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Fear grows of Greece leaving euro

By Ralph Atkins in Frankfurt



Eurozone central bankers have talked publicly for the first time of managing a possible Greek exit from Europe's monetary union as stalemate in Athens talks on a coalition government raises the prospect that Greece will renege on the terms of its international bailout.

The comments by members of the European Central Bank's governing council indicate that the risk of eurozone fragmentation is being taken increasingly

seriously by the region's policymakers.

They mark a significant shift at the ECB, which has previously argued that European treaties do not allow for an exit and that a break-up would cause incalculable economic damage.

"I guess an amicable divorce – if that was ever needed – would be possible, but I would still regret it," Luc Coene, central bank governor of Belgium, told the Financial Times.

Patrick Honohan, Irish central bank governor, told a conference in Estonia at the weekend: "Things can happen that are not imagined in the treaties. ... Technically, it [a Greek exit] can be managed. ... It is not necessarily fatal, but it is not attractive."

Along with policymakers across the eurozone, the ECB has stepped up the pressure on Greece to stick to its internationally agreed bailout programme – and warned that renegeing would lead to outside financial support being cut off.

Jens Weidmann, Bundesbank president, who also sits on the ECB council, warned in a German media interview at the weekend: "The consequences for Greece [of a eurozone exit] would be more serious than for the rest of the eurozone."

Vince Cable, British business secretary, said the UK "must hope" the eurozone's firewalls were strong enough to prevent contagion to Italy and Spain if the crisis spread from Greece and Cyprus. If not, he said there could be a "massive impact" on British trade.

In contrast to this weekend's comments, last December Mario Draghi, ECB president, told the FT that a eurozone exit would result in "a substantial breach of the existing treaty" with incalculable consequences for the bloc.

Greece on Sunday night appeared to be heading for fresh national elections after last-ditch coalition talks chaired by the country's president ended in mutual mud-slinging by conservative, socialist and leftwing leaders.

Antonis Samaras, leader of the centre-right New Democracy party, said the radical left coalition Syriza had blocked efforts to break the deadlock, even after a letter from premier Lucas Papademos was circulated at the meeting outlining Greece's deteriorating fiscal position.

President Karolos Papoulias on Sunday was holding separate meetings with the leaders of four smaller parties that also won seats in parliament.

Analysts gave conflicting opinions about what would happen next. One conservative observer said it was still possible that some lawmakers from Independent Greeks, a rightwing splinter group, could return to New Democracy and give the two pro-euro parties a slim overall majority.

But a senior socialist said that Evangelos Venizelos, the Pasok leader, would refuse to serve in a government that did not include either Syriza or Democratic Left, a small leftwing party that used to be part of Syriza's left coalition.

"We are clearly moving towards another election," he said.

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