GlobalResearch
Center for Research on Globalization

Greek Debt Negotiations –Troika and IMF Outmaneuver Syriza Again

By Dr. Jack Rasmus
Global Research, May 28, 2016
Jack Rasmus 25 May 2016

Region: Europe
Theme: Global Economy, Poverty & Social Inequality

This past week the Greek Parliament voted by a narrow margin of 153 to 145 to impose even more austerity on its people — thus implementing the latest austerity demands by the Eurozone Troika required for the Troika's release of loans earmarked for Greece last August 2015.

Earlier this year the Troika signaled to Greece, if it wanted to receive its next tranche of loans needed to make a scheduled payment of 3.5 billion euros to the ECB this July, Greece would have to toughen its austerity program still further. The Syriza government complied, and cut pensions and raised income taxes beyond what it had even originally agreed to last August.

Greek Government's Latest Austerity Measures

In its May 22, 2016 decision last week, the Greek government then added still more austerity. That vote raised the sales (VAT) tax to 24 percent, imposed higher taxes on coffee, alcohol and gas, revised the privatization program to accelerate the sale of publicly owned transport, electricity, water and port systems, added finances to cover Greek banks' growing backlog of non-performing business loans, and added contingency measures to cut government spending even further over the next three years should Greece miss the austerity targets imposed by the Troika last August 2015.

Prime Minister, Alexis Tsipras' public response in the wake of still further austerity was "Greece is keeping its promises, now it's their (Troika) turn to do the same". But what promises? And to whom?

The past six years of Troika debt deals and austerity demands shows clearly that whenever the Troika has agreed to terms of lending to Greece in exchange for more austerity from it, the deal is never really closed. The Troika keeps demanding even more austerity, with nearly every quarterly review of Greece's austerity compliance, before releasing just enough of the loans for Greece to repay the Troika for prior loans. The Troika dribbles out the loans and then squeezes Greece for still more austerity. That has been the Troika's practice ever since the three major Troika Greek debt restructuring deals of May 2010, March 2012, and August 2015.

Greece's Unsustainable Debt Load

By latest estimates total Greek debt is 384 billion euros, or US$440 billion. That's approaching nearly twice the size of Greece's annual GDP. A decade ago, in 2007-08 before the global crash, Greek debt was roughly half of what it is today, in terms of both total debt and as a percent of GDP. Greek debt was actually less than a number of Eurozone economies. So Greece's debt has been primarily caused by the 2008-09 crash, Greece's six year long economic depression followed, the extreme austerity measures imposed on it by the Troika during this period which has been the primary cause of its long depression, and the Troika's piling of debt on Greece to repay previously owed debt.

Contrary to European media spin, it's not been rising Greek wages or excessive government spending that has caused the US$440 billion in Greek debt. Since 2009 Greek annual wages have fallen from 23,580 to less than 18,000 euros. Government spending has fallen from 118 billion euros to 82 billion.

Bankers and Investors Get 95 percent of all Debt Payments

Who then has benefited from the escalation of Greek debt? To whom are the payments on the debt ultimately going? To Euro bankers and to the Troika, which then passes it on to the bankers and investors, the ultimate beneficiaries.

As a recent in depth study by the European School of Management and Technology, 'Where Did the Greek Bailout Money Go?, revealed in impeccably researched detail, Greek debt payments ultimately go to Euro bankers. For example, of the 216 billion euros, or US$248 billion, in loans provided to Greece by the Troika in just the first two debt deals of May 2010 and March 2012, 64 percent (139 billion euros) was interest paid to banks on existing debt; 17 percent (37 billion euros) to Greek banks (to replace money being taken out by wealthy Greeks and businesses and sent to northern Europe banks), and 14 percent (29 billion euros) to pay off hedge funds and private bankers in the 2012 deal. Per the study, less than 5 percent of the 216 billion euros went to Greece to spend on its own economy. As the study's authors concluded, " the vast majority (more than 95 percent) went to existing creditors in the form of debt repayments and interest payments". And that's just the 2010 and 2012 Troika deals. Last August's third deal is no doubt adding more to the totals.

The IMF: Pro-Greece or Pro-IMF?

