ECONOMIC CONDITIONS

Greek debt defiance and the potential for a eurozone Grexit

BY FRASER TENNANT

A rollercoaster ride with no real end in site would be an apt way of describing Greece's journey during the years since the global financial crisis.

These years have seen the country descend into economic and social crisis, culminating in an economy that has, for some time, been operating on life support. And yet, in the midst of chaos, salvation could well be at hand in the form of a new government and a new outlook.

In January 2015, the election of Syriza – the dominant party in the country's new coalition government – set the proverbial cat amongst the pigeons. New Greek prime minister Alexis Tspiras, along with his finance minister Yanis Varoufakis, is now positioned at the vanguard of the drive for a desperately needed Greek revival.

"Syriza's landslide came after years of tough and continuous austerity that has deepened economic stalemate and social struggles in Greece," recalls Dimitris Rapidis, political analyst and director of the Athens-based think-tank, Bridging Europe. "Syriza came into power as a force of change, determined to renegotiate bailout programs and let the economy and the society breathe. A great part of Syriza's supporters stems from middle class and unemployed people, hoping that a political shift in Greece could alleviate their hardship and bring about some significant developments against the country's deep recession."

Mr Tspiras's pre-election promises included raising the country's minimum wage, creating 300,000 new jobs, ending the crippling austerity measures, paying a pension bonus, and providing free food and electricity for those that have been unable to afford it.

Roman Gerodimos, founder and convenor of the Greek Politics Specialist Group at the UK's Political Studies Association, says: "This was certainly a big win for Syriza – probably bigger than expected by many analysts, although it did not offer Mr Tsipras an outright majority. Syriza built its election campaign around a message of hope, which, while being quite vague, worked because the parties of the previous coalition government did not manage to offer a positive and forward-looking message."

Stark facts and figures lay out the extent of the financial difficulties at the heart of the Greek economy. The country's average wage is €600 (£450/$690) per month, unemployment levels are at 25 percent, with youth unemployment at almost 50 percent, and the Greek economy has shrunk by 25 percent since the start of the eurozone crisis. The country's debt is approximately €321bn (175 percent of GDP) and Greece has borrowed €240bn (£188bn) from the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF).

Such eye-watering levels of debt, and Mr Tspiras and his anti-austerity team's resolve to renegotiate its debt austerity package – a stance that has naturally not gone down well with European partners, Germany in particular – has created a scenario with multiple potential outcomes including a Greek exit from the eurozone, or 'Grexit', which casts a shadow over the established order of Europe.

Rejections, retrenchment and the restoration of international pride

During his first major speech to the Greek parliament since becoming prime minister, a defiant Alexi Tspiras reinforced his pre-election pledges, stating that he is sticking to plans to roll back austerity measures (quickly rejected by EU officials) as well as rejecting the offer of an international bailout extension.

Speaking ahead of an imminent loans program deadline of 28 February, Mr Tspiras confirmed that "The new (Greek) government is not justified in asking for an extension... because it cannot ask for an extension of mistakes. After five years of bailout barbarity, our people cannot take any more."

A defiant Alexi Tspiras reinforced his pre-election pledges, stating that he is sticking to plans to roll back austerity measures.

Confirming that Greece would be unable to service its massive debts and would instead be seeking a bridge loan to buy the country time to restructure its debt obligations, Mr Tspiras summed up the effectiveness of the 2012 EU/IMF/ECB (Troika) rescue package pointedly: "the bailout failed."

Welcoming Mr Tspiras's plans for growth, Dimitris Rapidis said "The Greek government has proposed the 'bridge plan' – a four-year project that includes proposals to boost economic growth, combat corruption and tax evasion, and implement reforms in the public and private sector, in order to efficiently address national debt. The problem now lies on the European creditors' side, the ECB and the Commission, as both have not made their intentions absolutely clear. What Syriza asks is simple: Greece and the eurozone need a growth plan, as the only country that is benefited from austerity is Germany. And this observation stems also from the US government, being also deeply concerned with the eurozone's dangerous downfall."

And recognising the necessity for a viable consensus between Greece and the EU is a pragmatic Roman Gerodimos. "The timeframe for the Greek government to come up with an alternative plan or proposal is extremely short," he says. "What Mr Tsipras and Mr Varoufakis have achieved is, on the one hand, to decompress the pressure and anger that had built up within Greek society, and on the other hand to truly start a European, if not global, debate about the viability of Greece's debt and the relevance of austerity policies. However, the only way to restore Greece's international credibility is by producing proposals and solutions that are viable both for Greece and for its lenders and European partners."

Aware of the divisions rife throughout Europe is Dr Alexander Kazamias, director of politics at Coventry ▸▸

University. "As is often the case, Europe did not speak with one voice when facing Tsipras. Italy, France and the Commission, backed by President Obama, appear willing to see the failed old program replaced with a new agreement, while Germany, Britain and the Eurogroup Presidents appear to favour a firmer line. Overall, however, Europe will fluctuate between accepting either a marginal or more substantial revision to the current failed program. In other words, there is no question of Europe's elites continuing, let alone stiffening their position towards Greece. This is both a result of Tsipras's skilful strategy and the economic ineptness of the old austerity program," he says.

