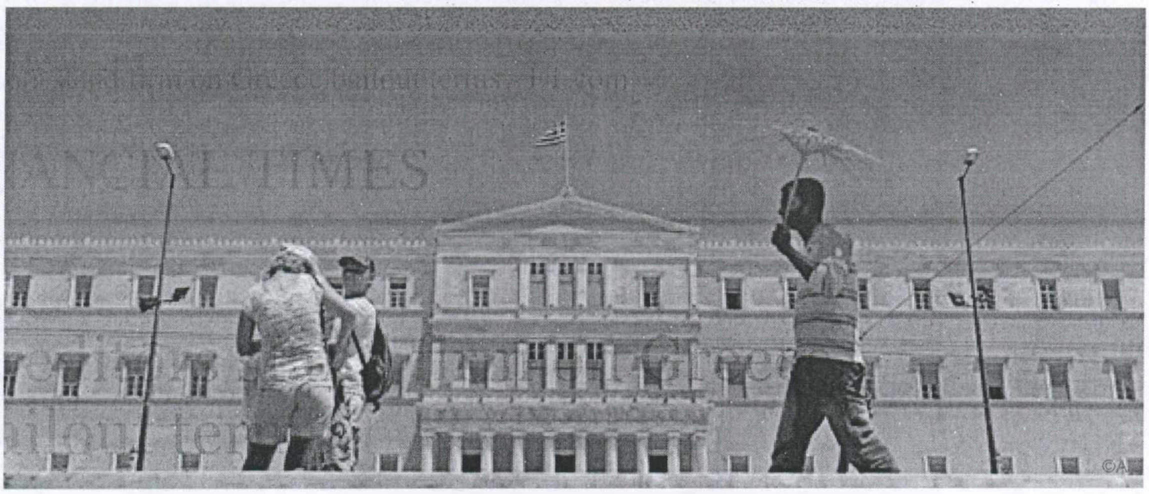
FINANCIAL TIMES

June 13, 2012 6:50 pm

Creditors stand firm on Greece bailout terms

40

By Joshua Chaffin in Brussels and Peter Spiegel and Quentin Peel in Berlin



Greece's creditors say they would consider only minor tweaks to the country's €174bn bailout following Sunday's elections, a message intended to dispel any illusions among voters as they head to the polls in a contest that could prove pivotal for the euro.

Senior officials in Brussels and Berlin acknowledged that they would be willing to discuss with a new Greek government how it would hit budget targets in the bailout programme.

But they would not alter or delay those targets – nor would they supply additional money from the EU or International Monetary Fund to pay for any slippage by Greece, they said.

"The margin to negotiate is in the realm of nanotechnology," one European diplomat said, noting the hardening mood against Greece.

The fate of the unpopular loan agreement has become the central issue in Sunday's election, with the far-left candidate, Alexis Tsipras, rising in the polls by promising voters that he will tear it up and seek a new bargain.

His chief competitor, Antonis Samaras, leader of the centre-right New Democracy party, has taken a more moderate approach, saying he would abide by the loan but try to renegotiate some of its austere terms.

The EU has so far tried to muzzle itself in the debate, with officials insisting that it is for Greeks to decide their own political future.

But the election's approach has begun to focus minds in Brussels and national capitals across Europe about how to deal with the aftermath, including a possible victory by Mr Tsipras's Syriza coalition.

One sign of their concern was the pre-emptive decision on Saturday to grant Spain a €100bn bailout to recapitalise its teetering banks and blunt any reverberations from the Greece vote. But senior officials are now making clear the limits of their flexibility amid suggestions that they are already drawing up plans to ease Greece's loan agreement, provided that a co-operative government emerges.

Ferdinand Fichtner, head of forecasting and economic policy at the German Institute for Economic Research, noted the dwindling patience among German leaders.

"The troika [of the EU, European Central Bank and International Monetary Fund], once they return to Greece after the election, they cannot accept a complete giving up of the results of previous contracts," Mr Fichtner said.

"We cannot tolerate a situation where we have international negotiations, where we have agreements, and people don't stick to those agreements."

His warning was backed up by a new opinion poll published on Tuesday by YouGov showing that 69 per cent of Germans believe that Greece should leave the euro. Only 17 per cent were against such a solution.

Missed targets

€1.34bn - primary deficit

The deficit after deducting interest payments almost doubled to €1.34bn in April, endangering this year's target of a primary deficit of less than 1 per cent of GDP

Zero - privatisation receipts

Greece was set to raise €3bn this year by selling the state lottery, the gas utility and state-owned property – all three disposals are on hold

€1bn - loan tranche

The next government will run out of funds to pay pensions and public sector wages at the end of July unless a €1bn loan tranche is disbursed by the EU and IMF

20% - fall in tax revenue

The political chaos has seen a further slowdown in tax collection, with EU-IMF deadlines also missed on tax reform because of union opposition

Others believe Greece's lenders will have to consider changes – regardless of the political cost – because Athens has now fallen so far behind the commitments attached to the bailout loans. They also sense some pre-election posturing.

"Eurozone member states will continue to adopt a hard line in public while signalling some flexibility in private," said Mujtaba Rahman, an analyst at Eurasia Group. "They don't want to lend any public legitimacy to Syriza's narrative that the bailout is misguided or can be renegotiated."

As Sunday approaches, a Syriza victory remains the biggest fear in Brussels. In spite of Mr Tsipras's attempts to soften his rhetoric of late, many take him at his word that he would seek to void the bailout.

If Greece's lenders do not oblige, Mr Tsipras could threaten them with the so-called "suicide option" – a debt default that might unleash havoc across the eurozone.

Even if Syriza does not triumph, equally worrying would be a replay of last month's elections, in which no party was able to form a government. A repeat could mean weeks – even months – of the same uncertainty that has pushed bond yields in Spain and Italy to dangerous levels.

"We need a clear outcome at the elections," said Guntram Wolff, deputy director of Bruegel, the Brussels think-tank. "Without a government, there is no counterparty and you can't discuss anything."

You may be interested in

Osborne risks the wrath of Merkel

Berlin is ignoring the lessons of the 1930s

Merkel stands firm on tackling euro crisis

France and Italy unite on euro crisis plan

Spanish government no longer in denial