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Senior Tory MP calls for Greece to quit euro

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By Helen Warrell and Claire Jones

The chairman of the Commons Treasury committee has urged Greece to exit the eurozone, suggesting there is no other option given the Greeks' lacklustre commitment to radical reforms and the failure of stronger euro area countries to endorse continuing budgetary transfers to weaker ones.

Writing in a paper for the Centre for Policy studies on Wednesday, Andrew Tyrie, a senior Conservative MP, warns that while a disorderly exit could be "catastrophic", there is an opportunity now to start implementing a plan for Greece's safe withdrawal.

"We should . . . take advantage of the breathing space afforded by the latest bailout to develop a contingency plan for Greece to leave the eurozone," Mr Tyrie writes. "To paraphrase Wilde . . . to be caught out by the collapse of Lehman might be construed as a misfortune. Not to be prepared for a Greek exit would be carelessness."

The MP also argues that given the IMF's unique potential to help manage the crisis, both the organisation and its managing director, Christine Lagarde, need to step up and exercise independence. "Only the IMF has the necessary detachment and economic credibility to help sort out this crisis . . . These will be testing times for Christine Lagarde – her credibility, as well as that of the IMF, is on the line," he says.

Ed Balls, the shadow chancellor, has previously expressed fears that if Greece were to make a disorderly exit from the eurozone this could cause contagion and destabilise the bloc's weakest remaining members, such as Spain and Italy.

But Mr Tyrie, who was previously chief economist for the European Bank for Reconstruction and Development, is particularly gloomy about the prospects for Spain, saying that the country's banking system is in "deep trouble". Allowing Greece to leave would mean putting in firewalls to protect countries such as Portugal, Spain and Italy, although Mr Tyrie raises the prospect of the IMF deciding that one or more of these "cannot reasonably be protected".

Others have suggested that the departure of Greece could even pave the way for the exit of other peripheral economies, among them Spain and Italy, which would risk triggering a run on deposits held in their banks.

Italy and Spain are the eurozone's largest economies after Germany and France, and an intensification of their financial and economic woes would further weigh on the global economy and risk an intensification of the market instability seen in recent months.

A firewall to contain the impact of a Greek exit is seen as vital, and European policy makers have said they are preparing contingency plans.

However, the size of the Italian and Spanish economies has already led some economists to speculate that they are too big to save, even if the resources of the IMF and the EU were combined.

Mr Tyrie's calls for a managed Greek exit come on the back of signs that the eurozone turmoil is hampering confidence among businesses in the UK.

A monthly survey of business sentiment from Lloyds Bank showed the share of companies that were more negative about the economy almost doubled from 22 per cent to 43 per cent.

The proportion of companies that were more optimistic about the UK economy than they were three months ago fell by more than half from 48 per cent in April to 22 per cent last month.

Trevor Williams, chief economist for wholesale banking and markets at Lloyds Bank, said: "The renewed concern around the eurozone is clearly having an impact on businesses' sentiment towards prospects for the UK economy."

The euro area is the UK's main export partner.