Greece Races as Cash Dwindles With Europe Seeking Austerity

By Jonathan Stearns - Jun 18, 2012

Greece’s two traditional political rivals are in a race to forge an unprecedented coalition as the state’s cash dwindles, bank deposits flee and Europe demands renewed austerity pledges before releasing more emergency aid.

Greece will run out of money in mid-July, the Syriza party, which placed second in yesterday’s election, said on June 13 after being briefed by Acting Finance Minister Giorgios Zanias. Caretaker Labor and Social Security Minister Antonis Roupakiotis refused to offer assurances pensions will be paid in August, Athens News Agency reported the same day.

“There’s no time to lose or leeway for small party games,” Antonis Samaras, leader of New Democracy, said in Athens yesterday after placing first in a rerun vote that leaves him needing the support of third-place Pasok party to rule. “The country must be governed.”

Two months of political limbo threaten to cut off the quarterly disbursement of euro-area and International Monetary Fund loans that have kept the country afloat since 2010. Greece, in its fifth year of recession, would face having to abandon the 17-nation euro and reintroduce the drachma were the flow of rescue funds to stop.

Political leaders in Europe insist Greece enact spending cuts promised in return for 240 billion euros ($305 billion) in rescue packages since 2010 while holding out the possibility of granting extra time to meet targets for narrowing the budget deficit.

‘Stand by Greece’

“We will continue to stand by Greece,” European Union President Herman Van Rompuy said in a statement following the vote. The Group of Seven industrialized nations said in a statement that it’s in “all our interests for Greece to remain in the euro area while respecting its commitments.”

After an inconclusive May 6 election that led to the June 17 rerun, European and IMF budget experts canceled a mission to review Greece’s eligibility for the next aid installment and now intend to carry out the assessment around the end of June. That plan assumes a new Greek government is in place by then.

“There’s not even a day to lose,” said Evangelos Venizelos, leader of Pasok.

Coalition Majority

New Democracy won 129 seats in the 300-seat parliament, according to Interior Ministry projections with 99 percent of the vote counted. Pasok, which has alternated in power with New Democracy over the past four decades, won 33 seats, enough for the two of them to forge a coalition that backs the creditors’ austerity demands.

The euro reached a four-week high before giving up some of the day’s gains, and stocks rallied. The currency
advanced 0.6 percent to $1.2711 as of 2:46 p.m. in Tokyo. The MSCI Asia Pacific Index rose 1.4 percent.

Syriza matched its second-place ranking of last month by stepping up demands to abandon the fiscal-tightening program.

Alexis Tsipras, the head of eight-year-old Syriza, had vowed to keep Greece in the euro while winning concessions on the rescue terms from European leaders including German Chancellor Angela Merkel. He said New Democracy and Pasok, which united last year to back further fiscal tightening by a caretaker government, had “lowered the Greek flag and surrendered it to Angela Merkel.”

**Syriza Opposition**

Tsipras signaled yesterday that Syriza won’t join a government with New Democracy and Pasok, saying his faction “will be present in all developments as the main voice of the anti-bailout vote in Greece.”

Euro-area finance ministers said Greece’s economic recovery requires “continued fiscal and structural reforms.” In a statement yesterday, the European ministers urged the “swift formation of a new Greek government that will take ownership of the adjustment program.”

Greece must pursue budget cuts with “determination” to win the release of further aid, the European Commission said on May 30. The country faces a cumulative fiscal gap in 2013-2014 of 5.5 percent of gross domestic product, according to the commission, the 27-nation EU’s executive arm.

A lack of progress in bolstering tax collection, improving public procurement and selling state-owned assets has left Greece struggling to meet targets for narrowing a budget deficit that in 2009 was more than five times the EU limit.

**Rescuer Demands**

European and IMF demands for an economic overhaul underpin an initial 110 billion-euro rescue in May 2010 and a second 130 billion-euro loan package that, along with the world’s biggest writedown of privately held debt, followed this year. The latest package is due to last through 2014.

The Greek budget-policy shortcomings have increased skepticism in euro nations such as Germany, the Netherlands and Finland about offering aid, while the worst recession in Greece during peacetime has made domestic voters critical of the fiscal-austerity demands. Syriza’s electoral success last month sparked concerns across Europe about a possible Greek exit from the euro area.

Greek deposit outflows accelerated before the June 17 election, two bankers familiar with the situation said, on concern the nation may move closer to abandoning the euro. Daily withdrawals had increased to as much as 500 million euros this month, one banker said, asking not to be identified because the figures aren’t public.

Greece narrowed its deficit from more than 15 percent of GDP in 2009 to 9.1 percent in 2011. The country’s spending gap is due to fall to around 7 percent of GDP this year.

With Greece’s financial troubles still festering more than two years after sparking Europe’s debt crisis, Italy at risk of joining the Greek, Irish, Portuguese and Spanish governments in seeking emergency aid and European leaders split over deeper fiscal integration, the onus to calm any renewed volatility on financial markets may fall on central banks.

Central banks “are the only actors who can react swiftly,” Joachim Fels, chief economist at Morgan Stanley...
(MS) in London, said in a June 17 report.

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