https://www.internationalviewpoint.org/spip.php?article4532

Greece

Too little, too late: an appraisal of the latest Greek deal

- IV Online magazine - 2016 - IV496 - May 2016 -

Publication date: Tuesday 31 May 2016

Copyright © International Viewpoint - online socialist magazine - All rights reserved

A new agreement has been reached between Greece and its creditors regarding the bailout program for the country. Jeroen Dijsselbloem, president of the Eurogroup, described the new deal as "ambitious" and a "major breakthrough". However, a look at the details shows that it's anything but. This agreement follows the time-honored tradition of the Eurogroup of kicking the can down the road as political considerations have trumped once again economic logic. This explains why it's too little, too late: Greece has to continue its commitment to unrealistic fiscal targets while debt relief is expected to take place somewhere and somehow down the line, all the while the future of the country continues to be decided by the political calculations of the Eurogroup. Like its predecessors, this new version of the Brussels fudge will buy some time, but ultimately fail in its stated goal of ensuring growth and stability for Greece.

This was expected, as discussions from previous weeks made clear that an agreement on debt relief was going to be the result of a difficult balancing act. On the one side, Germany had made clear its opposition to any significant debt relief measures. Furthermore, if they were to be considered, it would be after the end of the program and only if needed. On the other side, the IMF made its participation conditional to guaranteeing the sustainability of Greek debt. Given the dire economic prospects of Greece, explained in detail in the Debt Sustainability Analysis (DSA) published by the IMF prior to the Eurogroup, the scale of measures on debt relief envisioned by the DC based organization was clearly incompatible with the German position.

The agreement reached shows this divide was too large to be bridged in a meaningful way. In concrete terms, it delays once more the adoption of significant measures that ensure debt sustainability by providing short-term relief to the country. This includes the disbursement in stages of â‚¬10.3 billion in bailout funds, subject to further minor requirements. It also involves modifications to the repayment profile of EFSF loans. In comparison to the measures proposed by the IMF in its DSA, these modifications can only be described as cosmetic changes.

From this perspective, the clash between the IMF and European authorities regarding the viability of the medium term fiscal targets for Greece remains unresolved. The agreement follows the German line in the sense that the implementation of further debt relief measures will be subject to the completion of the programme in 2018. As part of this commitment, the country is expected to achieve and maintain in the medium term a primary fiscal surplus of 3.5% of GDP. Thus, in the unlikely event that Greece actually manages to fulfill the required conditions, any debt relief to be received by the country would be devised based on a excel sheet fantasy. As a result, it will be too little and too late to guarantee debt sustainability.

This is precisely the argument spelled out by the IMF in its DSA. The document explains in no uncertain terms the myriad of obstacles faced by Greece to achieve and maintain the primary surplus on which this agreement is based. They range from tax collection issues to political uncertainty to lack of meaningful historical examples of countries able to accomplish what is being requested of Greece. The skepticism of the IMF regarding the viability of the fiscal targets translated into a request for upfront and unconditional debt relief that include payment deferrals until 2040 and stretching debt repayments until 2060. In contrast, the debt relief measures included in the agreement are gradual and conditional, falling well below what the IMF proposed. In this regard, just because there was a deal this doesn't wave away the fact that the fiscal targets set for the country are, in the words of the IMF, "unrealistic". It just postpones the recognition of this problem past the Brexit vote, the last months of the Obama presidency and most important, the German elections of 2017.

Further evidence of this problem is exemplified in that the participation in the program of the IMF is still subject to

approval by the Executive Board of the organization before the end of 2016. Thus, the Board will be presented with a program built on a series of macro assumptions and encompassing debt relief measures based on the specifics of the agreement. The former have already been classified as unrealistic by the staff of the organization. The later can be hardly quantified, as they would only become effective after 2018. The uncertainty of the whole exercise is compounded by the fact that those debt relief measures require another round of discussions and approval by the Eurogroup.

Given that the IMF recently changed its lending criteria for large-scale programs, and now requires that debt is considered sustainable with high probability, its difficult to see how the staff can justify such an assessment, much less obtain the approval of the Board. As European authorities still insist on the participation of the IMF, this problem will most likely be side stepped through one of the provisions of the agreement that refers to the use of available ESM in the context of the programme to repay outstanding IMF loans. This would allow reducing the scale of financial assistance to be provided by the IMF to Greece, and as a result, to waive the debt sustainability requirement. This way, the IMF could continue to participate in the programme and the requirement by Germany and other countries to have them on board would be met.

However, this approach is not without problems. The most obvious one is the impact on the credibility of the IMF of leaving a country member linger on in insolvency as long as the organization is not financially exposed to it. This would contradict the raison d'etre of the organization itself. Furthermore, image considerations aside, the funds that are required to perform the buyout of the IMF might be already compromised. In its DSA, the IMF makes it clear that the situation of the Greek financial system is far from sustainable and that on top of the â‚¬43 billion that have been used to recapitalize banks since 2010, an additional â‚¬10 billion will be needed for this same purpose.

In this context, the agreement reached has already failed in terms of establishing a credible framework to ensure the recovery of the Greek economy. One of the key arguments to provide upfront and significant debt relief to a country is to create the conditions to allow the recovery of investment by eliminating the uncertainty attached to insolvency. However, by delaying debt relief and making it conditional to unrealistic targets, this agreement does exactly the opposite. As things stand, Greece is expected to continue increasing taxes and cutting expenditures to the point of risking the viability of basic public services. At the same time debt relief is postponed, vague and subject to political outcomes. It's difficult to see how this package would be conducive to create anything resembling an attractive environment to investors.

It's troubling that 6 years into the crisis, the best the Eurogroup can do is to delay once more the provision of a definitive solution to the Greek debt problem. This is yet another piece of evidence regarding the inability of the current institutional structure of the EU to deal with the scale of economic problems caused by an incomplete monetary union. This is an ill omen for the future of the country and the EU.

May 26 2016

Cadtm