Investors have woken up to Greece's nuclear risk

European and international authorities are facing a revolt from the Greek new prime minister, Alexis Tsipras

A Greek presidential guard stands as he seen through the remains of a European Union flag half-burnt Photo: AP

By Ambrose Evans-Pritchard, International Business Editor

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Markets have woken up to Greek nuclear risk. Bank stocks on the Athens exchange have crashed 44pc since Alexis Tsipras swept into power this week with a mandate to defy the European power structure.

Greek bonds bought with such zest by investors last April - entranced by the mirage of recovery, and deaf to simmering revolution below - are signalling a rapid slide towards bankruptcy. Five year yields spiked to 13.5pc today.

Contrary to expectations, Mr Tsipras has not resiled from a long list of campaign pledges that breach the terms of Greece's EU-IMF Troika Memorandum, and therefore put the country on a collision course with the Brussels, Berlin, and Frankfurt.

He told his cabinet today that the government is willing to negotiate on its demands for debt relief but will not abandon its core promises to the Greek people. “We will not seek a catastrophic solution, but neither will we consent to a policy of submission. The country is holding up its head," he said.

If anything, he is upping the ante. He could have gone in into coalition with the centrist, pro-EU Potami party, and could have explained any softening of his line towards Europe as a necessary move to hold the government together. Instead he chose to go with Independent Greeks, a nationalist party that is even more virulently hostile to the Troika. This has been a cannon shot across the bows of creditor states.

Mr Tsipras is clearly gambling that the Germany and the creditor powers will not let monetary union break up at this late stage, over a trivial sum of money, after having already committed €245bn, for to do so would shatter the illusion that the eurozone crisis has been solved. This may be a misjudgment.

"We will immediately stop any privatisation," said Panagiotis Lafazanis, leader of the Marxist Left Platform, the biggest bloc in the Syriza pantheon. Plans to sell the PPT power utility and the Piraeus Port Authority have been halted. The minimum wage will be raised from €500 to €751 a month as a first order business. This is an explicit rejection of Troika austerity terms.

We are witnessing a democratic revolution. Never before have the EMU elites had to face a eurozone government that refuses to play by any of their rules, and they have yet to experience the lascerating tongue of Yanis Varoufakis, a relentless critic of their 1930s ideology of debt-deflation and "fiscal waterboarding".

Mr Varoufakis told me before his appointment as finance minister that Syriza will not capitulate even if the European Central Bank threatens to cut off €54bn of liquidity for the Greek banking system, a move that would almost certainly force Greece to nationalise the banks, impose capital controls, and would - in my view, though not in his - force it to reintroduce the drachma within days.

"A freshly elected government cannot allow itself to be intimidated by threats of Armageddon," he said. His first act in office today was to announce that 600 cleaners in the finance ministry will regain their jobs, paid for by cutting financial advisers. The corridors erupted in cheers.

Whether you are "staunchly" on the Left or "unashamedly" on the Right - as the BBC likes to characterise opinion - it is hard not to feel a welling sympathy for this popular revolt. If it takes a neo-Marxist like Alexis Tsipras to confront the elemental folly of EMU crisis strategy, so be it.

The suggestion - almost a mantra in EMU power circles - that Syriza is retreating from "reform" is risible. There is no reform. The two dynastic parties in charge of Greece for over three decades have always treated the state as a patronage machine, and seem to have great trouble shaking the habit.

"The concept of reform has been gradually discredited during the current crisis," says Athens think-tank IOBE. The IMF's mea culpa on the Troika's mishandling of Greece admits that the policies imposed were mostly wage cuts and brute austerity, with precious little reform of the state structure or product markets. Greece's ranking on the World Economic Forum's competitiveness index has dropped from 67 to 81 over the last six years, below Ukraine and Algeria.

If there is any party that can put an end to this oligarchy it is probably Syriza. They are outsiders, without vested interests. Mr Varoufakis has vowed to smash the "rent-seeking" kleptocracy that enjoys legal tax immunity and have turned state procurement into an enrichment scam. "We will destroy the bases which they built for decade after decade," he said.

What Syriza is really retreating from is a scorched-earth austerity policy that has slashed investment by 63.5pc, caused a 26pc fall in GDP, pushed the youth jobless rate to 62pc, ravaged the tax base, and sent debt spiralling up to 177pc.

