

Grexit back on the agenda again as Greek economy unravels

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Helena Smith in Athens

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European finance ministers will once again deliberate over how to treat Greece's ongoing debt crisis this week despite the country desperately grappling with refugees pouring across its borders.

A meeting on Monday of finance ministers from the eurozone will determine whether creditors are to be given the green light to complete a long-delayed review of Greek economic recovery plans.

The review has been held up by disagreement among lenders over how much more Athens needs to cut from public spending. It is seen as key to reviving Greece's banking sector and restoring business and consumer confidence.

"I think the situation right now is more dangerous than it was last summer," the former finance minister Gikas Hardouvelis told the Guardian.

"Then it was a question of the political will of a few people," he said, referring to the tumultuous negotiations that paved the way to Athens receiving a third bailout in August. "Now it's a question of implementing reforms and working hard and if a government doesn't believe in them and implements them begrudgingly, progress becomes very difficult."

Monday's meeting comes at an especially sensitive time. Greek unemployment remains the highest in Europe at almost 25% - and just under 50% among the young. Many companies are relocating to Bulgaria, Albania, Romania and Cyprus as a result of over-taxation.

Meanwhile, the once booming tourism trade has taken a hit as bookings to Aegean isles have collapsed because of refugee arrivals. Last week, it was announced by Greece's official statistics agency, Elstat, that the debt-stricken nation had dipped back into recession.

After three emergency bailouts and the biggest debt restructuring in history, talk once again has turned to the country dropping out of the single currency.

Businessmen and bankers in private concede that as the economy disintegrates the possibility of a parallel currency is now openly being discussed. "The probability of

Grexit is still there,” added Harđouvelis. “It has not gone away. Just look at the yield investors are required to pay on Greek bonds.”

Everyone agrees that time is of the essence. Further delays make potentially explosive reforms - starting with the overhaul of the pension system - harder to sell for a leftist-led government that in recent months has faced protest on the streets.

“We have no time,” finance minister Euclid Tsakalotos told the European parliament’s economics committee last week. “We hope the IMF will become more reasonable.”

The Oxford-educated economics professor has repeatedly said that postponement makes any plan “to escape the vicious circle of measures-recession-new measures” almost impossible.

But the IMF, under pressure from its own member states, insists that Greece will have to implement additional measures worth €9bn (£6.96bn), or 4.5% of GDP, if it is to meet an agreed budget surplus of 3.5% in the years ahead.

Without debt relief or deeper cuts to the pension system, the Washington-based body does not expect Greece to be able to meet that target.

While Europe wants the IMF to remain involved in the bailout programme, debt relief - even in the form of extending maturities on bonds - remains politically an anathema to eurozone lenders. Meanwhile, cuts to pensions, which have been slashed numerous times since the onset of the crisis in late 2009, are unthinkable for the government.

With disbursement of aid also held up, debt due for repayment this summer has hastened the need for a solution. “As far as Greece’s bailout is concerned, the bigger problem remains the ongoing disagreement between the Europeans and the IMF over the size of the fiscal adjustment necessary,” said Mujtaba Rahman, head of European analysis at the London-based Eurasia risk consultancy.

Any hopes that Greece’s frontline role in the refugee crisis could see creditors soften their stance were quashed ahead of the meeting on Sunday when Germany ruled out giving Athens more time to achieve budget goals. “The refugee issue and the aid program for Greece should not be mixed,” a spokesman for Berlin’s hardline finance minister Wolfgang Schäuble told Reuters, setting the scene for the standoff to intensify in Brussels.

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