Recognizing the impossibility of Greece ever being able to repay the debt, the IMF — a member of the Troika — has recently broken ranks with its Troika partners and has recommended the Troika provide debt relief to Greece. The Syriza government is no doubt betting on the IMF being able to convince the rest of the Troika to agree to debt relief. But in so doing, it is making the same error it made in last year's 2015 debt negotiations: it is depending on the assistance of one wing of the Troika to convince the others to give Greece a break. Last year it was Syriza's strategy to leverage certain liberal members of the EC and the Eurozone's finance ministers group on its behalf. That failed. German ministers and bankers demanding more austerity prevailed last August 2015 over the "soft" or liberal elements in the EC and among the Eurozone's finance ministers group. Syriza is now betting on the IMF, and proving its willingness to continue with austerity in the interim, to show it is "keeping its promises" to enforce austerity. But that similar strategy will fail as well.

The IMF's proposal for debt relief for Greece, in its just released "Country Report 16/130," proposes to extend the current Greek loans by 14-30 years more beyond current 2040 expiration dates; to introduce "grace periods" during which payments may be suspended; and reduce interest rates on the loans to a fixed 1.5 percent instead of variable rates much higher. However, data show that results in no debt relief in real terms at all.

Instead of forcing Greece to generate a budget surplus of 3.5 percent a year, out of which to repay the loans and achieved by means of severe austerity, the IMF also proposes to reduce the annual budget surplus to 1.5 percent. That would reduce Greece's debt from 200 percent of GDP to "only" 127 percent… by 2040. Even that nominal debt reduction would fail, per the IMF, if Greece's GDP grew at only 1 percent. It's been declining at -5 percent and more for the past six years, so even 1 percent is highly unlikely. If Greece's growth is 1 percent or less, then the IMF admits the other European states will have to add still more debt piled on Greece in order for it to repay the old debt. In short, the IMF version of 'debt relief' for Greece has little chance of economic relief for Greece. Nor does it mean any reasonable change in austerity for Greece. Things will get worse, just perhaps worse not as fast as in recent years.

What's behind the IMF's Shift?

The IMF is no friend of Greece. What are its possible motives for breaking ranks with the ultra-conservative elements in the Troika — led by Germany and its northern Europe banker allies in the Netherlands and elsewhere?

First, the IMF sees rising demands for its bailout funding on the horizon, not only in the Ukraine but in emerging market economies in the near future. Second, the IMF is feeling the heat from other IMF members in those economies demanding no more special debt considerations for Greece. Looming large on the horizon is also the possibility of the UK exiting the European Union, and elections in June as well in Spain. As secret discussions within the IMF in March exposed by "WikiLeaks" revealed, the IMF is concerned a re-emergence of Greek resistance to the Troika, concurrent with a possible Brexit vote and Spain elections, might converge into an economic 'perfect storm' this summer. The IMF wants the Troika to get in front of the curve with Greece before it escalates. Dampen the resistance before it begins by making concessions to Greece now, that won't take effect for years to come, could be behind the IMF's move.

Most likely, however, is that the IMF is maneuvering with the rest of the Troika to work a compromise whereby the Troika will buy the IMF out of the Greek debt negotiations. That would mean restructure the Greek debt, to pay off the IMF's 14.6 billion euros share of the 384 billion euro Greek debt.

That has some appeal to the hardliners in the Troika. However, Germany is demanding that there be no debt relief for Greece before 2018. It is looking at German elections in 2017. So what is most likely is a compromise, resulting in a phasing out of IMF commitment and a phasing in of Greek debt relief that starts only in 2018 after German elections. It appears that's exactly what the Troika may have decided in its May 24 most recent meeting in Brussels.

What all that means for Greece, however, is not only likely more of the same austerity, but perhaps even an intensification of austerity between now and 2018 —as the German-led conservatives within the Troika demand even more austerity now in exchange for the possibility of debt relief after 2018.

Jack Rasmus is author of the forthcoming book, 'Looting Greece: An Emerging New Financial Imperialism', Clarity Press, July 2016, and the just published 'Systemic Fragility in the Global Economy', Clarity Press, January 2016. He blogs at jackrasmus.com

The original source of this article is Jack Rasmus

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Dr. Jack Rasmus