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Greece and Its Creditors: Can Reason Prevail in a Short Time Frame?

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Greece has been acting as a 'special case' yet again. Negotiations with its creditors, over the conclusion of the second review of its third bailout programme, have reached an impasse. Following a recurring pattern, the review has fallen one year behind schedule. A Eurogroup meeting scheduled for Monday 20 February is unlikely to reach a deal. The Greek government has reneged on a number of difficult reforms that it signed up for; its creditors have failed to set out a credible path towards debt sustainability. Blame shifting has reached new, unprecedented heights moving beyond the usual altercations between Greece and its creditors, and actually enveloping the creditors themselves. The IMF asserts that Greece will not be able to meet the (unrealistic) primary surpluses expected of it and, thus, Europeans will either have to revise them substantially or ease Greece's repayment terms on its bailout loans significantly. Europeans, on the other hand, consistently oppose further debt relief as toxic to their tax payers; provided that the agreed reforms are implemented in full, debt can in fact be rendered sustainable. Germany, finally, wants its cake and eat it too: it requires IMF participation in the programme while dismissing the IMF's stance on providing Greece with substantial debt relief.

Still, all sides have skin in the game and are keen to cobble together some sort of agreement. The general feeling is that the Greek problem has to be contained as Europe has entered a difficult election season, Britain appears to be gearing up for a divide and rule negotiating approach, and Trump's wild-card administration has shown little concern for the European project. Greece should be in 'out of sight, out of mind' mode. But there is more. The seemingly irresolvable Greek crisis can inject a fresh crisis of confidence regarding the stability of the eurozone. Investors and markets will once again busy themselves with well-known pockets of vulnerability. If Greece is allowed to backslide again, Greece's creditors, who have invested a lot in their kicking the can down the road 'solutions', will have single-handedly upended their role as crisis managers or as politically independent and technically competent advisors.

Greece obviously stands to lose the most. Dependent on external aid and with an economy shattered by years of austerity and poor political choices, the country has managed to re-ignite the Grexit spectre. This self-inflicted wound cannot be dissociated from the political personnel's inability to learn from past mistakes or from its almost irrational unwillingness to open up the country's economy. Lack of programme ownership merely begins to describe how structural reforms are postponed or annulled on the ground, protecting the very vested interests that continue to enjoy significant rents, at the expense of the most vulnerable. At the same time, Greece's lopsided, painful and unfair fiscal consolidation is a testament to a distorted version of the social contract; Greece's creditors appear to be playing along, even if too many choices are inimical to growth, inconsistent with their own setting of ambitious long-term growth targets.

Is there a way out? For one, trust has to return to the various negotiating tables. This is no small feat and it will probably take much longer than the current time frame allows. Meeting halfway in a credible manner constitutes a significant first step. Greece's creditors need to revise primary surpluses in accordance with Greece's capacity to deliver them; unless realism is injected in the conversation, the bad habit of building policy recommendations on overly optimistic projections will continue to undermine the credibility of the adjustment effort. Although politically challenging, debt relief remains a sine qua non, assuming that Greece's creditors are indeed serious about arriving at debt sustainability; if there is political resolve, technical options will be in no shortage and a trigger- linking measures to targets - could be thrown in for good measure. Mapping out medium-term debt relief measures would signal that the European Stability Mechanism's commitment to solidarity has teeth.

As for the Greek government, it cannot afford its current intransigence or a repetition of July 2015, when it came close to the brink. Greek society appears confused as to the actual weight that its sacrifices carry, concerned that a new standoff or indeed a default will nullify them. The government can certainly no longer afford its aversion to a much needed over-hauling of the economy. Rather than expend political capital on enforcing another round of austerity- its preferred approach to meeting the targets it has agreed to- it should proceed to implement a critical mass of reforms; there is simply no other way to building trust or to creating a viable exit path from Greece's current predicament.