

The Forgotten Crisis

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Chancellor Merkel has been in constant crisis mode for some time now. The political agenda is dominated by an ever increasing number of near-death experiences threatening to destroy the European project. So does anyone really want to hold it against her if she loses track of the abundance of challenges the EU is facing?

Currently, three issues are at the forefront of the political debate in Berlin. The refugee crisis clearly stands out as a top priority for political decision makers. No other crisis in the past years has had such an immediate impact on domestic politics leaving Germans highly polarised about the right course to follow. The issue is likely to continue to dominate the political agenda as the cultural impact of absorbing such an unprecedented number of mainly Muslim refugees has become more and more subject of a heated debate and as the refugee crisis is increasingly lumped together with the [question of national and internal security](#) – particularly after last summer’s Islamist-inspired terror attacks in Würzburg and Ansbach and the suicide of a terror suspect in Leipzig in police custody.

Second, the decision of the British population to leave will shake the foundations of the EU as it has far-reaching implications for the future of its institutional set-up, the political cohesion of the remaining EU 27 and the concrete shape of EU policies. Chancellor Merkel has made her choice to favour preserving a common future of the EU 27 over the future design of EU-UK relations. Thus, also against the background of the demands voiced by the British government, this implies that all signs point to a ‘hard’ Brexit. However, the path towards a final divorce seems to be very long and full of technical nitty-gritty. Finding a solution that accommodates the interests of all 27 Member States and the UK will be a very time-consuming task absorbing a great share of the EU’s capacity to act.

Finally, in the German foreign policy debate Russia’s annexation of the Crimea has been considered to be a fundamental threat to the European security architecture. The EU and the West in general as well as its institutions have not found an adequate response. Meanwhile, the EU’s ring of friends has turned into a ‘ring of fire’ forcing the EU to reconsider its analysis of the security situation and to take action. It is against the background of the pressures from outside and inside the EU as well as Germany’s reflection phase about its willingness to take over more responsibility in international affairs, that Berlin has become more vocal to push for deepened cooperation in the field of security and defence on the European level.

Indeed, the risk assessment of these challenges is straightforward and legitimate. All crises pile up on an already packed political agenda. Developing comprehensive and sustainable solutions to these challenges will be complex, time-consuming and come at the price of a large share of political capital that has become a scarce good in light of the rise of Eurosceptic forces across Europe. Still, in the meantime European leaders risk to be haunted by unfinished business as they are confronted to deal with such a plethora of crises simultaneously.

It already suffices to look at the EU’s greatest troublemaker Greece (even though other Member States like Hungary, the UK or Poland have been queuing up for that role in the meantime). In the past six years, Greece has kept its European partners – and particularly Germany – busy with finding a sustainable solution to the country’s debt burden. The Greek debt crisis reached its peak when in summer 2015 the Greek government openly threatened to

leave the eurozone and German Finance Minister Schäuble broke a long-held taboo floating the proposal of a temporary timeout for Greece from the eurozone during the negotiations over another desperately needed [bailout](#). A major effort was necessary before both parties finally agreed to a third bailout programme providing the Greek government with loans of up to 86 billion euro until 2016.

Since then, however, German lawmakers and the public seem to have turned a blind eye to Greece or have seen the country only through the prism of the refugee crisis. The external link between Greece as landing point and Germany as point of arrival for the ever increasing number of refugees from the Middle East has become clearly visible. However, the internal link between the Greek debt crisis and the refugee crisis has not been fully appreciated. Yet, the ability of the Greek government to comply with the demands of its European lenders in order to find a lasting solution to the country's debt crisis on the one hand and its ability and capacity to process the arriving refugees and to secure its external borders on the other hand are mutually dependent. This holds true particularly as the country is transforming from a transit country to a destination country – including the challenges of integration and the financial costs that come with it. Still, Germany and other Member States do not allow the migration pressure to be an excuse for compliance in the debt question. They are not willing to compare apples and oranges – at least not publicly.

At the same time, Greece plays a major role in order to make the fragile EU-Turkey deal work. Already today, the tensions on the Greek islands between refugees and locals are growing. A sudden collapse of the deal would cause yet another major influx of refugees while the Western Balkans route would remain shut bearing enough dynamite to destabilise the country. Such a development would be a devastating blow to those leaders in the EU who have made the case for combining a humane EU policy on border management that reduces the number of people crossing with respect for the refugee convention and existing EU norms.¹

While news on Greece in the current German public debate mostly concentrates on the country's role in the refugee crisis, Greece's debt crisis has been pretty much a non-topic in Berlin in 2016. Indeed, the design and the conditionality of the third bailout package have allowed European leaders some breathing space: it places the pressure on the Greek government as the programme provides a clear timetable and a tight straightjacket to which the Greek government has to comply. However, the track record is far from being ideal: only this week, Greece's creditors approved 2.8 billion euro in fresh loans for the debt-ridden country after it became necessary to provide a set of key economic overhauls. The disbursement marks the end of the long-delayed first review process of the Greece's bailout package now shifting the focus on the second review whose fulfilment serves as a precondition for an assessment of debt sustainability and thus for talks on debt relief.

The Greek government will face great difficulties in securing a commitment on debt relief if the current review is significantly delayed. Indeed, the series of elections in other eurozone countries – especially the Dutch general election in March next year, the French presidential election in April and the German federal election in September – mean that there will be little appetite for putting Greek debt on the agenda from February onwards. Even if the Greek government manages to meet all criteria of the second review and table the issue in time,

¹ http://www.esiweb.org/index.php?lang=de&id=156&document_ID=177

European lenders and particularly Germany have to make uncomfortable choices about future IMF involvement. In the case of Germany, this finally would also demand a broad and frank debate to make the argument for the necessity of another – yet probably implicit – haircut for Greece. Even though the German government is willing to postpone this question until after the federal election to 2018, the question of IMF participation will have to be settled – not least because Schäuble promised his CDU/CSU faction that Germany will only participate in the third programme if the IMF as the ‘bad cop’ ensuring compliance will also participate. At the same time, however, the IMF has made its decision whether to engage financially in the bailout dependent on the admittance that Greek debt is unsustainable and thus on the commitment of all lenders to conduct a haircut – another toxic topic for German MPs particularly in the run-up to the federal election.

Closely related to the Greek debt crisis, another issue has completely fallen off the radar in the German political debate: the great words of eurozone reform by European leaders were not backed up with the appropriate means – leaving the eurozone vulnerable and unprepared. The next economic crisis will arrive sooner or later given that the structural flaws that have triggered the eurozone crisis have only been tackled insufficiently. However, the ability to withstand yet another economic crisis diminishes the longer the EU is absorbed in other issues. European leaders missed out a number of occasions, when there was a great window of opportunity to move towards real economic governance entailing better economic coordination. While it is true that other issues have pushed the question of eurozone reform from top of the agenda and that it will be difficult to reconcile German and French positions in this case – particularly in the run-up of 2017 in which both countries go to the ballot box – the EU should be aware that a strong eurozone is a fundamental element, on which a stable and successful EU is built.

In the German public debate, the list of priorities has changed: the refugee crisis, Brexit and the response to the threat of the EU’s security architecture have taken centre stage leaving not much space to discuss unfinished business such as the Greek debt crisis and the urgent need to reform the eurozone. As the latter topics have lost momentum, the disconnect between the demands and worries of southern Europeans who still struggle with the social, political and economic impact of their countries’ debt crises and the awareness of these challenges in the German public is growing again.