

Greek divisions spark fresh eurozone fears

By Ian Wishart

26.05.2011 / 05:19 CET

Greek opposition refuses to back austerity plans amid call for agency to oversee privatisation programme.

Concerns over the eurozone's sovereign-debt crisis have intensified as political discord impedes the EU's attempts to help Greece out of its economic difficulties.

Greece's main opposition party this week refused to back the country's sweeping €50 billion privatisation programme, a vital element in the EU's conditions for further financial help.

The centre-right New Democracy party also opposed additional austerity measures, totalling €6bn, with Antonis Samaras, the party's leader, telling a Greek TV station that George Papandreou, Greece's prime minister, was simply "regurgitating what's been shown to have failed so far".

Papandreou announced on Monday (23 May) that the government would launch the sale of stakes in the Greek telecoms company and postal service, the ports of Athens and Thessaloniki, and the Thessaloniki water company.

Samaras's rejection of the reforms jeopardises the next set of international loans, worth €12bn, that Greece is due to receive in June under the terms of the €110bn EU/International Monetary Fund (IMF) bail-out agreed in May 2010. The privatisations were also a crucial condition of any further international support, such as any extension of the terms of repayment of existing loans or any fresh aid.

At their meeting in Brussels on 16 May, eurozone finance ministers said cross-party political consensus in Greece was a condition of any future deal.

The opposition's lack of support has prompted further calls from members of the eurozone for an international agency to be brought in to oversee the privatisations, an idea spearheaded by Jan Kees de Jager, the Dutch finance minister. In a speech on Tuesday (24 May), de Jager said that "insufficient action" by the Greek authorities could "unleash a chain reaction" throughout the 17-member bloc.

Debt restructuring

The worry that the eurozone could be plunged into further chaos has resurfaced among many observers who consider Greece's privatisation programme one of the last options for the country to avert a default.

Moody's, a credit-rating agency, said in a statement on Tuesday that it considered any form of debt restructuring to be a default and that this would have a negative impact on the credit ratings of other eurozone countries. The agency's warning contrasts with signals from eurozone politicians that some level of voluntary restructuring could be considered.

Moody's fear is shared by the European Central Bank (ECB). Christian Noyer, the governor of the Bank of France and a member of the ECB's governing council, said on Tuesday that restructuring would lead to "the meltdown of the Greek economy", describing such a development as "a horror story".

Greece's struggles continue to send jitters throughout the eurozone, as fears of contagion resurface. As Spain's centre-left government was thrashed in local elections at the weekend, Spanish bond yields in relation to German debt were at their highest levels for five months.