Greece finance minister reveals plan to end debt stand-off

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Yanis Varoufakis, the new finance minister, outlined the plan in the wake of a dramatic week in which the government's first moves rattled its eurozone partners and rekindled fears about the country's chances of staying in the currency union. After meeting Mr Varoufakis in London , George Osborne, the UK chancellor of the exchequer, described the stand-off between Greece and the eurozone as the "greatest risk to the global economy".

Attempting to sound an emollient note, Mr Varoufakis told the Financial Times the government would no longer call for a headline write-off of Greece's €315bn foreign debt. Rather it would request a "menu of debt swaps" to ease the burden, including two types of new bonds.

The first type, indexed to nominal economic growth, would replace European rescue loans, and the second, which he termed "perpetual bonds", would replace European Central Bank-owned Greek bonds.

He said his proposal for a debt swap would be a form of "smart debt engineering" that would avoid the need to us a term such as a debt "haircut", politically unacceptable in Germany and other creditor countries because it sounds to taxpayers like an outright loss.

But there is still deep scepticism in many European capitals, in particular Berlin, about the new government's brinkmanship and its calls for an end to austerity policies.

"What I'll say to our partners is that we are putting together a combination of a primary budget surplus and a reform agenda," Mr Varoufakis, a leftwing academic economist and prolific blogger, said. "I'll say, 'Help us to reform our country and give us some fiscal space to do this, otherwise we shall continue to suffocate and become a deformed rather than a reformed Greece'."

His visit to London was part of a tour of European capitals aimed at building support for a new approach to the Greek debt crisis. After their meeting Mr Osborne urged him "to act responsibly", adding that it was also important that the eurozone had a better plan for jobs and growth.

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"It is a rising threat to the British economy. And we have got to make sure that in Europe as in Britain, we choose competence over chaos," he said.

Mr Varoufakis said the government would maintain a primary budget surplus — after interest payments — of 1 to 1.5 per cent of gross domestic product, even if this meant Syriza, the leftwing party that dominates the ruling coalition, would not fulfil all the public spending promises on which it was elected.
Mr Varoufakis also said the government would target wealthy Greeks who had not paid their fair share of taxes during the nation's six-year economic slump. "We want to prioritise going for the head of the fish, then go down to the tail," he said.

Marxist instils little fear in markets

January 27: The appointment of a Marxist as Greece's finance minister would normally roil markets, but the country's bank shares were already down more than 10% for the second day in a row

The minister anticipated difficulties in clamping down effectively on tax evasion and "rent-seeking behaviour" among Greece's business oligarchs and other wealthy people, but vowed: "We will not cease until we succeed. If we are snuffed out by the vested interests, it will be our honour to have fallen in fighting the good fight."

Asked if he thought Greece's eurozone partners were right to be concerned about the government's plan to rehire thousands of public-sector workers, Mr Varoufakis said: "If you look at what has happened over the past five years, there has been a massive reduction in the public sector. The problem is that it's not efficient — it's a kind of Public Enemy Number One, the Greek bureaucracy."

Syriza's election victory had created an opportunity "to strike at the cosy relationship between vested interests in the public sector and vested interests in the private sector that act as a drag on creativity, competitiveness, liberty and democracy," he said.

The government planned to present its proposals in detailed form to its European partners before the end of February.

"Whatever our partners think about our being from the radical left, we're serious about reform, serious about being good Europeans and serious about listening. The only thing we shall not retreat from is our view that the current unenforceable programme [agreed with our creditors] needs to be rethought from scratch," he said.

Mr Varoufakis was on the second leg of a European tour that started in Paris at the weekend and is aimed at winning support for a renegotiation of the €245bn bailout programme that began in 2010 with emergency help from the EU and International Monetary Fund.

The minister said Greece hoped to secure a four-month "bridging programme", to stretch from now until June 1, under which the ECB would promise to keep Greece's financial system afloat by continuing to supply liquidity on favourable terms.

Rather than ask for €7bn in aid that was to have been paid to Greece last year if it had met fiscal policy and structural reform conditions set by its creditors, the government would request only €1.9bn — equivalent, Mr Varoufakis said, to the profits earned by the ECB from its purchases of Greek government bonds after the 2010 rescue.

"Our mandate gives us a right to do one little thing — to have a few short weeks to propose our own ideas to the ECB, the eurozone partners and the IMF," the minister said. "The notion that previous Greek governments signed on the dotted line on programmes that haven't worked, and that we should be obliged to just follow that line unswervingly, is a challenge to democracy.

"We have the disadvantage of being inexperienced. We are also a broad church," he added, referring to the fact that Syriza rules in coalition with a junior rightwing partner. "But we have the advantage that we have not sold our soul to the devil yet, and we do not plan to. Syriza is the only party that's never been funded by the oligarchs."

One investor present at a 90-minute meeting with Mr Varoufakis in London on Monday evening said the new Greek finance minister's message went down "quite well". Institutional investors came away relieved that the Greek government seemed to be pushing for a restructuring of the debt it owes to the troika of state-level creditor rather than that of private sector creditors who already had their loans renegotiated in 2012.