DOC. N.º 131

The World from Berlin: 'The Greek Drama is Far From Finished

The European Commission on Wednesday unveiled unprecedented plans to monitor Greece's debt-riddled economy. But the financial markets remain unconvinced. German editorialists on Thursday argue that more needs to be done to safeguard the Greek economy -- and the euro.

February 04, 2010 – 05:45 PM

Related SPIEGEL ONLINE links

Pressure to Reform: European Union Puts Greece under Financial Surveillance (02/03/2010)

Common Currency Woes: European Union Sees Threats to the Euro (01/25/2010)

dpa

Recent economic woes in Greece have driven down the euro: How great is the risk for Europe's common currency?

The European Commission on Wednesday endorsed Greek cost-cutting plans which aim to take the heat out of its foundering public finances. At a news conference, Joaquin Almunia, the European commissioner for economic and monetary affairs, called the Greek government's objectives and targets "ambitious" but "achievable."

Nevertheless, the government's cost-cutting regime, which will include higher fuel taxes and significant cuts in public sector wages, is deeply unpopular and could face public opposition. Nor will it quickly eliminate the country's biggest problem: Greece's credit rating has taken a battering in recent weeks and it is becoming increasingly more expensive and difficult for Athens to issue bonds on the debt market, the common tool used by governments for borrowing.

On Thursday, markets remained jittery about the nation, which has a deficit of 12.7 percent of gross domestic product -- more than four times the official euro zone limit. Despite the Commission's tentative backing, investors are still not convinced that Greece can steer itself out of its deep debts.

There are also fears that Portugal and Spain may follow suit. On Wednesday, Portugal scrapped a planned treasury bill issue and Spain said its deficits will be balloon even more than expected over the next three years. The euro, which is arguably facing its greatest challenge since its launch, fell to a new seven-month low against the dollar on Thursday.

Speaking in a televised interview, Greek Prime Minister George A. Papandreou stressed that he would take drastic measures. "We are the weak link in the euro zone. We must act immediately and decisively," he said.

German commentators on Thursday echo the need for a speedy solution, although they also express doubts that Greece or the European Commission will take action that is decisive enough to stem the crisis.

Center-right daily **Frankfurter Allgemeine Zeitung** writes:

"It remains a completely open question whether the application of EU regulations will be enough to spare Greece from bankruptcy. The notoriously nervous markets will hardly be impressed by them. In a number of respects the pact is facing a crucial test: Are the European Commission and the finance ministers really willing to go the final step -- the imposition of fines if the situation does not improve within four months? Does the Athens government have the authority and resolve to stick to its planned cost-cutting program for three years despite strong popular resistance? And how will the EU's budgetary scrutiny really affect Greece? Greece will not be saved by the fact that some European institutions have made some decisions -- not least because politics can only exert a limited influence over economic developments."

The **Financial Times Deutschland** writes:

"However good the EU's monitoring of Greece finances amy be, the second part of the solution is missing: credible sanctions. Greece, a repeated fiscal sinner, is unlikely to return to a virtuous path through controls alone -- at least not without any threat of punishment."

"If the Greek government is budged off course by the guaranteed angry protests, there is little the EU can do. In contrast to the International Monetary Fund, there is no financial assistance the EU could curtail to punish countries for non-compliance. The Maastricht Treaty (which includes sections regulating the stability of the common currency) does contain provisions that threaten to cut payments from diverse EU funds to countries that break the deficit rules. But these funds have already long been built into national budgets. Cuts would merely serve to aggravate the crisis and further jeopardize the euro zone."

"So Greece emerges as a test case for designated EU Economic and Monetary Affairs Commissioner Olli Rehn. He has to prove that Brussels has the euro zone countries under control, even without effective sanctions. One of his first actions should be to push Portugal, Ireland and Spain towards increased fiscal discipline. After all, a chain reaction is exactly what the euro area has to avoid if it wants to ensure the stability of the euro."

The center-left **Süddeutsche Zeitung** writes:

"(The situation is reminiscent of) Lehman Brothers, that seemingly unimportant New York investment bank whose September 2008 bankruptcy led the world into a crisis that is still affecting us. First came Lehman and the banking crisis, now it's Greece and its national crisis. History is repeating itself."

"Similarities can be seen in how the crises emerged -- but perhaps not in terms of how they are dealt with. EU governments still have the opportunity to respond, and they may come up with a better reaction than President George W. Bush and his aides, who thought they could isolate and punish Lehman, and by doing so set the financial system in flames. Attempting the same approach at the country level would be tantamount to Russian Roulette. If Greece falls (and it already has daily problems borrowing money in the financial markets), then Spain, Portugal, Ireland will probably fall too."

"Therefore it must be helped with all the fiscal brutality within the realms of legal possibility. The European Commission has taken the first step to put the country under its control, and virtually deprive it of its sovereignty. This is the worst imaginable punishment for a nation, but it is also a consequence of being a member of the European community. It is only in times of crisis that you see what a system is capable of. And the euro system has many possibilities -- even if they hurt."

Conservative **Die Welt** writes:

"The EU has given Greece a long leash for far too long. Now Brussels has no choice. All that is left is the weak instrument of budgetary surveillance and a vague hope that, somehow, everything will go well. Sanctions, such as the freezing of EU subsidies, penalties to the tune of billions of euros or exclusion from the monetary zone are not feasible. Any such step would plunge the Greeks even further into the abyss and weaken confidence in the euro even more."

"Brussels is backing strict austerity measures. That is correct, but also wrought with dangers. The planned massive spending cuts and tax increases could stifle the economy of Greece and lead to deflation -- causing a vicious circle. The Greek drama is far from finished. It may well be that a few euro countries like Germany will soon have to jump in as a savior, offering billions in bilateral aid. That would be bitter pill to swallow."

Jess Smee

Article... Print Feedback

TOP