Social Consequences of the Economic Crisis: Riots Follow Greek Bailout Request

By Global Research
Global Research, April 24, 2010
Al Jazeera 23 April 2010

Region: Europe
Theme: Global Economy

Greek riot police have clashed with protesters in the capital Athens demonstrating over the government's decision to request an aid package from the European Union and International Monetary Fund (IMF).

About 2,500 people marched in the capital on Friday after George Papandreou, the Greek prime minister, asked for the activation of an $60m EU/IMF aid mechanism aimed at pulling Greece out of a debt crisis shaking the euro zone.

Papandreou's announcement has sparked fears among workers unions that tougher measures than those already announced for the economy may be on their way.

Labour unions are planning protests against the government's economic austerity measures next week, as part of ongoing demonstrations since the measures were announced.

They include public sector wage and pension freezes, a public sector hiring freeze, tax increases, and cuts to bonuses and benefits of civil servants.

Massive budget deficit

Financial data published on Thursday showed a worse-than-expected budget deficit of 13.6 per cent of gross domestic product (GDP).

"The moment has come as the market has not given us breathing space," Papandreou said on Friday.

"It is a national and pressing necessity for us to formally ask our partners for the activation of the support mechanism, which we jointly created in the European Union."

Papandreou said the markets had not responded positively to Greece's austerity measures that were designed to pull the country's disastrous finances into line.

George Papaconstantinou, the Greek finance minister, said that the country expects to receive the first tranche of the $60bn (€45bn) EU/IMF aid package before May 19.

"The request for aid removes uncertainty in the markets that Greece will not have funding," he said.

Greece's bailout could be the largest multilateral rescue of a country ever attempted and comes after months of markets pushing Greek borrowing costs ever higher, undermining the country’s efforts to cut its €300bn debt load.

Biding time

Angela Merkel, the German Chancellor, however has said that there will be no aid for Greece until talks with the IMF are finished.

“The European Commission, the European Central Bank and the IMF would have to determine whether there is a situation whereby the stability of the euro as a whole makes it necessary to provide an aid programme for Greece,” Merkel said.

Greece has covered its funding needs for this month, albeit at a high cost, and needs to borrow less than €10bn to cover next month when an €8.5bn government bond is due.

“Greece will go out to borrow from markets when conditions are appropriate,” Papaconstantinou said, who will meet with Dominique Strauss-Kahn, the IMF chief, in Washington this weekend.

Germany is furious that Greece has been able to borrow for years at rates close to German rates by virtue of being in the euro zone, but on mis-stated data which EU authorities let pass.

Germany remains central to the rescue, since it is reluctant to allow Greece steeply concessionary rates, of around five per cent.

The bailout will need approval by all 15 of the other governments that use the euro.

‘Painful process’

Al Jazeera’s Barnaby Phillips, reporting from Athens, said it seems as if Greece has no other option.

“This has been a long, slow, painful process that has dragged on for four to five months but in the last two weeks the endgame has looked sadly inevitable.

“It is a humiliating moment for Greece, it’s a traumatic moment for a country in the euro zone, it has to take the cheaper emergency money which is on offer whether it likes it or not,” he said.

On Thursday, borrowing costs spiralled to alarming and unsustainable levels, pushing interest rates for Greek 10-year bonds to nearly nine per cent.

The spike came after after Moody’s credit agency downgraded the country’s sovereign rating and the European Union’s statistics agency Eurostat revised Greece’s budget deficit in 2009 to 13.6 per cent of GDP from 12.9 per cent, and said it could be further revised by up to 0.5 percentage points.

The level is more than four times the EU limit set for the 16 countries that use the euro, which has been badly hit by the Greek financial crisis.

Greece has insisted its target of reducing its deficit by at least four percentage points in 2010 remained unchanged.

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