time say“) come in with their demands and approach *Merkel* with the debt relief.

Background:

Merkel is generally considered a proponent of the IMF participation in the Troika. She managed to get the IMF in despite bitter opposition by some European leaders like *Sarkozy*.

Merkel is considered somewhat undecided on debt relief for Greece (though apparently leaning towards „no“ since she, like many of her European counterparts, fears creating a precedent in Europe.)

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----- Mensaje reenviado -----

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CC: [redacted]

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[Transcript of attachment by WikiLeaks]

Participants:

- DELIA VELKOULESKOU, Head of IMF Representative Mission to Greece
- POUL THOMSEN, Director of the IMF's European Department
- IVA PETROVA, IMF

THOMSEN: The thing that I am worried about is that we are setting a date for the return of the mission, when we might not have an agreement inside the Troika on how to proceed.

VELKOULESKOU: But Poul, you suggested this, so it is very hard to go back now on it.

THOMSEN: How are we going to pitch this? What are we going to do?

VELKOULESKOU: I don't know. Of course I don't want to come back so soon. I don't think that in two weeks, or in ten days we will be able to make more progress than we are now. But I feel that otherwise, we would have been stuck here in this situation anyway. And I feel that for this next mission that, at least the Europeans, are planning to... they have a deadline right? They are planning to finish one way or another by the spring meetings because of these

presumed talks on debt that are going to take place by the spring meetings. So I don't know. I feel that this pressure will come anyway at some point on us, so... I don't know. I don't see how this is going to evolve, but we will have to come here at some point...

THOMSEN: But why? I mean, we can ... We should have another meeting like we had in Brussels and agree on how to proceed...

VELKOULESKOU: We can do that, and we can have another document remotely, but we know it doesn't work Poul, because these guys agree on something and then they give it up the next day. We have said this time and again, we know that they don't do what we say: that we get up and leave together. It just doesn't function. For them everything is subject to change--if the authorities want it.

THOMSEN: Can you change it so that it doesn't have a specific date? For say, early April?

VELKOULESKOU: This is going to be a disaster, if I try to do this tomorrow. They will not let us go.

THOMSEN: Well, they have already let you go...so that's... haha.

VELKOULESKOU: I think Poul you need to discuss this at your level. I mean it will come back...I think.. I don't know whether we can avoid doing that at this stage.

THOMSEN: You mean going back?

VELKOULESKOU: Yeah.

PETROVA: Poul, I think that it is more important to reinforce the message about the agreement on the 2.5%, because that is not permeating and it is not sinking very well with the Commission. If they stick to this agreement, I think that coming on the 2nd of April will be fine. But, on our side, going back on this date will really be a disaster.

THOMSEN: Well, you just blame it on me, that's fine. When do they want to finish that mission?

VELKOULESKOU: They want to finish that mission ideally by the 8th of April, so just a week. Or by the 12th or the 13th. Remember on the 6th and 7th of April they want to have this Washington Group debt meeting on the sidelines of the EWG [Eurogroup Working Group], and then....

THOMSEN: So that means you have to finish by the 6th...

VELKOULESKOU: No, no, no. We can report progress on that EWG [Eurogroup Working Group] and basically we need to have this debt discussion that prepares the Ministers for the following week, when they are thinking about April 15th or 16th, on the sidelines of our Spring meetings. So, essentially they want to finish...

THOMSEN: Yeah, but our Spring meetings start in the middle of the week of the 11th. That means

that you have to finish there by the 8th or 9th and be back by then.

VELKOULESKOU: Exactly we would need to finish by the.. no.. 11th or 12th or so and then fly directly to D.C. And we can finish with an agreement or not, I mean we may can end up where we are now in a way. And yes there will be a huge amount of pressure and we want to see how we will deal with it.

THOMSEN: That's what the block is about, right?

