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Q&A: Pressure on Greece

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Why is Greece suddenly worrying eurozone policymakers again?

A year after a €110bn international **bail-out was agreed for Greece**, European Union and International Monetary Fund officials are back in Athens reviewing progress.

Their conclusions – due next week – could make worrying reading. **Economic reforms have stalled**, the economy is in a tailspin and progress towards a modern tax collection system has been slow.

Failure to bring Greece's public finances back under control soon and to turn around its economy could spell disaster for the country, and perhaps the eurozone.

It would be hard for eurozone leaders to justify the extensive support already in place for Greece – let alone fresh help.

So what are the options?

A priority will be to intensify pressure on Athens to rejuvenate its reform plans. EU officials are particularly scathing at the time it took to launch a large privatisation programme. In February, Athens promised sales worth €50bn – the list of disposals is still being discussed. At a meeting with senior eurozone colleagues in Luxembourg late on Friday, George Papaconstantinou, Greece's finance minister, would have received an earful of criticism over Greece's failings.

But Jean-Claude Juncker, Luxembourg's prime minister who hosted Friday's meeting, told journalists later that Greece needed "a further adjustment programme", without giving details. The country could be given more time to implement reforms, easier bail-out terms or more funds. Another option might be to extend the maturities of its debt – but it is unclear whether a voluntary arrangement would be possible or have much impact.

Does Greece need money now?

The crunch will probably come next year, when Greece's government will need to raise €25bn-€30bn according to the current plan. In today's market conditions that would be impossible. One short-term option would be for the EU's rescue funds to step in and buy Greek government bonds, taking the place of private investors.

Is a Greek debt restructuring inevitable?

The European Central Bank and European Commission argue such a step would create more problems than it would solve. Greece's banking system could collapse, and the fundamental problems of the country's weak, over-regulated economy and poor public finances would still have to be addressed. Mr Juncker said Friday's meeting had excluded "the restructuring option". That is unlikely to prevent many in financial markets believing that it could still happen sometime in the next few years.

Will taxpayers and politicians in northern eurozone countries be prepared to help further?

Their support for financial help will be hard to win without signs of progress in Greece.

A sense that Berlin has already gone far enough in helping weaker eurozone economies might explain all the speculation in Germany about a Greek debt restructuring. Der Spiegel, the news magazine, has also floated the idea of Greece exiting the eurozone. The report was swiftly denied after angering many eurozone policymakers.

A new Finnish government including the eurosceptic True Finns party could add to the trouble.

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Greece: the tussle with Brussels

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It's groundhog day in the eurozone. A year after the European Union and the International Monetary Fund unveiled a €110bn rescue package for Greece, that country is again at the top of the crisis agenda. The **bail-out has exacerbated Greece's indebtedness problem**; its re-entry to the debt markets as a sovereign borrower early next year, envisaged in the bail-out plan, looks impossible. The eurozone had a choice – expand the bail-out, or allow Athens to restructure. It chose the first option. The second cannot be avoided for much longer.

A Greek restructuring is by now not only inevitable; it is essential. To avoid having to restructure, Athens would have to implement even more comprehensive structural and social reforms than those that have already caused civil unrest, as well as a frankly unrealistic pledge to privatise €50bn of state assets by 2015. Greece needs to execute these measures if it is to exit its crippling crisis eventually; but they should not be done in fire-sale circumstances.

The issue for policymakers in Brussels, Frankfurt and Athens now is one of timing. Ten days ago, Deutsche Bank put the likelihood of a credit event (default or restructuring) in Greece at 46 per cent within two years and 72 per cent within five, based on sovereign credit ratings, credit default swap spreads, and a 40 per cent recovery rate. (For Ireland, the likelihood was 24 per cent and 44 per cent, and for Portugal it was 22 per cent and 43 per cent.)

Athens needs to refinance at least €25bn next year; it will almost certainly need more emergency funding to do so, which it would probably need even alongside a restructuring. But Greece is going to have to restructure; the eurozone needs to be prepared for the moment when it does so.

***E-mail** the Lex team in confidence*