Greece: three-way gridlock

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Diario Expansión (Spain)

Following an all too familiar pattern, this week saw the collapse of the latest attempt to move forward with the programme of assistance to Greece. The Eurogroup meetings seem destined always to leads to last-minute solutions to Greece's problems. Greece is in the midst of the second review of its third bailout programme, which should lead to a new tranche of financial assistance being disbursed, serving basically to meet debt repayments of just over €7 billion in July. Hence the importance of agreement and its potential impact on financial markets.

By far the greater part of Greece's public debt is already held by European institutions, at very low interest rates and with very long-term maturities, terms agreed and progressively relaxed in previous programmes. Thanks to this, and despite the fact that the debt amounts to almost 180% of GDP, the interest charge amounts to barely 1.8% of GDP, well below Spain (2.5%) or Italy (3%), countries with much smaller relative volumes of debt. Not much account is taken of this figure in debates about whether or not Greece's public debt is sustainable in the long term.

The current discussions are three-way, among Greece, the IMF and the Eurogroup (or rather Germany, which calls the shots.) A week has passed since Greece approved the package of measures required by its creditors, consisting above all in a 1% of GDP adjustment to pensions in 2019 and increases in income tax in 2020, in order finally to attain the objective of a primary surplus of 3.5% of GDP. This figure has been pursued for some time, as being compatible with a gradual reduction in debt over the next few decades.

The IMF, which has yet to contribute to this new programme (so far financed only by the ESM), is prepared to join in only if the EU grants additional relief in the debt repayment terms to ensure its sustainability. According to the IMF, Greece will not be able to grow permanently at 1.3% as posited by the programme, but only at 1%, which means further relaxation of the terms necessary.

In the third leg of the negotiation, Germany does not wish to discuss debt relief until after the current programme has ended (in 2018), and then only if it is necessary, since it considers the current programme viable; moreover, it requires the IMF to take part in the programme, since this was a condition of its parliament's approval of the programme in 2015. Postponing the debate to 2018 also has the additional advantage of not having to hold it now, with German elections just three months away. The Greek government for its part has signalled that the adjustments passed by parliament will not be applied if the IMF does not join the programme and if the new repayment terms are not agreed immediately.

This leads to a triangle in which two of the three parties (the IMF and the Eurogroup) have drawn red lines that are mutually exclusive (immediate decision on debt relief as against IMF participation) and a third (Greece) demands both conditions.

Obviously the differences between the negotiators in terms of figures are very small (1% growth as against 1.3%), especially for potential growth forecasts that are difficult to estimate for such a long period (simulations are being made as far out as to 2060). And in any case the growth forecasts seem conservative.

The proposal now on the table is that that the IMF should agree now to join the programme but not participate financially until later when the additional debt relief measures are decided, despite the fact that they have not yet been accepted by the Greek minister of finance. With the positions so close in economic terms, the differences can only be attributed to political issues, the solution to which does not seem far off. In principle the Eurogroup's stance - waiting to see whether additional relief measures are really necessary - seems reasonable, but it is possible that an intermediate position will be arrived at.

If all goes well the solution will come in the next meeting of the Eurogroup on 15 June.