Other measures announced by Mr Tsipras aimed at cutting costs and raising revenue include the introduction of a tax on large properties, a special portfolio to oversee the fight against corruption and tax evasion, a pension fund using revenues from natural resources, and cutting the use of ministerial cars and government aeroplanes.

The new prime minister, whose government won a confidence vote in February, concluded his maiden parliamentary speech by repeating his demands for Germany – the biggest creditor pressurising the Greeks – to pay World War II reparations – specifically the repayment of a loan Mr Tspiras claims the Nazis forced the Bank of Greece to pay during the Axis occupation of Greece.

Is Greece heading for a Grexit?

With the likelihood of a eurozone exit by Greece increasing day by day due to the anti-austerity stance of the new government, as well as the outflow of deposits from Greek banks –around €69bn has reportedly been withdrawn since the debt crisis first hit in 2010 – blowing an ever-widening hole in the economy, the next few months are shaping up as being a crucial point in time for the resolution of the country's momentous challenges.

On 9 February, the UK prime minister David Cameron announced that his government had discussed contingency plans should a Grexit come to pass. A spokesperson for the prime minister said "We need to be prepared to deal with uncertainties in financial markets. There do remain risks around contagion and uncertainties, and it is important to look at all of those. It is something we want to be vigilant about... clearly there are global economic interdependencies and London is a major financial centre."

Alive as to the implications of a Grexit, Mr Rapidis fears that "A possible exit of Greece would create an institutional precedent in the eurozone, a domino effect that could not be handled economically, politically and geostrategically. Let us not forget that the eurozone is part of a global and interconnected economic system that unilateral actions have to be well-prepared. Germany does not want the eurozone to fail, and creditors do not want to lose their money. If Greece is pushed to exit the eurozone, the side-effects would be much higher for the eurozone than for Greece."

According to Mr Gerodimos, a Grexit would be catastrophic for Greece, and very bad indeed not just for the eurozone but for the EU project as a whole. "It would send a signal that the EU's most advanced project – the Economic and Monetary Union – has basically failed," he says. "The main driver of this scenario is uncertainty amongst markets and the European Central Bank's stance towards Greece, both of which are linked to Greek banks' liquidity, which is linked to Greek consumers' psychology. Therefore, all actors depend upon each other and if one of those actors, as it were, pulls out, then that could have a domino effect. However, key actors in the eurozone – including the ECB – have repeatedly stated that they do not wish to see a Grexit and that they're prepared to do whatever is necessary to avoid that, so I personally believe that we won't get there."

Dr Kazamias also believes a Grexit would be disastrous for everyone. "All claim a Grexit is outside their agendas, but this scenario hovers at the back of everyone's mind. Syriza has neither the will nor interest to exit the eurozone, but under extreme circumstances could threaten with this option in order to stay in on better terms. Similarly, Germany may use the Grexit threat to make Tsipras comply with the current program or a mildly improved variant," he adds.

Conclusion: tough negotiations

Virtually all agree that Greece being forced out of the eurozone is a recipe for economic disaster. Indeed, the former US Federal Reserve chairman Alan Greenspan has called it "only a matter of time". But what is abundantly clear is that the Greek government needs to quickly find a fresh negotiating stance that will allow it to subtly relax its pre-election anti-austerity promises and make progress toward meaningful structural reform in the eyes of its European partners.

"A very tough negotiation is currently taking place," notes Mr Gerodimos. "Many key actors, including the ECB, the IMF and several European governments, are being steadfast in their insistence that Greece proceed with all the required reforms and measures for the bailout program. And with the Greek government sending mixed signals about how far it intends to go ahead with its anti-austerity pledges, a lot will depend on whether Tsipras manages to build an international coalition that would support his message against the current dominant policy of austerity."

More confident of the prospects for an international coalition, Dr Kazamias points out that Mr Tsipras and Mr Varoufakis already enjoy the backing of many governments and leading economists worldwide. "Supportive statements by President Obama, Nobel laureates like Joseph Stieglitz, Paul Krugman, Sir Christopher Pissarides and the petition of 300 academics on 5 February are examples of their credibility," he says. "On 29 January, Mark Carney also criticised eurozone policies toward weaker member states. Syriza's method is to secure a bridging program for some months and use the time to negotiate a better deal. The main proposal for the new agreement is Varoufakis's dual bond swap, whereby most new bonds will be index linked to growth and a small proportion will be converted into 'perpetuals'."

But Mr Rapidis suggests the situation is hard to predict. "As negotiations and discussions evolve, we have seen that the Greek government is gradually convincing both the European Commission's Jean-Claude Juncker and the ECB's Mario Draghi. The pressure on the government is immense, although it is vital to point out that Greece has made specific proposals, including growth-led policies and a well-structured plan to fight against corruption and tax evasion. Now it is time for the ECB, the EC and the member states to contribute with their proposals. What is certain is that Greece can no longer go on with austerity as we know it so far," he adds.

Crucially, on 24 February, the Greek government secured a four-month bailout extension after submitting a list of fiscal reforms to eurozone finance ministers. The extension, whilst providing welcome breathing space for Greece, represents (at the time of writing) nothing more than a delay before the eventual reckoning – Grexit or otherwise. ■