Stock markets fall on fears of Greek exit from euro zone

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Financial markets fell in Greece and internationally Monday, in response to Greek prime minister and Syriza leader Alexis Tsipras's speech to parliament the previous evening.

Presenting a series of limited reforms, including a gradual increase in the minimum wage and restoration of pension rights, Tsipras said his government would not seek an extension of the "troika" (European Commission, European Central Bank, International Monetary Fund) austerity programme, due to expire on February 28.

Athens' stance that it will not extend the troika's cuts, but will instead reverse some of the austerity policies imposed by previous governments, sent stock markets in Greece plunging. Within minutes, the Athens market was down 4.15 percent, while Greece's main banks fell by 8 percent overall. By noon, the banks had fallen by 25 percent in three days.

The yield (interest rate) on two-year Greek bonds rose to 20 percent, forcing up the cost of government borrowing. The *Wall Street Journal* noted this was a sign that investors are worried that Greece could default on its debt. New data from the Greek Court of Auditors revealed the nation's foreign debt amounts to €324 billion, exceeding 180 percent of GDP.

The fall in Greek stocks had a knock-on effect on markets throughout Europe, with Germany's DAX down 1.7 percent, Spain's IBEX 35 down 2.2 percent and Italy's FTSE MIB down 2.0 percent. Wall Street fell by 70 points on opening.

On Monday evening, rating agency Moody's, which on Friday put Greece's sovereign debt rating on review for a possible downgrade, cut the credit rating of five major Greek banks.

The British government convened its emergency COBRA committee. The meeting was attended by Prime Minister David Cameron and representatives from the Treasury, the Bank of England, the Foreign Office and the Business Department. Cameron's spokesman said, "We need to be prepared to deal with uncertainties in financial markets. It is something we want to be vigilant about...clearly there are global economic inter-dependencies and London is a major financial centre."

On Wednesday, a "euro group" meeting of euro zone finance ministers will discuss the Greek crisis. The Syriza-Independent Greeks coalition government is to present its debt restructuring proposals to the meeting. Greek finance minister Yanis Varoufakis signaled that he is seeking a deal with EU governments, stating, "At Eurogroup, I will not be a yes man, but I will say 'yes' to proposals that make sense."

A finance ministry official said Athens will request a bridge loan from the euro group, including the return of €1.9 billion in profit made by the European Central Bank and other central banks on Greek bonds.

Syriza is not opposed in principle to the troika's demand that Greece implement "structural reforms" slashing workers' living standards. *Kathemerini* stated: "Behind the public rhetoric, the Greek government has shifted to a more cooperative tone in recent conversations with the troika, according to an official representing the creditors."

Varoufakis told parliament that the government would implement around 70 percent of the current troika-agreed programme. Reports emerged Monday afternoon that Varoufakis would propose an "intermediate" bridging agreement until September 1 and, according to the *Guardian*, may table "10 new reforms to cover the parts of the bailout programme which it is now rejecting."

Syriza's central preoccupation is the defence of

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Greek and European capitalism. Varoufakis told the *Guardian*, "[A]llowing it [the euro] to fragment would be catastrophic…it is the moral duty of the critics of the euro zone to fix it, to make sure it doesn't collapse, because if it does, the cost will be immense not just for the Greeks but the Brits, everyone."

After a week in which European Union (EU) leaders from London to Rome insisted the Syriza government repay Greece's debts, European Commission president Jean-Claude Juncker said Monday: "Greece shouldn't assume that the overall mood in Europe has changed to the point that the euro zone would endorse Mr. Tsipras's entire government agenda without limitations."

Greece could be forced to default on its debt in a matter of weeks, if agreement cannot be found at a February 16 euro group meeting. EU finance ministers have declared this the deadline for Greece to agree on an extension of the EU's austerity programme. *Kathemerini* reported Monday, "Without concessions, the government may run out of money before the end of March, forcing Tsipras either to cave in to European demands or abandon the single currency."

Financial Times columnist Wolfgang Münchau, a staunch advocate of Syriza's debt restructuring programme, warned, "It was an utterly disastrous week of economic diplomacy. All that separates us from Grexit are a few more weeks like that one."

While pointing to the dangers of Greece leaving the euro, he noted that that pressure from hostile European leaders, led by Germany and the markets, could force Syriza to climb down even further on its anti-austerity rhetoric: "Watch out for euphemisms in which programmes become contracts, the troika turns into a consultant, and austerity becomes growth-friendly consolidation."

Germany, with Chancellor Angela Merkel and Finance Minister Wolfgang Schäuble leading the calls, is ever more vocal in insisting that Greece continue to strictly impose previously agreed austerity. On Monday, Schäuble said **, "** Without a programme, things will be tough for Greece."

Other European powers consider looser credit and rescheduling of Greek debt repayments as the best tactic to force austerity on Greece and ensure the money they have loaned to Greece is paid back. At Monday's G20 meeting, French finance minister Michel Sapin said, "We need financing, otherwise Greece would be subjected to market panic."

Whereas the EU "cannot just say 'we'll fund, we'll fund,' " he cautioned, "It's not possible for the Greek government to hear 'we're going to continue as if nothing has happened,' even if it's not for long."

Washington is also concerned about the consequences of Greece being forced from the euro zone, particularly under conditions where it is seeking to ensure it remains part of the NATO alliance, as both Russia and China try to cement closer political and economic ties to Athens.

The *Financial Times* reported Monday, "The Obama administration is pushing euro zone leaders to compromise more with Athens as fears grow that a protracted stand-off could damage the global economy."

Citing "mounting concern in Brussels and Washington about the hard-line stand taken by some euro zone governments, particularly Germany," the article cites an unnamed senior US official who said, "I don't think our attitude has changed but what's changed is that suddenly the situation in Greece is looking more problematic.... We believe that any fragmentation would have a severe spillover effect."

The Obama administration is despatching the Treasury department's top Europe official, Daleep Singh, to Athens. The *Financial Times* noted that US "officials said they were pushing euro zone officials to put aside any consideration of Greek exit from the euro and help find ways for Athens to spur growth."

In a veiled call for further austerity, he added, "They [Greece] need to hold on to the gains from the reforms they've already made and they need to press forward with the kind of structural changes that a lot of people believe are needed to make Greece more competitive."

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