

Germany tells Greece it must honour bailout terms

Greek government needs to negotiate an extension of its bailout loans by end of February or country will run out of money by summer.

By: Tanya Talaga Staff Reporter, Published on Thu Feb 05 2015

It is fair to say the meeting between Greece and Germany on Thursday to discuss Greece's near bankrupt state did not go well.

German Finance Minister Wolfgang Schaeuble told Greek Finance Minister Yanis Varoufakis that Greece must honour the terms they previously agreed to regarding the country's \$342-billion international loan bailout. Germany, the economic engine of the European Union, holds much of Greece's debt.

Varoufakis responded by saying his country is broke and that the terms of Greek debt must be renegotiated with the troika of lenders — the European Central Bank, the European Commission and the International Monetary Fund.

Schaeuble said the two “agreed to disagree,” but Varoufakis could not even agree with that.

“We didn't even agree to disagree from where I'm standing,” Varoufakis said.

To make matters worse, the ECB rejected Greece's idea of using its junk bonds as collateral for loans. This means Athens must rely on its central bank to finance its own banks, thus squeezing a form of liquidity and inching the country toward capital controls — not unlike what was seen in Cyprus two years ago.

The newly elected Greek government needs to negotiate an extension of its bailout loans by the end of February or the country will run out of money by summer. Greece is looking for an extra three or four months to come up with an alternate borrowing plan that does not include austerity policies — imposed on Greece by the EU as terms of a bailout loan.

Varoufakis also raised eyebrows in Berlin when he pleaded with Germany to help stop the rise of the far-right, fascist Golden Dawn party in Greece. The neo-Nazi party is the third most popular after the Jan. 25 national election.

“Germany must and can be proud that Nazism has been eradicated here, but it's one of history's most cruel ironies that Nazism is rearing its ugly head in Greece, a country which put up such a fine struggle against it,” Varoufakis said, adding Greece could use German help in defeating this threat.

In response to the ECB's dismissal of Greece, thousands of anti-austerity, pro-government demonstrators took to the streets of Athens and Thessaloniki on Thursday evening.

Miranda Xafa, a senior scholar at the Centre for International Governance Innovation, served under Prime Minister Constantine Mitsotakis in Athens as chief economic adviser from 1991 to 1993.

Speaking from Athens, Xafa said Varoufakis wants to table a new program and that they need time to flesh it out and negotiate with eurozone partners.

“I don't think they have too much time. They are very short of cash. They have debt service obligations coming due, a big chunk to the IMF in March — 2 billion (euros), I don't think they are going to make it with internal financing only. They need external

financing and no one is willing to provide that without a program being in place,” Xafa said.

The Bank of Greece will have to provide the liquidity to Greek banks, but even that is subject to biweekly review by the ECB, she said. “They could very easily put a cap on this. If a cap is put on this ... and if Greek banks continue to lose deposits, the next steps are capital controls,” she said.

Greek banks are quickly losing billions of euros of deposits as people take their money out.

“Time is short. The Greek government needs to make a U-turn quickly and take back some pre-election promises for increases in minimum wages and pensions,” she said.

“Or else we are just staring at default,” she added.

In a sign that Greece is willing to look outside of Europe for assistance, Prime Minister Alexis Tsipras spoke to Russian President Vladimir Putin on Thursday to discuss greater co-operation on the economy and energy. Tsipras said he intends to accept Putin’s invitation of a visit to Moscow in May.

With files from Associated Press, Bloomberg