

# The Telegraph

## How the Greek crisis changed Europe forever

Amid drama and disagreement, a third bail-out for Greece is on the way to being secured, but the future is as uncertain as ever



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

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Greece's debt drama almost took an unexpected turn this week. Just six months after Alexis Tsipras strode into the presidential palace to be sworn in as prime minister, he was nowhere to be seen in the parliamentary chamber as the country's 300 MPs gathered to vote on the country's future. **Greece** needed a third bail-out. The deal on offer was €86bn, but the costs were huge.

Many described the terms, which included sacking re-hired public sector workers, tearing up Sunday trading laws and putting a "for sale" sign on €50bn of Greek assets as "humiliating".

The midnight deadline for the so-called “prior actions” to get through parliament had already passed in Athens. Around 1,500 miles north west in Berlin’s time zone, it was fast approaching.



Another late night: Greek prime minister Alexis Tsipras (R) sits next to Finance Minister Euclid Tsakalotos (L) in a parliamentary session in Athens (Photo: Reuters).

#WhereisTsipras? Twitter asked, as people started to notice his empty chair. It turned out to be a false alarm. In an era where rules are made to be broken, the brief moment of drama became just another missed deadline. But there was no escaping from the reality of the deal Tsipras had struck in the early hours of Monday morning. As he stood up to speak, the firebrand prime minister was just the shell of a man who had stood in Syntagma square in January and told voters that Syriza would end “vicious cycle of austerity”. Tsipras had fought the Brussels machine and lost. The agreements for Greece’s bail-out were **“made with personal costs for the sake of our people’s rights”**, he said. While this was met with applause, to the outside world it was a Pyrrhic victory at best, complete capitulation at worst.



Breaking point: Greek finance minister Euclid Tsakalotos puts his head in his hands as he attends a parliamentary session in Athens (Photo: Reuters)

“The atmosphere was tense, exactly because this was a historic moment, and everyone understood that,” says George Katrougalos, Greece's new labour minister. “There was a psychological burden hanging over everybody”. Outside, citizens born in the birthplace of democracy faced the reality that their “no” in the referendum on austerity was now a firm “yes”, as the motion for years of extra belt-tightening was agreed by 229 out of 300 MPs. Banners outside exclaimed “No to privatisations” and “No to the 'povertisation' of the people”. Others abandoned words, instead throwing molotov cocktails at police as violence erupted on Athens’ streets. For many, there was nothing left to lose.

It was the conclusion of a week where the idea of “Grexit” was for the first time suggested collectively by the Eurogroup of finance ministers. It was also the week that leaders lost their cool. “I’m not stupid”, Wolfgang Schaeuble, Germany’s finance minister snapped at Mario Draghi, the head of the European Central Bank.

Countries that share the same language were singing from different hymn sheets. Werner Faymann, Austria’s chancellor, said it was not “morally right” for Germany to be calling for a Greek “time-out” from the eurozone. Back in Britain, policymakers weren’t happy either.

The news that the UK could be on the hook for Greece’s bail-out infuriated **George Osborne**, who rushed to Brussels **demanding that someone else pick up the bill**. This was the European Union in action – but it was anything but united.



Protesters march outside the Greek parliament as MPs vote yes to the eurozone's bail-out plan (Photo: Reuters)

## Irreparable damage?

"IMF get out! Delete the debt", the banner exclaimed as protesters marched it through Syntagma Square. Those six words were to sum-up a relationship between the eurozone, Washington and Greece that has been tested to its limits.

Tsipras fought doggedly to keep the IMF out of [the country's new rescue programme](#).

"Our insistence not to have the IMF as a complement to the programme was based on two considerations," says Katrougalos. "First it is not logical for a non-European institution to have a decisive say in something that is obviously a European affair.

"The second is because of the clear neo-liberal agenda that the IMF always takes.

"On the other hand, the IMF says clearly what is obvious now that the debt is unsustainable. So those of our partners that want the IMF in the programme, they cannot have it both ways. They must accept this view."

During the 17-hour session inside the Lex building in Brussels, Christine Lagarde, IMF managing director, made stark the unpalatable choices facing the Europeans: provide Greece with massive debt relief in the form of "deep upfront haircuts", or consider the toxic alternative of "explicit annual transfers to the Greek budget".





Most hated? Take your pick. Christine Lagarde, managing director of the International Monetary Fund (centre), speaks with Dutch Finance Minister and chairman of the eurogroup Jeroen Dijsselbloem, left, and Director of the IMF's European Department Poul Thomsen last week (photo: AP)

The first option would require a breach of EU treaties. The second would open the way for a “fiscal union”, anathema to Europe’s creditor nations, led by Germany. The IMF’s incendiary intervention was evidence for some that Greece’s senior creditor and the world’s “lender of last resort” finally wanted out.

**“This is a defining moment for the IMF,” says Alessandro Leipold, former acting head of the IMF’s Europe department. “Greece is its biggest loan programme in history, the first developed economy to have ever fallen into arrears, and there is severe criticism about the quality of the programme and the IMF blindly following the Europeans.”**

**The IMF has always been the chief villain of the Troika, says Leipold. “If you look at the history of other bail-outs in Ireland and Portugal, it was always the opposite,” he says. “The IMF was always quite popular, but in Greece, the fund has been seen as the toughest taskmaster.”**

Poul Thomsen, [the former head of the IMF’s mission in Greece](#), carried the ignominious title of being one of the “Most Hated Men in Greece”, during his five years in the country. He now visits with 24-hour bodyguard protection on the recommendation of the Greek police, in his new role as Europe director.

