FINANCIAL TIMES

June 14, 2012 6:58 pm

EU plans incentives for new Greek leaders

42

By Joshua Chaffin in Brussels and Peter Spiegel in Berlin

European officials are preparing to dangle a package of incentives in front of a new Greek government to convince it to stick to the country's current bailout deal after Sunday's high-stakes elections.

The package would include further reductions in interest rates and extended repayment periods for bailout loans, as well as EU money to spur investments in Greek public works programmes through the European Investment Bank.

The catch is that the sweetener is currently envisioned for a new government only if it is led by Antonis Samaras, head of the pro-bailout centre-right New Democracy party.

New Democracy is running neck and neck with the radical-left Syriza, which has vowed to scrap the current bailout memorandum.

"In the scenario where Samaras wins the elections, they would like to see him committing very clearly to his adherence to the memorandum," said one EU official briefed on the discussions. "They would then get together with the new Greek government and say: here is what we can now do to make life a bit sweeter, a bit less harsh."

Eurozone officials have not ruled out making the same offer to Alexis Tsipras, the Syriza leader, should he win Sunday's Greek election and form a new government instead of Mr Samaras.

Mr Tsipras has softened his tone in recent days when discussing the bailout. Still, his campaign rhetoric has soured sentiment towards his party, and many officials do not believe he will be willing to commit to budget deficit targets in the current €174bn bailout plan.

On Thursday Greece's stock market soared 10.1 per cent on speculation that New Democracy would win on Sunday.

If Greece goes...

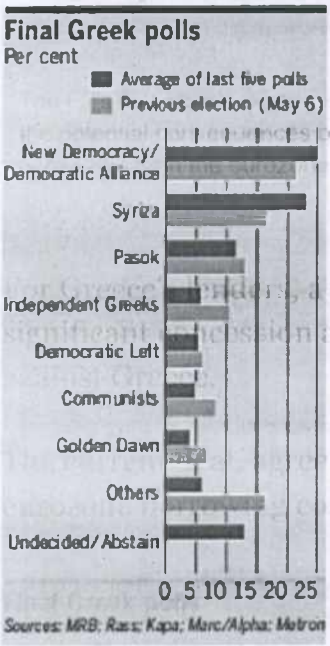
The FT's first ebook examines the potential consequences of a Greek exit from the eurozone

Greece's lenders have been highly reluctant to discuss any possibility of easing the terms of the bailout ahead of Sunday's elections for fear that it would validate Mr Tsipras' arguments and boost his standing in the polls.

In spite of the concessions they are now preparing, officials emphasised that they remained opposed to making bigger changes to the unpopular memorandum sought by many Greeks, such as altering or delaying budget deficit targets. They also insisted that the package would be contingent on a newly-elected government first agreeing to stick to those guidelines.

For Greece's lenders, a further reduction in interest rates for bailout loans would represent a significant concession at a time when the public mood in many member states has hardened against Greece.

The current deal, agreed in February, reduced rates to levels that are, in some cases, below eurozone borrowing costs, meaning EU lenders are already losing money on some of the loans.



Eurozone officials are hopeful that a new Greek government will also be enticed by the EIB investment plan, which they believe could stimulate short-term job growth if done quickly and in significant amounts.

Officials said that no numbers have been attached to the investment programme, but under some of the plans being considered, public investment spending would be targeted at upgrading government-owned properties so that they could be made more attractive for sale in Greece's €50bn privatisation plan.

That would appear to be at odds with Mr Tsipras, who has previously pledged to halt the privatisation plan, which was devised by the EU and the International Monetary Fund.

The EIB last year disbursed a record €2bn in Greece. But it has struggled to fund big projects because it must recruit private investors to co-finance them – something that has proved next to impossible in present day Greece.

The EIB and the European Commission unveiled a plan in March to get money to Greece's cash-starved small and medium-sized businesses by using EU development money to back EIB loans to Greece.

Under the scheme, the EU would suffer the first losses in any failed loans, allowing the EIB to expand the scale of its lending. That project is still being prepared, say officials.

You may be interested in