EU threatens to push Greece into bankruptcy after collapse of debt talks

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Prospects of a deal between the European Union (EU) and Greece to avert a Greek government default on its debt continued to fade yesterday, as European officials threatened to tip Greece into bankruptcy and Greek Prime Minister Alexis Tsipras publicly attacked the EU.

Addressing the Greek parliament yesterday, Tsipras denounced Greece's creditors, who are cutting off credit to the Greek state and threatening to force it into bankruptcy by the end of the month. Bankruptcy would devastate Greek banks and could force Greece to reintroduce a national currency to halt a collapse of its financial system. This would mean a Greek exit ("Grexit") from the euro.

Tsipras said that the International Monetary Fund (IMF) bore "criminal responsibility" for the economic crisis in Greece and criticized moves to "strangulate" Greece by its official creditors, the IMF, EU and the European Central Bank (ECB).

"The insistence of the institutions on pursuing a program that has clearly failed cannot come from error or excessive zeal; most likely it serves a political purpose," he said. He concluded that EU authorities "doubtless are making a show of force destined to kill off any attempt to put an end to austerity."

However, Tsipras also signaled that he is still seeking a deal with the EU on the basis of imposing more austerity on the Greek population, even as he appealed to broad popular opposition in Greece to the EU—whose savage austerity measures over six years have shrunk the country's economy by 25 percent, increased its debt burden and impoverished the population.

Tsipras met with Stavros Theodorakis of the To Potami ("River") party, Fofi Gennimata of the social-democratic PASOK party and officials of the conservative New Democracy (ND) party. These parties all support working out an austerity deal with the EU. After meeting with Tsipras, Theodorakis announced that Tsipras had said that he was prepared to make "two or three gestures" towards the positions of the EU. The government did not deny Theodorakis's report.

According to *To Vima*, Tsipras also declared that he would not hesitate to come into conflict with elements of his government, such as the far-right Independent Greeks (Anel) party or Syriza's "Left Platform," who have criticized attempts to work out a deal with the EU. "Nobody is more left than I am," he claimed.

Tsipras' cynical balancing act between popular opposition to austerity and the demands of the EU is ever more difficult, however. Only weeks after taking power in January, he repudiated his election pledges to end austerity and agreed to extend EU austerity bailouts until the end of June. Fearing that Syriza has been discredited by this decision, Tsipras is trying to obtain certain limited concessions from the EU before agreeing to continue the EU program past the end of June.

At the same time, however, both Greek and EU authorities are actively preparing for the possibility that the breakdown of EU-Greek talks will lead to a financial collapse and a "Grexit."

Greek officials are reportedly preparing for potentially serious shortages of fuel and medicine, both of which Greece imports. With the value of a future Greek drachma currency against euros and dollars expected to plunge, the daily *Kathimerini* wrote, "the fear is that prices of imports in drachma will simply surge out of reach."

As for European officials, they are stepping up threats to loot Greece if it does not impose a new round of savage social cuts on the population.

"In the event a solid reform package is not presented, then a 'Grexit' would have to be accepted if necessary. I'm not so sure anymore if the Greek government is really interested in averting damage for the people of Greece," said Michael Grosse-Broemer, a lawmaker of Germany's ruling Christian Democratic Union (CDU).

ECB officials are making clear that a Greek government default could lead to a cutoff of credit to the entire Greek financial system. Klaas Knot, the head of the Dutch central bank and member of the ECB governing board, told the Dutch parliament yesterday that if the Greek state defaulted, the ECB would no longer accept Greek banks' collateral as security for ECB loans. After a default, he said, "a whole bunch of things would happen."

On Monday, Germany's *Suddeutsche Zeitung* reported that EU officials are drawing up plans for capital controls to prevent Greek depositors from withdrawing their euros from their bank accounts to avoid losing their funds in the resulting crash. Plans are also being made for a situation where Athens refuses to adopt such measures. These involve moves to "isolate" Greece from the world financial system, somewhat along the lines of financial sanctions imposed by Washington against Iran.

Athens denied the *SZ* report, however, while officials in Berlin neither confirmed nor denied it.

While leading officials in Europe and the United States continue to press for a negotiated settlement between the EU and Greece, there are increasing doubts as to whether such a deal can be reached.

German Chancellor Angela Merkel said she was unsure whether a deal would be reached at Thursday's meeting of euro zone finance ministers in Luxembourg. She told a press conference, "Unfortunately, there is little new to report," adding: "I have always said I want to do everything possible to keep Greece in the euro zone. I remain dedicated to that."

In Washington, White House Press Secretary Josh Earnest called upon Greek and EU officials to continue negotiating to establish a "reliable reform program."

Jens Weidmann of Germany's central bank, the Bundesbank, said at a conference in Frankfurt that Greece was running out of time, and that it was impossible to follow the "different twists and turns" of the talks.

The Greek crisis is already impacting the financial markets' confidence in other European governments, amid fears that financial panic provoked by a Greek default could rapidly lead to a broader crisis across Europe. Bond investors drove Portuguese, Spanish and Italian 10-year interest rates up to multi-month highs of 3.33, 2.53, and 2.45 percent, respectively.