VELKOULESKOU: That's right, that's right. That's why we need to have it out - I agree with you - as soon as possible. The Greek press is full of acusations against us, of the income tax credit and all of that, is here every day. The other thing though that is not clear to me is how it will pan out, is this discussion on the target. On the 3.5 versus the 1.5 because for us this is also very crucial.

THOMSEN: I can tell you how that is going to turn out. There is no way that the member states are going to accept to lower the target for the program. This means that we will say that it does not add up.

VELKOULESKOU: But can we do what you suggested? Have two programs with two targets? Even for the medium run?

THOMSEN: Yes, if the Europeans say that it is our target that matters for their disbursement for debt relief--but they are not going to say that.

VELKOULESKOU: The question is whether they could accept the medium term targets as the Commission, for the purposes of the program, and our targets for the purposes of debt relief.

THOMSEN: Wait a minute that's not... for sure they need to accept our targets for the debt relief. But if you go out and say for this year for instance you say they will end up with what you say, -0.5, -1 or something like that?

VELKOULESKOU: ... -0.5 let's say, if they do all the measures.

THOMSEN: Ok, let's say -0.5 and the Commission will say that they end up with zero or +0.25 or whatever they have...

VELKOULESKOU: ... +0.5...

THOMSEN: Yes... you don't have a finance program. Because they are time financing for something that you say is not going to happen.

VELKOULESKOU: Yeah...

THOMSEN: So the program is not financed and contingent debt relief... the debt relief is not

coming either, because they are not on track to meet the criteria. That is the whole point. They essentially need to agree to make OUR targets the baseline and then have something in that they hope that will overperform. But if they don't, they will still disburse. Right?

VELKOULESKOU: Yeah, that's right.

THOMSEN: They are not going to agree to that.

VELKOULESKOU: No. The first question is when is this thing going to be even discussed. Right? Somebody needs to discuss it. I know Thomas Wieser is setting up a call on the 30th of this month.

THOMSEN: A call with whom?

VELKOULESKOU: I think it is an EWG call. An EWG call on Greece.. on status or something like that. Yeah, we need to ask Thomas.

THOMSEN: I mean.. he's not gonna... he can set up all the calls he wants, but I know what is going to happen. We are going to go to the EWG, and I am going to say at the Eurogroup that "This does not add up to 3.5 and we will not go ahead, unless the Europeans lower their targets to 1.5, as far as spacing the disbursements are concerned". They are not going to do that. They are going to say no, stack more measures. That's clear, I have no doubt about that.

VELKOULESKOU: I don't know whether they are going to say that, that is the question. They need to take a stand on whether they believe our projections or the Commission's projections.

THOMSEN: It is clear that they will just keep the ball in play... and send the mission back.

VELKOULESKOU: Yeah, but we will do what? Because, even if we agree on this 2.5, we are still not there unless the targets are agreed.

Paul THOMSEN: Well, then they will send you back to find more hard measures and try to find a compromise. That is exactly why I am doing this like this. Let's get those 2.5% under the belly, and I am sure they will press for some more measures from some of the member states. We will of course say, I will say that "I don't think it is possible", I will say that "I think we should base the program on 1.5", but I have no doubt that they will push us to go out there.

VELKOULESKOU: So in any case we need to come back and try to get this 2.5, and this is just in the first stage as you say. Once it is in the next stage, you know, it's not enough for that.

THOMSEN: For sure Delia, that is the definition. I don't like to have you guys hanging out there, if there is no agreement on how to proceed.

VELKOULESKOU: Yeah, of course. We don't want to be in that situation.

THOMSEN: We need to think about when you come back... we should just put on the table what we want.

VELKOULESKOU: We should.

THOMSEN: Instead of waiting for them... I am not going accept a package of small measures. I am not.

VELKOULESKOU: Yeah, no, understood. We have told them, it is very clear what we have and what we have in this note that we agreed with the Europeans--which they are now backtracking--but it is very simple it is the pension reform, income tax credit, VAT and the wage bill and there are some excises, one or two... that's it. But on each of them we have significant open issues which are all political, as far as Greeks are concerned. And the other question is about the DSA [Debt Sustainability Analysis] and whether we will put it out at some point.