We have witnessed is "The Rape of Greece", to borrow the title of a new book by Nadia Valavani, suddenly catapulted into power as Syriza's deputy finance minister. IMF officials privately agree. The Fund confesses in its candid report that the Troika fatally under-estimated the violence of the fiscal multiplier.

Yes, successive governments lied about the true state of public finances in the years leading up to the crisis, but this is a distraction in macro-economic terms. The flood of French, German, Dutch, and Anglo-Saxon capital into Greece was so vast that the drama would have unfolded in much same way even if Greek politicians had been angels.

The greater lie was the silent complicity of all the relevant players in allowing the deformed structure of monetary union to incubate disaster. Surveillance reports by EU bodies in did not sound the alarm during the boom years, though one of the authors told me at clandestine lunches in Brussels that the whole of southern Europe was heading for disaster. Internal critics were silenced.

What has happened to Greece since then is a moral scandal. Leaked documents from the IMF Board confirm that country needed debt relief at the outset. This was blocked by the EU for fear that it would set off contagion at a time when the eurozone - negligently - did not have a lender-of-last resort. Greece was sacrificed to buy time for the euro.

The EU-IMF Troika forced a bankrupt country to take on further loan packages, allowing foreign banks to dump their bonds onto Greek taxpayers and trap Greek citizens in debt servitude. To add insult to injury, this was called a rescue.

The IMF minutes for May 2010 said Troika loans “may be seen not as a rescue of Greece, which will have to undergo a wrenching adjustment, but as a bailout of Greece’s private debt holders”. Greece suffered IMF austerity without the usual IMF cure of devaluation and debt relief. It has every right to demand redress.

Yet Mr Tsipras faces a tortured moral choice. If he defaults, he walks away from debts owed to taxpayers in countries that are also net debtors with mass unemployment. Italy's contribution to the Greek loan package is €41bn and Italy too is in crisis. The Mezzogiorno's GDP has fallen by 15pc since 2008, and levels of hardship are comparable to those in Greece. All of Southern Europe is on the hook due to the insidious mechanisms of EMU crisis strategy.

Syriza's manifesto - the Thessaloniki Programme - demands cancellation of "the greater part" of Greece's public debt, comparable to the relief secured by Germany at the London Conference in 1953, and necessary to pave the way for the post-War boom. It wants a broader "European Debt Conference" to restructure the debts of all southern European states, and in a sense it is right.

Mr Varoufaki says the eurozone will be "toast within a couple of years" unless it comes to terms with the fundamental absurdity of eurozone capital flows. Either the surpluses of the North are recycled into the South, or the bloc as whole will remain trapped in a deflationary vortex. "You can't have a monetary union that pretends it can survive by simply lending more money to debtor countries on condition that they must shrink their income," he told the BBC's Paul Mason.

Yet it is not within Syriza's power to bring about such a broad change. The cold reality for now is that Athens is now on a war footing with an EMU power-structure controlled by the creditors. The chorus of warnings over the last two days has been painfully loud and clear.

It is one thing to soften the terms of Greek debt repayment and cut the primary surplus from a target of 4.5pc to maybe 3.5pc of GDP. It is another to overthrow the Troika altogether. “We expect them to fulfil everything that they have promised to fulfil,” said Jyrki Katainen, EU's economic enforcer.

The dawning awareness of this unbridgeable chasm is what is frightening investors, and events are now moving with lightning speed. Barclays says capital flight may have reached €20bn since early December. The pace is surely accelerating.

Greece will hit its first crunch-point at the end of February when its bail-out extension expires. No doubt there will be an emergency extension of some kind - perhaps a month - but the debt redemptions will pile up soon after that, culminating in a €7bn repayment to the ECB in July and August that Greece cannot possibly meet without a deal. The mere anticipation of this awful moment will bring it forward.

Marcel Fratzscher, head of Berlin's DIW institute in Berlin, told Reuters that Mr Tsipras is playing a "very dangerous game" that ris. "If people start to believe that he is really serious, you could have massive capital flight and a bank run. You are quickly at a point where euro exit becomes possible," he said.

Holger Schmieding from Berenberg Bank says he has returned from Athens in despair, seriously worried that events may soon spin out of control. "Vicious circles can start fast," he said.

How we moderate