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Greek hopes of waving goodbye to bailout appear to be dashed

Kerin Hope in Athens

For Greece, this was supposed to be the end.

After more than four years and two separate rescues totalling €245bn, Prime Minister Antonis Samaras had promised his beleaguered countrymen that 2014 would mark the close of Greece's bailout era. Gone with it would be the painful austerity measures and the humiliating oversight of its international lenders.

But when eurozone finance ministers meet in Brussels on Monday they are expected to decide otherwise.

Athens has failed to meet demands for another round of budget measures demanded by the "troika" of bailout monitors — the EU, European Central Bank and International Monetary Fund.

Greece will therefore be forced to request an extension of its EU rescue. Just how long that extension will last remains to be seen. "It would be hard to see them cutting them loose at this point," said one eurozone official.

That would deprive Mr Samaras, a fierce nationalist who famously opposed the bailout while in opposition, of the opportunity to cast himself as the premier who vanquished the IMF, which is especially hated in Greece for imposing austerity.

He had been counting on such a victory to fend off an increasingly urgent threat from the hard-left Syriza party. In February, the government must round up 180 votes in parliament to elect the country's next president. Most believe that will be an impossible task for a governing coalition of just 155 MPs, with the IMF still in town.

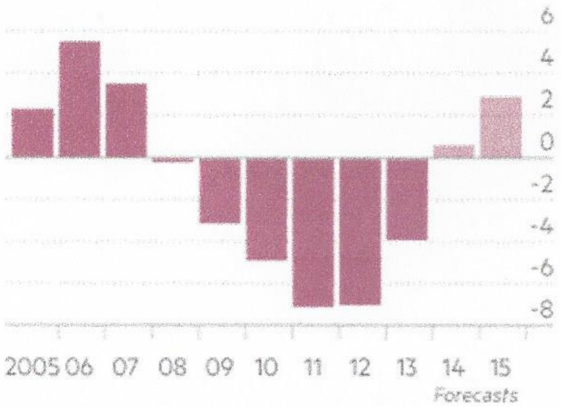
If Mr Samaras is unable to find the votes, he must call snap elections, and his centre-right New Democracy party has consistently trailed Syriza by 4 to 7 points. Indeed, the stand-off with Brussels has only bolstered the popularity of Syriza leader Alexis Tsipras, a radical firebrand who rose to prominence at the height of the crisis by promising to scrap the bailout.

"In 2015, Samaras was meant to deliver regime change. Instead, he is looking at an extended bailout, ongoing IMF surveillance and the loss of national elections to Syriza," said Mujtaba Rahman, head of European analysis at the Eurasia Group risk consultancy. "There will be regime change. Just not the type Samaras was expecting."

Part of the problem was Athens' miscalculation about its ability to tap international markets for financing. Mr Samaras told lawmakers in October he hoped to follow the recent examples of Ireland and Portugal by making a "clean exit" from its bailout — that is, without any financial support. But investors panicked, and so — as Greece's bond yields spiked — the government was instead forced into talks with Brussels about a credit line with tough conditions attached.

Greek GDP growth

Annual % change in real GDP



Source: Thomson Reuters Datastream

Making matters worse, the German-led group of eurozone countries also insisted that any EU credit line be accompanied by a fully-fledged IMF programme, which is scheduled to continue into 2016.

"The effort for a clean exit was politically motivated based on a misreading of Greece's potential market access," said Miranda Xafa, chief executive of Athens-based EF Consulting and Greece's former IMF representative.

Mr Samaras surprised Brussels and Berlin with his swift embrace of the bailout when he came to power in 2012, personally overseeing many of the reforms that have set the stage for a fragile economic recovery.

But his government's failure to crack down on tax evasion, allowing many wealthy Greeks to escape scrutiny, has exasperated IMF officials, while the sacking in June of a senior official in charge of revenue collection brought a sharp public rebuke from the European Commission, the EU's executive arm.

"Markets have seen that Greece failed to take ownership of its reform process so they worry that the momentum would slow or even fizzle away without pressure from the troika," Ms Xafa said.

Greece is now contemplating a new package that includes a €10bn EU line of credit alongside the remaining €16bn in the IMF programme. Meanwhile, Mr Samaras has switched his tune to promote his government's "success story", extolling the country's outperformance of fiscal targets and its return to growth after six straight years of recession.

"We're emerging from a difficult but successful period of fiscal adjustment . . . entering a new era of sustainable growth," the premier told an international business audience this week.

The economy is projected to expand by 0.6-0.8 per cent this year thanks to a record tourism season and a modest recovery in consumer demand, while the primary budget surplus, before repayments of interest and debt, may beat the target of 1.4 per cent of national output.
With his bailout ploy in tatters, Mr Samaras and his coalition partner, Evangelos Venizelos, leader of centre-left Pasok, may at least be bolstered by the opposition's missteps. Syriza's economic advisers unnerved investors during a roadshow in London last month, where they touted a plan of drastic debt restructuring and ramped up public sector spending.
"Progress [is] to be halted so that early elections can take place, when we will confront a populist and irresponsible attack," Mr Venizelos told party members last month.

Additional reporting by Peter Spiegel in Brussels