THOMSEN: Well, I don't know. But this is... I think about it differently. What is going to bring it all to a decision point? In the past there has been only one time when the decision has been made and then that was when they were about to run out of money seriously and to default. Right?

VELKOULESKOU: Right!

THOMSEN: And possibly this is what is going to happen again. In that case, it drags on until July, and clearly the Europeans are not going to have any discussions for a month before the Brexits and so, at some stage they will want to take a break and then they want to start again after the European referendum.

VELKOULESKOU: That's right.

THOMSEN: That is one possibility. Another possibility is one that I thought would have happened already and I am surprised that it has not happened, is that, because of the refugee situation, they take a decision... that they want to come to a conclusion. Ok? And the Germans raise the issue of the management... and basically we at that time say "Look, you Mrs. Merkel you face a question, you have to think about what is more costly: to go ahead without the IMF, would the Bundestag say 'The IMF is not on board'? or to pick the debt relief that we think that Greece needs in order to keep us on board?" Right? That is really the issue.

VELKOULESKOU: Correct!

VELKOULESKOU: When is that going to happen? I don't know, I am surprised that it has not happened yet. I would, for the sake of the Greeks and everyone else, I would like it to happen sooner rather than later.

VELKOULESKOU: I am hoping it's going to happen with these debt discussions that are starting in mid April.

THOMSEN: But that is not an event. That is not going to cause them to... That discussion can go on for a long time. And they are just leading them down the road... why are they leading them down the road? Because they are not close to the event, whatever it is.

VELKOULESKOU: I agree that we need an event, but I don't know what that will be. But I think Dijsselbloem is trying not to generate an event, but to jump start this discussion somehow on debt, that essentially is about us being on board or not at the end of the day.

THOMSEN: Yeah, but you know, that discussion of the measures and the discussion of the debt can go on forever, until some high up.. until they hit the July payment or until the leaders decide that we need to come to an agreement. But there is nothing in there that otherwise is going to force a compromise. Right? It is going to go on forever.

VELKOULESKOU: It will, yes, until July, if nothing happens beforehand. I agree.

THOMSEN: OK. I don't know, let's see. I hope for the sake of the Greeks that we are going to find a solution soon... I mean, let's face it, you guys are not going agreeon ... these discussions that you have out there, they're not going to lead to... they are not going to come around to accept our views. Right? They are not!

VELKOULESKOU: No, they are not...

THOMSEN: And they are not even getting close. Right?

VELKOULESKOU: They are not getting close. What is interesting though is that they did give in... they did give a little bit on both the income tax reform and on the... both on the tax credit and the supplementary pensions. They are doing something but it is very small...

THOMSEN: Well, if they come around to give us the 2.5% and not on Mickey Mouse stuff, we should be fully behind them.

VELKOULESKOU: I agree. There is a scenario out there that they get pressured enough, that they would... I think actually politically for them it is possible to give on both of these things. But they don't have any incentive and they know that the Commission is willing to compromise, so that is the problem. In a way we went into this negotiation with the wrong strategy, because we negotiated with the Commission a minimal position and we cannot go further and the Commission is just starting from this one and is willing to go much further. So, that is the problem. We didn't negotiate with the Commission and then put to the Greeks something much worse, we put to the Greeks the minimum that we were willing to consider and now the Greeks are saying "Well we are not negotiating". I agree with your concern that this date is bad for us because we will get stuck as you say, so we need to think about it when we are back.

THOMSEN: They only comfort I have is that you cannot hang out there forever. You will have to wrap it up before the spring meetings.

VELKOULESKOU: Yeah, we need an agreement with the Europeans of an exit date. We need to make it very explicit with the Europeans and with the Greeks, before we go back.

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