Greece verges on default

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12 December 2009

Concerns over Greece's solvency were renewed on Tuesday after Fitch Ratings downgraded Greece's debt rating from A- to BBB+.

In response to the news, the Athens stock exchange index dropped 6 percent on Tuesday and a further 3.4 percent on Wednesday. In an interview with *Bloomberg*, former Bank of England policy maker Willem Buiter said, "It's five minutes to midnight for Greece. Default is not unavoidable, but unless there are radical fiscal actions…we could see our first EU 15 sovereign default since Germany in 1948."

Greek Finance Minister George Papaconstantinou sought to reassure investors, saying, "We are not a new Iceland, just as we are not the next Dubai."

The reality is that the global downturn has visited on Greece its worst economic crisis since the military junta was overthrown in 1974. The European Union Commission recently sharply revised upwards its projections for the Greek budget deficit to 12.2 percent of gross domestic product (GDP) in 2009 and 12.7 percent in 2010, after the newly elected PASOK government revealed that the outgoing New Democracy regime kept the full extent of the deficit secret.

Greece has the highest public debt in the EU, projected to rise from 99 percent to 125 percent of GDP in 2010. In a televised cabinet meeting, Greek Prime Minister George Papandreou said, "We must close the credibility gap to survive as a sovereign and cohesive nation." He added, "We are determined to do whatever it takes to control the huge deficit."

Just like other members of the Eurozone, the Greek government raises funds by issuing bonds benchmarked against German state bonds, with the interest rate difference between them defined as the "spread." If the spread increases, so does the cost of government borrowing. The last few weeks have seen volatile fluctuations in the Greek/German bond spread.

Fears were first raised about the debt worthiness of Greece following the panic sparked by the November 25 request of the Middle Eastern conglomerate Dubai World for a "holiday" on its debt repayments. The spread on Greek bonds shot up to 213 basis points from around 118. In response to the downgrading news this week, the spread shot up to 250 basis points by the time markets closed on Wednesday, an increase of some 75 points over the previous week.

While Greece's economy accounts for only 3 percent of the European Union's GDP, recent events have major implications for the stability of the European financial system given that Greece is in the Eurozone.

Signalling its reluctance to come to the rescue, the EU has been leaning very heavily on Greece to curb its public spending. Following Fitch's downgrading, European Central Bank (ECB) President Jean Claude Trichet declared, "Given the severity of the situation, I am confident that the Greek government will take the necessary and courageous measures in the near future," implying that the precondition for any future help to Greece from the EU would be drastic action by the government in Athens.

The *Financial Times* stated, "The EU's authorities, rightly or wrongly, are more afraid of the moral hazard of a bailout than the possible spill-over effect of a hypothetical Greek default to other Eurozone countries. If faced with a choice between preserving the integrity of the stability pact and the integrity of Greece, they are currently minded to choose the former."

Trichet also recently announced his intention to end the 1.0 percent interest emergency funding available to Europe's banks. According to a recent report by the Greek Central Bank, Greek lenders proportionately borrowed more than their counterparts in Europe from the fund.

Out of €570 billion pumped into the European economy by the ECB in 2009, Greek banks borrowed €42 billion. In a financial merry-go-round, they lent this money to the government by buying government bonds, which were then offered as collateral to the ECB.

Mindful that they will not be able to roll over their debt in future, the banks have already begun to sell their bond holdings rather than wait until the end of the year. This has contributed to the plummeting of the value of Greek bonds, which has further pushed up the government's cost of borrowing.

Greek banks are also holders of potentially toxic assets. Standard & Poor's recently reported, "We view Greek banks' credit risk as heightened by their sizeable exposure to markets [such as Serbia, Turkey and Ukraine] with higher economic risks on the back of severe macroeconomic imbalances in some of the targeted markets and the abrupt economic slowdown they are experiencing."

The Greek economy has already been hard hit by the economic downturn. After posting annual 4 percent growth rates for much of the decade, the economy is set to contract by 1.5 percent, the first decline in 16 years. The preceding boom has proven to be nothing more than a bubble, fuelled largely by consumer spending boosted by the ECB's record low interest rates and revenue from the 2004 Olympic Games.

Even during the boom years, with the average wage at €650 to €800 a month, the majority were forced to borrow in order to make ends meet. At the height of the boom in 2006, apart from Spain and Portugal, Greece had the lowest minimum wage in the European Union and 27 percent of the population was officially classified as poor.

In terms of curbing the deficit, the Greek government has made much of its plans to tackle rampant tax evasion, estimated to cost the government €30 billion a year. This is nothing more than a populist gimmick. It is the Greek working class that will be expected to pay the debt.

To that end, the government has already initiated a "social dialogue" with unions and employers in preparation for a pension reform bill in 2010. As Employment Minister Andreas Loverdos said in parliament, "At the moment, Greece is paying annually 11.5 percent of GDP in pensions, and by 2040 this will rise to 24.1 percent. As you can imagine, the country won't exist and a national economy won't exist with these numbers. For us, 2015 is the year of aggravation of the crisis when the so-called post-democracy generation [people who came of age after the fall of the junta] will start to draw its pension."

Papandreou's PASOK won a landslide victory in October after outgoing Prime Minister Karamanlis called an early poll in a desperate attempt to secure a mandate to implement austerity measures. PASOK ran its campaign on promises of a more equitable social policy, an increase in national expenditure, and measures to combat rising unemployment. The *World Socialist Web Site* warned during the election campaign that Papandreou and PASOK would follow the same course as the previous administration.

The government is acutely aware that it risks fuelling the anger of increasingly militant workers and youth. Last Sunday, a heavily policed 10,000-strong demonstration marking the anniversary of the shooting of 15-year-old Alexis Grigoropoulos turned into a confrontation between youth and police. This coincides with a militant wave of strikes by workers at the Athens port of Peireaus to oppose government plans to lease the port to the Chinese company Cosco.

While the consensus amongst the Greek ruling class is that severe austerity measures are necessary to salvage their position, they are acutely aware that they possess an extremely narrow social base to carry this through. They require the assistance of the unions and the petty-bourgeois ex-radical groups.

The General Confederation of Greek Trade Unions (GSEE) has placed its own adviser on the panel of experts appointed to oversee pension reform. There is nothing new in the unions cooperating with the bourgeoisie to attack living standards. The deregulation and privatisation of the public sector carried out in the 1990s by PASOK was possible only because of the support of the trade union bureaucracy.

The Confederation of Greek Industrialists (SEB) has proposed a "common line of cooperation" with GSEE in keeping wages under control. In a recent statement, the SEB's president warned, "[The] initiative of signing a social contract with GSEE and other social partners is a distress signal, an SOS, to the labour force."

The Coalition of the Radical Left (SYRIZA) has also opted to participate in the "social dialogue" for pension reform. Michales Kritsotakis, the group's member in the parliamentary committee, limited his party's opposition to the government's right-wing agenda to an expression of "disappointment."

After the elections, SYRIZA was again wracked by internal divisions over whether it should become a political party or remain a coalition. The organisation was able to maintain a presence in parliament, but its support declined to 4.4 percent of the vote from 5 percent in 2007.

While it was able to increase its popular support, particularly among young people, after the mass demonstrations of last December, this quickly diminished after talk of a possible coalition with PASOK. The Stalinist Communist Party of Greece (KKE) has refused for the time being to take part in the "social dialogue" and is calling on the unions to declare a general strike on December 17. This is designed to sow illusions in the unions.