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Three-way poker in Greek debt crisis

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★★★★

Paul Taylor is a Reuters columnist. The opinions expressed are his own.

The man at the centre of Greece's debt crisis is surviving on 4-5 hours sleep a night and could not get to his office last week because it was blockaded by striking employees.

"We know we don't have a blank cheque," Finance Minister George Papaconstantinou told Reuters in an interview at a temporary refuge in a tax and customs administration building.

"We have public support as long as people feel everyone is bearing the burden equally."

Papaconstantinou is trying to make the most of a weak hand in a three-way poker game involving Greece, its European Union partners and the financial markets.

Greece needs to borrow or refinance 53 billion euros ($71.52 billion) this year, including 20 billion in April and May.

"We want to be able to borrow on the same terms as other countries in the euro zone," Prime Minister George Papandreou told a conference in London last Friday.

But investors anxious at the risk that Athens may be overwhelmed by its debts, projected to hit 120 percent of gross domestic product this year, are charging a steep premium to buy Greek bonds rather than benchmark German bunds.

The government needs to slash a huge budget deficit fast to assuage angry European partners and restore credibility in the bond markets, without squeezing voters so hard that it triggers a social revolt in a famously rebellious country.

Papaconstantinou is looking for clearer EU support to help escape a vicious circle of rising borrowing costs, harsher austerity measures, prolonged recession and diminished revenue.

Having owned up to a massive under reporting of its deficit and promised swift corrective action, Greece's negotiating leverage with its EU partners is mostly negative.

It can dramatise the risks for the entire euro zone if its debt woes get worse, it can point to the danger of social unrest if the EU forces too harsh austerity on Greeks, and it can threaten to go to the International Monetary Fund.

The government is doing a little of each while stressing its utter determination to meet steep deficit reduction targets.

"COLORADO DOESN'T GO TO THE IMF"
"The real threat, which they may eventually have to use, is not default, or leaving the euro zone, but going to the IMF," said Loukas Tsoukalis, a former top policy adviser to European Commission President Jose Manuel Barroso.
"That would look serious for the euro zone because we share a common currency. After all, Colorado doesn't go to the IMF," said Tsoukalis, president of Athens' Eliamep policy think-tank.

Euro zone heavyweights France and Germany have insisted that the Greek problem should be handled within the European family.

After EU leaders declared their support on Feb. 11 for Athens' deficit-cutting programme and vowed coordinated action, if needed, to safeguard stability in the euro zone, markets were looking for a clear signal of how Europe would help Greece.

It didn't come. Debt spreads, which fell on expectations of an EU rescue package, have crept up again as markets see the public backlash in Germany and question Berlin's willingness to make any financial commitment to Greece.

These doubts come just as Athens is hoping to go back to the market with its next 10-year bond issue.

After talks with EU colleagues last week, Papaconstantinou said in the interview: "We need to give the assurance to markets that we are actually working towards a potential instrument of "xyz" type, so that we'll never have to use it."

He did not rule out seeking IMF assistance but he said there were no negotiations with the global lender now.

Seen from Brussels and Berlin, it is too early to ease pressure on Athens by spreading out a European safety net that would be deeply unpopular with German, Dutch and Finnish voters.

EU ministers reckon Greece should take more drastic steps quickly to cut its public wage bill, raise value added tax and further increase fuel tax to achieve a promised deficit reduction this year of 4 percent of GDP.

The government is waiting until after a one-day general strike by the two main trade unions this week against its public sector wage freeze, tax hikes and welfare cuts before deciding on any further measures.

Papaconstantinou hopes that by April, Greece will have impressed markets with the initial execution of its fiscal adjustment, won further approval from Brussels and secured a clearer EU guarantee to back its borrowing.

"My only choice is to accelerate what we are doing here, be as public about it as we can, grit our teeth until things quieten down and pay the higher cost," the minister said.

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