No debt reduction for Greece

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Euro zone finance ministers finally agreed early Tuesday to the pay the tranche of loans to Greece that had been due since the summer. However, they rejected calls by the International Monetary Fund (IMF), among others, to reduce the debt of the highly indebted country.

This was the third attempt by the euro zone finance ministers to reach agreement on how to proceed in relation to Greece. Over the preceding two weeks, hours of meetings lasting into the wee hours of the night had been dominated by fierce differences among the euro zone countries and between the euro zone and the IMF.

The German government in particular had insisted that Greece be put under maximum pressure to continue the austerity measures that have already produced horrific social and economic consequences. Berlin had strictly rejected any measures that might place an additional burden on the German budget.

For its part, the IMF had demanded that at least a part of the Greek debt be written off, making clear that, even if the country carried out all the austerity measures, it would still fail to reduce its overall debt to 120 percent of gross domestic product (GDP) by 2020. Since the greater part of Greece's debt is now held by other European governments, state banks and the European Central Bank (ECB), such a restructuring would mean considerable losses to the public purse.

With her demand for a "debt haircut", IMF chief Christine Lagarde was speaking for international financial institutions that would suffer massive losses if Greece went bankrupt. They are insisting that European countries contribute to the reduction of Greek debt.

In the end, the euro zone finance ministers and the IMF agreed on a process that meets the demands of both sides—at the expense of the Greek population.

The overdue tranche of the aid package will now be paid on December 13, as soon as it has been agreed by the national governments and parliaments. The payment will be made only in stages, however, dependent upon Athens carrying out the cuts demanded by the troika (the European Union, the IMF and the European Central Bank).

In December, €10.6 billion will be paid for debt clearance and €23.8 billion allocated to recapitalise the Greek banks. By March 2013, a further €9.3 billion will be paid in three stages.

To reduce the country's debt from 190 percent of GDP in 2013 to 124 percent by 2020, and 110 percent by 2022, the finance ministers agreed a series of further measures. However, many financial experts regard these measures as unrealistic.

All sides agree that no additional funds should be made available to Greece, but that the ECB and the European governments should instead forgo a part of the billions they have thus far earned from "saving" Greece.

* The interest rate payable by the Greek government for the first aid package of over €53 billion in 2010 will be reduced from 1.5 percent to 0.9 percent above the Euribor rate (the rate at which European banks lend to one another). Banks and governments will continue to make money from the aid provided to Greece, but it will be a few billion less than was previously the case. As soon as the country shows a primary budget surplus of 4.5 percent (i.e., receipts exceeding outlays by 4.5 percent, disregarding interest payments), the rate will be reduced to 0.5 percent above Euribor.

* The lifespan of the second aid package, agreed in March this year and financed from the European Financial Stability Facility (EFSF), will be extended from 15 to 30 years. The Greek government will not pay any interest on this for the first ten years. According to figures from EFSF chief Klaus Regling, this represents relief of €44 billion over ten years.

* The ECB will forgo the profits it would have made through the sale of Greek bonds on the secondary markets and make these available to support the Greek budget. This represents a sum of some €11 billion.

* The finance ministers hope that a clear reduction of Greece's overall debt will be achieved through the repurchase of debt, which is currently trading on the open market at about 20 to 30 percent of face value.

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Apparently, they want to make €10 billion available to the Greek government so that it can repurchase bonds at 35 percent of their initial value, which would still mean a tidy profit for the current owners.

There are doubts as to whether this repurchase of debt will succeed, since speculators will immediately push up the rate as soon as the Greek government begins the sale. Lagarde wants to retain all the credits being held by the IMF until it is clear that Greece will really reduce its debts in this way.

For the Greek population, this means an extension of the austerity measures for at least ten years. All the monies that flow out of the EFSF or are saved as a result of lowering the interest rate will benefit Greece's creditors. The same applies to profits from the privatisation of state enterprises and services. The Greek government has agreed that all profits from privatisations will be placed in a fund that will be used exclusively to repay the debt.

The Greek people will never see a cent of the billions that were agreed by the finance ministers on Tuesday, which are conditioned on the continuation of cuts in social programs and benefits, the sacking of public sector workers, the closure of schools and hospitals, and the plundering of state enterprises.

Germany's *Handelsblatt* commented that Greece was "saved yet again, but only temporarily." The business newspaper continued, "The Greek problem will soon be back on the European political agenda, at the latest after the [German] federal elections in the autumn."

The financial markets will not rest until the living standards of the working class are reduced to the level of a Third World country, with conditions of exploitation on a par with China, Vietnam and Bangladesh—and not just in Greece, but throughout Europe.

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