***“This is a defining moment for the IMF”***  
**Alessandro Leipold**

For all the internecine squabbling over debt relief, the eurozone's creditor nations are desperate to maintain the IMF's presence in a new rescue. Alexander Stubb, Finland's finance minister, has said IMF involvement is the sine qua none for his country to reluctantly continue shelling out rescue money to the debtor nation.

**The IMF will now provide a further €16bn to Greece up until its programme officially expires in March 2016. "The question that remains hanging in the air, is will the fund resume its lending?," says Leipold. "They have to find that debt is sustainable with a "high probability" but what is certain is that the IMF has now laid down its red lines on debt relief."**

## **Rebuilding trust**

It is clear if the eurozone is to move forward, trust will need to be rebuilt across the 19 nation bloc.

Ralph Brinkhaus, an MP in Angela Merkel's CDU party, says it's up to the Greeks to do so. "The German view is very sceptical because within the last five months we have had a tremendous loss of trust regarding the Greek government. They were the ones who left the negotiations, they have said different things in Brussels and to their own people in Athens, and they have led a campaign against the programme of the eurozone."

Others say Greece's decision to vote No to the creditors' rescue proposals caused irreparable damage: "Even the most peaceful people in Germany in my constituency are telling me no, we are completely fed up with the Greeks, let them leave because we do not believe them anymore," said one MP. But members of Tsipras's government say he is determined to stay in Maximos Mansion and finish the job he started.

Insiders confirm snap elections in September are likely. But Tsipras will not resign. In fact, he is determined to win a majority.

*"The disaster will continue as long as it is financed"*

Hans-Werner Sinn

“Tsipras will not abandon the Greek people. But it is impossible for the coalition as it stands can continue because we have ideological differences,” says one Syriza member. “We can’t ally ourselves with those [in opposition] who have supported these austerity demands. We want the elections to give us a more coherent majority.”

Katrougalos says that, while he understands why some members of Syriza voted no last week, the party remains strong.

“We managed to neutralise a political coup – of several wings of Europe that wanted to overthrow the government,” he says. “Even this language about the lack of trust hides the preference of the political circles in Europe to see us out of business.”

He admits the latest bail-out will be very hard to implement, saying: “The new fiscal obligations will be impossible by many measures because many people within the middle classes have now been left impoverished. I cannot understand the thinking of some of our partners insisting on measures that have proven to be ineffective in the past.”

Hans-Werner Sinn, head of the respected Ifo think-tank, remains adamant that Grexit is the only way the country can regain competitiveness - a view now shared by Schaeuble. Sinn says more bail-out funds are just “poison” for Greece.

“The money will create a temporary Keynesian boom and keep wages and prices above the market clearing level and preserve structural mass unemployment,” he says. “The disaster will continue as long as it is financed.” Juhana Vartiainen, a Finnish MP in the National Coalition Party, supports the rescue package, but says it is only right that eurozone leaders take the carrot and stick approach - with the stick leading the way.

“I see very sound logic in this northern European position that we must be stringent on the need for reforms. But if reforms are passed through the parliament and implemented then the rest of Europe also needs to be forthcoming as to support an eventual debt relief.

“Just giving them debt relief or keeping them in without any conditionality would change nothing because they would continue to run deficits and even if

you forgave all of their debts, they would in a couple of decades be over indebted again.”

*"If Greece fell out of the euro then their banking system would collapse and they would have no functioning state. It would be a failed state."*

Juhana Vartiainen

However, he warns that Greece risks becoming a "failed state" without Europe's help. If Greece fell out of the euro then their banking system would collapse and they would have no functioning state.

"It would be a failed state on the southern rim of Europe with all the opportunities that this might create for illegal trade in people or narcotics or weapons - so I sincerely hope that there will be a compromise."

**Economists point out that monetary union just does not work** unless it is accompanied by fiscal union. Mariano Rajoy, the prime minister of Spain, called last week for the next steps towards more fiscal pooling.

However, many feel the dynamics of the eurozone have changed so much that this option is no longer viable.

For Sinn, some countries are already picking up the bill for others. "Europe has now turned into a transfer union where the lack of competitiveness of some countries will be permanently financed by others," he says.

"The recipient countries will permanently suffer from a 'Dutch disease', where wages are too high to be competitive."

Anders Borg, Sweden's former finance minister, is also sceptical.

"We're not talking about good and bad outcomes here, we are talking about only very problematic alternatives," he says. "If you push for further fiscal integration, moving more decisions to Brussels, taxing northern European countries more heavily and subsidising countries with long term competitive issues and deep problems in the south you will obviously have a strong right-wing reaction which will only serve to undermine the political support for that direction and create a less open and less liberal and a less dynamic Europe. "I think there are great risks in connection with the course that we now hear. There is no voter base for that and it's not certain either that you're dealing with the right focus."

He is doubtful that any country, including those obliged to join the euro like Sweden, will be abandoning their national currencies any time soon



Mr Borg, who voted for Sweden to join the euro in 2003, says the country's membership was unlikely for "decades".

"It's very difficult to argue today to our population that it's a well functioning system."

*"The basic obligation of a soldier is not to surrender, but to remain alive until the next battle."*

George Katrougalos, Greece's labour minister

Katrougalos remains hopeful that, while Greece may not have won this battle, it will win the war.

"We managed to alter the long term dynamics of the eurozone so we no longer have a monolithic block of extreme austerity. We have seen important countries: France is the primary example, but also Italy and Austria that have differentiated themselves from the this bloc.

His message to the Greek people? "They must give us time to try to implement our policies in a relatively fair way. These measures are harsh, but now will be the time also for the rich Greeks to pay," he says.

"We will keep on fighting. After all, the basic obligation of a soldier is not to surrender, but to remain alive until the next battle."