# Greek crisis talks collapse in acrimony as Syriza defies EMU

## 'The only way to solve Greece is to treat us like equals; not a debt colony,' says Greek finance minister

By Ambrose Evans-Pritchard, International Business Editor

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Greece is on a collision course with the eurozone's creditor powers after emergency talks ended in acrimony on Monday night, triggering the most serious political crisis since the launch of the euro.

The Leftist Syriza government reacted with fury to eurozone demands that it must stick to the country's discredited austerity plan, describing the draft text as "absurd and unacceptable".

Yanis Varoufakis, the Greek finance minister, said Eurogroup finance ministers had ignored a deal already agreed with the European Commission for a four-month delay and a "new contract for growth", returning instead to old demands. "The only way to solve Greece is to treat us like equals; not a debt colony," he said, predicting that EU authorities would soon have to withdraw their latest "ultimatum".

The talks were halted after four hours of stormy exchanges, risking a traumatic showdown that could precipitate the biggest default in world history and force Greece out of the euro by the end of the month.

Mr Varoukais said Syriza had won a landslide vowing to overthrow the EU-IMF troika memorandum and could not betray Greek democracy. "It would be an act of subterfuge to promise our partners that we will complete a programme we were elected to challenge."

“This programme has failed to stabilise Greece, has generated a major humanitarian crisis, and has led to a debt deflationary spiral,” he said, nevertheless pledging to do whatever it takes to reach an “honourable settlement”.

Jeroen Dijsselbloem, the head of the Eurogroup, was unyielding in comments afterwards, demanding that Greece “honour its obligations". He said the ball is now in Greece’s court. “They have to make up their minds,” he said, leaving the door open for another meeting on Friday.

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The Eurogroup text said “the Greek authorities have indicated that they intend to successfully conclude the programme taking into account the new government’s plans”. A leaked copy showed these words crossed out by Mr Varoufakis, who peppered the paper with angry annotations.

Part of the dispute appears semantic but has political implications. The Greeks want a new arrangement, but that would require a vote in the German, Dutch, Finnish and Slovak parliaments, where patience with Athens is exhausted. The Eurogroup is insisting on an “extension” of the programme, which does not require parliamentary assent.

Yet the clash runs deeper. The text said the Greeks must toe the line on “tax policy, privatisation, labour market reforms, financial sector and pensions”. It said Greece must continue with “fiscal surpluses” imposed by the troika, meaning that Athens would have to raise the primary budget surplus from 1.5pc of GDP in 2014, to 3pc this year and 4.5pc next year.

This would prevent Syriza from carrying out its welfare and anti-poverty programmes. It would tighten fiscal policy at a time when the country is already reeling from six years of depression. Syriza is demanding that the surplus be frozen at 1.5pc of GDP. The US appeared to back the Greeks on this last week, saying fiscal consolidation had already gone far enough.

Greece has few open allies in the Eurogroup. Germany fears that austerity discipline will collapse across southern Europe if Syriza wins concessions, while Spain, Portugal and Italy fear populist bushfires in their own countries. Yet the assumption that Syriza will back down under pressure is highly risky.

Mr Varoufakis wrote in The New York Times that he is not playing academic “game theory” and is not bluffing. “The lines that we have presented as red will not be crossed,” he said.

Syriza is riding a wave of sympathy at home that extends far beyond its electoral base. The latest polls show that 81pc back the government’s refusal to buckle to Brussels, and that the party would win an outright majority in parliament if there were fresh elections.

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Berkeley professor Barry Eichengreen, a leading currency expert, said Europe would pay a “very high price” if Greece is ejected from the euro. “I wouldn’t invest a single penny in Europe. The risks are too big,” he said.

“It would engulf other countries. Once Portuguese families or Spanish businessmen see that euros have turned back into drachma, they are going to pull their money out of their accounts. That could turn into a bank run. Investors would then start to speculate on who the next exit candidate would be. It would undermine the whole euro project. Sticking to the rules is not a worthwhile concept when the rules are leading straight into catastrophe,” he told Die Welt.

## Time until EU assistance to Greek banks ends

| 10 | : | 14 | : | 37 | : | 56 |
|---|---|---|---|---|---|---|
| Days | | Hrs | | Mins | | Secs |

The Eurogroup’s superficial unity belies deep differences. It may not hold if Greece refuses to yield, and each country is forced decide whether they really wish to test fate by violating the sanctity of monetary union.

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France's finance minister, Michel Sapin, said on Monday that the Germans were "in a certain sense" right to insist that Greece abide by the rules but then added: "The Greeks are right, and I agree with them, that they have just changed the government, and not in order to carry on as before. We have to find a workable way to sort this out together."

Klaus Regling, head of the eurozone bail-out fund (ESFS), hinted that there is some scope for changing parts of the Greek loan deal so long as the "overall direction" is maintained. "It is understandable that the newly-elected government has different priorities from the old one," he said.

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For all the bluster, the Eurogroup text did say the creditors would look "favourably" on a request for a six-month technical extension to Greece's bail-out, even suggesting that Athens could draw on €11bn set aside for bank recapitalisation.

Greece must repay €22.5bn this year, starting with €4bn owed to the International Monetary Fund over the next six weeks. The crunch comes in June, July and August, when it has to pay back €11.4bn, mostly to the European Central Bank.

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Whether Greece can last even this long depends entirely on liquidity support for the Greek financial system from the ECB. Frankfurt has already sent a warning signal by refusing to accept Greek-backed bonds as collateral for fresh loans at its normal lending window, but is still maintaining emergency liquidity assistance (ELA) for Greek banks.

The ECB's governing council could cut this off at any time by a two-thirds majority vote, a move that would lead to a collapse of the Greek banks and force Greece out of the euro. Peter Praet, a key board member, said there may be some leeway on ELA support for now. "When you have a systemic crisis, you may need flexibility in terms of duration," he said.

The crucial deadline for the ECB is February 28 when the current bail-out programme expires. Yet it would be unthinkable for any central bank to take such a fateful decision without clear political guidance. Only Europe's elected leaders have the rank to break up monetary union.

How we moderate