

FINANCIAL TIMES

May 23, 2012 6:54 pm

EU struggles to agree hard line on Greece

68

By Peter Spiegel, Joshua Chaffin and Hugh Carnegy in Brussels



Tensions have begun to emerge among EU leaders over how hard a line to take with Greece as the prospect looms of parties opposed to the country's harsh bailout terms winning next month's elections.

Nervousness among eurozone policymakers about how to tackle an issue that could end in Greece crashing out of the single currency was reflected in the fact that Greece was not formally on the agenda of Wednesday's EU summit in Brussels. But differing approaches were

evident in the run-up to the meeting.

In its monthly report, Germany's Bundesbank insisted on a hard line, shared by the European Commission, saying that any flexibility in the terms of the €174bn bailout for Greece would question anew all the efforts at fiscal discipline that the EU has spent the last two years building.

"A significant dilution of existing agreements would damage confidence in all euro area agreements and treaties and strongly weaken incentives for national reform," the Bundesbank said.

It added that the remainder of the eurozone could cope with a Greek exit: "The challenges this would create for the euro area and for Germany would be considerable but manageable given prudent crisis management," it said.

But there have been signals from both Paris and Rome, deeply concerned about the potential contagion effects of a Greek exit, that some concessions could be required to strengthen the position of pro-bailout parties in Greece.

"We have to work hard to change the way we're handling the Greek crisis," said an Italian policy-maker. "We can't commit suicide because 3 per cent [of the eurozone economy] is not performing. We must do more to support them."

Francois Hollande, France's new socialist president, said after meeting Spanish prime minister Mariano Rajoy in Paris on Wednesday: "I will do all that I can in my position to convince the

Greeks to choose to stay in the eurozone and also to convince the Europeans who may doubt the necessity of keeping Greece in the eurozone.”

French officials have suggested there could be some flexibility over how long Greece is given to meet its stringent fiscal targets. But they acknowledge Greece must implement essential reforms set out in the bailout package.

There is also concern in Paris not to say anything that could fuel support for Syriza, the far-left, anti-austerity group that is currently running neck-and-neck with the mainstream centre-right New Democracy party ahead of the elections on June 17.

“If it comes from the outside, it's counterproductive,” one EU diplomat said, arguing that the country's own political leaders and elites were the only ones who could frame the debate.

Indeed, some Greek analysts have gone so far as to blame EU leaders for unwittingly propelling the surprise success of Alexis Tsipras, the Syriza leader, by publicly reminding Greeks of the need for reform. “[Wolfgang] Schäuble, [Angela] Merkel, a lot of people in the EU – they are doing their best to make Tsipras the prime minister,” Aristides Hatzis, a professor of law and economics at Athens University, said after May's election.

As worrying for some EU officials is the financial impact of any intervention they make. Senior officials have become increasingly concerned about sparking a run on Greek and other peripheral eurozone banks by suggesting Greece could leave the euro.

In a conference call this week between senior eurozone finance ministry officials, all were asked to detail the contingency plans they had taken to prepare for a Greek exit, a sign of how seriously member countries are preparing for such an outcome. Publicly, however, senior EU officials have denied any contingency planning has occurred, out of fear it could spark financial panic.

Printed from: <http://www.ft.com/cms/s/0/6bc1665c-a4f6-11e1-b421-00144feabdc0.html>

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

© THE FINANCIAL TIMES LTD 2012 FT and 'Financial Times' are trademarks of The Financial Times Ltd.