The troika calls for further cuts in Greece

By Christoph Dreier
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"These will be the last cuts," Greek Prime Minister Antonis Samaras recently declared. He was attempting to dampen the massive popular opposition to the austerity measures dictated by the European Union.

But just one day after the Greek parliament adopted an austerity budget for 2013, the troika (the European Union, the International Monetary Fund and the European Central Bank) demanded further cuts of at least 17.4 billion euros over the next three years.

The report presented November 12 by the troika admits that the Greek government has implemented "very ambitious" cuts, but then proceeds to paint a devastating picture of Greece's economic prospects.

The report praises the government for overriding popular opposition to impose wage cuts and labor market "reforms". Greece is once again becoming "competitive", it declares.

In fact, the succession of austerity packages has led to an unemployment rate of 25.3 percent, rising to 58 percent for young people. According to the report, wages over the last three years have fallen by an average of about 15 percent, while consumer taxes have increased sharply.

The education and health sectors have been especially hard hit. The chairman of the Greek Association of Intensive Care Medicine warned Wednesday that cuts have led to a life-threatening situation in the country's hospitals. Beds in intensive care units have been reduced by over 20 percent and are now far below the level necessary for the treatment of emergency cases. In addition, more and more Greeks lack any health insurance.

What the troika report describes as a "success" has led only to a worsening of the country's debt crisis. The report notes that the recession in Greece is "deeper than expected". The economy is expected to shrink by 6.0 percent this year and at least 4.2 percent next year. Despite all of the austerity measures introduced so far, the country's primary deficit is expected to increase this year.

Greece's debt burden is expected to swell to more than 190 percent of gross domestic product in 2013. Nevertheless, the troika is now insisting that further cuts of 17.4 billion euros be implemented by 2016. The consequences will be catastrophic for Greek workers.

The report was originally scheduled to be released in June, but the troika repeatedly held back its publication in order to put pressure on the Greek government to implement new cuts, threatening to withhold the next tranche of loans worth 31.5 billion euros, without which Greece confronts bankruptcy.

On November 8, the parliament voted by a slim majority in favor of a cuts package of more than 13.5 billion euros together with extensive labor market "reforms". The austerity measures include wage cuts of up to 30 percent, plus layoffs and spending reductions in the education and health sectors.

Those parts of the troika report so far published are non-committal when it comes to the sustainability of Greece's debt. Finance ministers from the euro group announced Monday they were prepared to extend the date for Greece to achieve its debt target of 120 percent of GDP until 2022. This means Greece would remain dependent on EU assistance until that date and could only then recommence borrowing money on capital markets. The commitment to austerity and regular visits from the troika to inspect the books would also be maintained until 2022.

Such a scenario would require additional loans amounting to 32.6 billion euros. A number of euro zone governments have had difficulty obtaining support from their national parliaments for previous loans to Greece. As a result, several alternatives to direct troika loans have been aired. One proposal is that Greece be freed from paying interest on its loans, another is that the terms for repayment be extended. Both measures, however, would have financial consequences for national budgets.

Fierce conflicts within the troika over precisely these issues erupted to the surface in discussions this past week. At a joint press conference on Tuesday with Euro Group President Jean-Claude Juncker, IMF chief Christine Lagarde protested against the two-year extension of the Greek debt target. “We have clearly different views,” she said, stressing that the IMF would adhere to the existing target. When Juncker insisted on the EU’s plans, Lagarde did not conceal her displeasure.

In order to reduce the debt ratio to 120 percent by 2020, Lagarde proposes a restructuring of debt for Greece’s public creditors. At the beginning of the year, private creditors had waived 53.5 percent of the nominal value of their bonds in exchange for guarantees from the EU. Lagarde now plans to extend this scheme to the loans made by euro countries, the European Central Bank and the IMF.

Such a “haircut” would affect the budgets of the countries involved, with Germany called upon to write off 17.5 billion euros. German Finance Minister Wolfgang Schäuble immediately responded by ruling out such a solution. Meanwhile, the IMF, dominated by US financial interests, insists that it will not put up fresh money for Greece. The IMF had already reduced its contributions for the second loan package.

Despite their differences, the representatives of the troika are unanimous that austerity in Greece and throughout Europe be stepped up to ensure fresh capital for the banks and speculators—all at the expense of the European working population. This is the unmistakable message of the troika report.