The Greek epic

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We all know that tragedies are Greek, sagas Scandinavian and comic operas originally Italian, and that we use these expressions to describe political or economic reality when it overtakes us, but in the case of Greece we may have to use another word of Greek origin. The twists and turns of its debt crisis are reminiscent of those of a Homeric epic.

This past week's Eurogroup meeting saw significant progress in the negotiations on the second review of the third financial assistance programme for Greece. Greece seems to be on the path to economic recovery (the European Commission expects growth of nearly 3% in both 2017 and 2018) and its public accounts should reach a primary surplus of 1.75% of GDP this year. With sustained growth in Greece, recovery consolidating in Europe and the low interest rates that Greece pays on its debt (most of which is held by governments), it is possible that it will soon start to reduce its ratio of public debt to GDP from its current sky-high levels.

This past week's pre-agreement represents a rapprochement among the three parties involved. Greece agrees to pass into law the remaining fiscal adjustment measures required to achieve a primary surplus of 3.5% of GDP. Basically, this involves lowering the threshold at which people start paying income tax and passing into law additional changes to the pension system, as required by Greece's creditors. The IMF appears to agree in principle to continue participating in the assistance programme, something that Germany had been insistently demanding. Europe shows signs of relaxing its stance on not approving further debt relief measures (lower interest rates and longer repayment schedules) as demanded by Greece and the IMF. All this is dressed up in fine-sounding words about no longer talking of austerity measures and placing more emphasis on structural reforms than on fiscal measures.

The underlying conflict is embodied in the recent study published by the IMF stating that Greece's public debt would no longer be sustainable in the current terms of the bailout programme from 2030 on, and that therefore additional relaxation of the repayment terms and more measures on the part of the Greek government would be necessary. A detailed examination of the study gives the impression that its conclusions are somewhat forced: it talks of unsustainability because public debt would start to rise from 2030 (but from levels of around 60% of GDP to 100%, which it is hard to see as being unsustainable); it also assumes very high market interest rates for those years (of over 7%, which is not very credible in a low-debt situation, and a rate at which many other European countries' debt would be unsustainable). It gives the impression that the IMF is steering its study so as to be able to pull out of the agreement or to force the EU to resolve the problem as soon as possible, perhaps in the belief that Greece cannot maintain a large primary surplus for long. However, the political costs involved in making the necessary fiscal effort to maintain an existing surplus are much less than those of the adjustment. Many European countries have had primary surpluses for many years without serious consequences, Belgium and Ireland being two examples.

The details of the agreement have not yet been established, and the epic will continue in the coming days in Athens. It is not known when or how the new fiscal measures will be applied, and the Greek government has already announced that it will pass fiscal counter-measures of a social nature in case the public accounts turn out better than forecast - something to which the Eurogroup has agreed and which allows Greece to sell the agreement at home. The additional debt relief could be approved once the current programme comes to an end in 2018, but on what terms is by no means clear. And the IMF's participation does not yet seem assured. The next important dates are in July, when Greece has to make a substantial debt repayment and needs to receive new tranches of assistance from the 'institutions' (former 'Troika'). And above all, towards the end of 2018, when the current programme ends and Greece will have to make a gradual return to the markets. Anyway, the climate of discourse has clearly improved. And that is greatly to be welcomed.