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Last Round for Greece and its Creditors?

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On 6 May the Syriza-Anel government agreed to pass a new set of austerity measures so that the second, long overdue review of the third bailout programme can be completed. The measures are in line with the severe primary surplus goals agreed until 2022 and adopted in the context of the collective delusion that the programme 'works'. Allowing for the fact that Greece's debt to GDP has skyrocketed to 179 percent, the goals are severe for a number of reasons: Greece is the only country in the eurozone that has slumped back into recession, while eurozone growth has held steady; businesses and self-employed professionals have to contend both with the downward revisions in the country's growth forecast – due to the delay in wrapping up the review – but also with the painful trio of capital controls, limited bank lending and spate of tax and social insurance increases. Significant tax evasion in certain sectors and an inefficient tax administration translate into unequal burden sharing, with the salaried and pensioners bearing the brunt. Why is it that neither the institutions nor the government appear to understand the (tragic) situation on the ground? Why is it that instead of working together to make the programme finally *deliver*, the IMF and the European creditors seemingly disagree on fundamental parameters, including the outlook for Greece's economy and how it relates to debt sustainability?

Some of the answers are perplexing. On the one hand, the institutions and a number of creditor governments have risked a lot to get Greece out of its largely homemade mess. Rules have been bent to offer unprecedented bailout funding, new financial instruments have been created, serious political capital has been expended, a lot of credibility has been wasted. Now, they have also made clear that there is no appetite to extend further financial aid to Greece when the current bailout programme ends in 2018. On the other hand, the ongoing impasse between the IMF and Berlin on debt relief signals discordance which hurts the end goal, i.e. Greece's return to growth, normalcy, and the markets; worse, in the short-term, it throws the programme into jeopardy, as the markets pick up on creditors' lack of trust in Greece's ability to perform. Ongoing uncertainty about who is on board and who is not holds investment hostage.

The IMF should receive the 'satisfactory assurances on a credible strategy to restore debt sustainability' that it is seeking. Apart from allowing it to participate in the programme, a clear description of the debt measures and how much they would contribute to the sustainability of Greek debt would go a long way towards appeasing markets, investors and the European Central Bank; the latter is refraining, with good reason, from including Greece's debt in its 2.3 trillion euro bond purchase programme. Provided that the degree of specificity is satisfactory, the Fund which has taken responsibility for the effects of its incorrect calculations in the past, should abstain from strategies or tactics that could create another self-perpetuating recessionary cycle. The path for Europeans is not as (politically) difficult as they envisage: lengthening repayment schedules, smoothing out interest payments and swapping more expensive loans for cheaper ones reduces the debt pile and the uphill struggle that is the Greek programme. To tie the hands of a government that has repeatedly backtracked on its pledges and has ridiculed the concept of 'programme ownership' save for the painful over taxation and the cuts that affect the most vulnerable, actual debt measures would not be set in motion until next year, the final year of the programme. In the meantime, a number of product and service market reforms and privatisations needed to enhance competition and support growth must be fully implemented. Greece should be allowed to grow out of its debt pile in the same way that all parties to the Greek problem need to realise that the despair that ordinary Greeks feel on the ground is palpable, cutting across political orientation and socioeconomic status.