Expanded Greek bailout discussed as credit crisis engulfs Europe

Alex Lantier
29 April 2010

Top German and International Monetary Fund (IMF) officials discussed a €135 billion bailout for Greece yesterday as fears grew over the risk of state bankruptcy in several European countries, including Greece, Portugal and Spain. Ratings agency Standard & Poor's downgraded Spain's credit rating from AA+ to AA, adding that it expected slow growth and further ratings downgrades for Spain in the coming period.

The proposed sum for Greece is nearly three times the previously mentioned bailout, which was €45 billion in a joint European-IMF package. IMF President Dominique Strauss-Kahn refused to confirm the figures cited on a possible bailout after the meetings in Berlin, but said they would be confirmed in the course of ongoing negotiations between IMF and Greek officials in Athens.

In discussions in Athens, expected to last until next week, the IMF will demand a new round of sweeping wage and social spending cuts in exchange for loans to Greece at roughly 5 percent interest. The Greek government has already cut social spending by 10 percent, increased the retirement age by 2 years, and announced plans to eliminate two months' wages in the public sector. Reports suggest the IMF is demanding major cuts in health care spending and severe job cuts in the public sector, in part through the elimination or consolidation of 75 state agencies.

Strauss-Kahn noted that if Greece took advantage of the new bailout proposal, it would not have to borrow from financial markets for three years. The discussion came as yields on 2-year Greek government debt surged past 16 percent, and 10-year Greek government debt hit all-time records of more than 10 percent. It is widely expected that Greece will go bankrupt if it has to borrow money at such interest rates.

The large size of the proposed bailout seems to have been designed to avert further panic, after a broad sell-off in global stock markets Tuesday, when Greece's debt rating was downgraded to junk status.

Stock markets in Europe and Asia fell again yesterday. The hardest hit were South European countries threatened by speculators.

Spain's IBEX stock market index fell 3 percent, the Italian MIB fell 2.4 percent, the Portuguese PSI20 fell 1.9 percent. Other European indices also fell. London's FTSE-100 was down 0.3 percent, the German DAX index lost 1.22 percent, the French CAC-40 lost 1.5 percent. Buoyed by the announcement of the bailout proposal, the Athens stock market rose 1.8 percent after six days of losses.

It is unclear whether the new bailout plan will calm the financial markets and, in particular, how much support the package actually has within the European bourgeoisie. Several prior agreements have fallen apart as banks worried that Berlin would ultimately refuse to fund the bailout.

Details of the IMF-German discussions in Berlin were revealed by Jürgen Trittin, parliamentary leader of the Green party, and Thomas Opperman, chief whip of the Social Democrats (SPD). Germany's contribution would be €16 billion to €24 billion, according to their reports, compared to initial plans for a contribution of €8.4 billion. Merkel has faced criticism from within parties in her own governmental coalition, challenging the legality of aid to Greece.

For her part, Merkel said: "The handling of the Greece case shows that everyone knows we cannot allow the same situation with countries as with Lehman Brothers… If the stability of the eurozone as a whole is in danger, every member state, including Germany, feels the responsibility to maintain the stability."

Like Strauss-Kahn, however, she declined to discuss specifics of the program. "Let us talk about numbers once the program has been negotiated," she said.

Nor is it clear how much of Greece's debts will ultimately be paid back. European officials have insisted that Greece would not be allowed to reduce the size of its debt obligations.

German Finance Minister Wolfgang Schäuble told *Handelsblatt* that the proposed bailout package was "not about restructuring, that is not an issue, and no one with a government office is talking about it." European Council president Herman van Rompuy also said there was "no

© World Socialist Web Site

question" of Greece being allowed to restructure its debt.

However, the *Financial Times* wrote that "the market is less confident, as it braces itself for what could be a costly and messy restructuring of nearly €300 billion" of Greek bonds. It cited estimates that only 30 to 50 percent of loans to Greece would be repaid, adding that investors faced "a long drawn-out battle to retrieve their money."

This would risk a contentious fight inside Europe: eurozone countries hold €164 billion of Greek government debt, with tens of billions held by Germany, France, Italy, Belgium, the Netherlands and Luxembourg.

The financial crisis is spreading broadly within Europe. The *Atlanta Journal-Constitution* cited Nicholas Skourias, chief investment officer at Pegasus Securities in Athens: "There is a very serious risk of contagion. It's something like the post-Lehman period. Everybody is panicking and there is a lot of fear in the market."

The *New York Times* wrote yesterday that "the international community may need to come up with a much larger sum to backstop not just Greece, but also Portugal and Spain." It cited Piero Ghezzi of Barclays Capital: "The number would be huge. Ninety billion euros for Greece, 40 billion for Portugal, and 350 billion for Spain—now we are talking real money."

In other words, huge amounts of public funds are to be handed over to the bankers who control Greece's debts, in exchange for which Athens, Lisbon, Madrid and other European governments will be expected to extort massive social concessions from the working class. As the *New York Times* wrote earlier this month, such bailout announcements encourage "investors to test Europe's—and in particular Germany's—stomach for a rescue of other troubled European economies, beginning with Portugal."

The S&P downgrade of Spain's credit rating was another important move that, while it reflects the poor prospects of the Spanish and global economies, will also facilitate the banks' raiding of Europe. Spanish bond yields increased to 4.127 percent on the news. This came one day after S&P downgraded Portugal's debt rating from A+ to A-, citing fears that the Portuguese government might not be strong enough to force the population to accept austerity policies.

S&P analyst Marko Mrsnik remarked: "We now believe that the Spanish economy's shift away from credit-fuelled economic growth is likely to result in a more protracted period of sluggish activity than we previously assumed. We now project that real GDP growth will average 0.7 percent annually in 2010-2016, versus our previous expectations of above 1 percent annually over this period."

Though Spain's government debt stands at a relatively low 56 percent of gross domestic product (GDP), its private sector debt is 178 percent of GDP, and it is dependent on foreign lenders to finance its debts.

One of the principal concerns driving the banks is the fear that working class opposition to social austerity packages might escape the control of the trade unions and the social democratic governments that are organizing the cuts.

Several strikes broke out in Greece yesterday, including by teachers and radio technicians, and applicants for civil service jobs protested outside the Finance Ministry. This came the day after a strike of transport workers and seamen at the Piraeus harbor, and transport strikes in Portugal against wage freezes planned by the social democratic government of Prime Minister José Sócrates.

A further strike by Greek sailors is planned for May 1.

The private sector GSEE union federation and public sector ADEDY, whose leaderships belong to the social democratic PASOK party organizing the Greek cuts and are politically collaborating with it, are mounting another one-day general strike on May 5. They have a combined membership of 2.5 million workers, roughly half Greece's work force.

The social and political tensions increasingly threaten to destroy the common European currency, torn between countries like Greece or Spain that want a weaker currency and a more inflationary policy, and countries like Germany that insist on low inflation.

The Spanish daily *El Pais* carried a column, entitled "The Irresponsibility of a Chancellor," which attacked "German nationalism and euro-skepticism" in connection with Germany's reluctance to fund a bailout. It concluded by wondering whether politicians and economists in EU countries outside Germany might "begin to doubt the convenience of a monetary union with Germany."

On the other hand, Merkel, responding to criticisms that by expressing opposition to the bailout in February and March she had aggravated the situation, said yesterday that Greece should perhaps not have joined the euro. She said "the decision was possibly not checked thoroughly enough."

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site