

Commentary, September 18, 2015

IN BERLIN'S EYES: STABILITY WANTED

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The trauma of the July bailout

The events around the third rescue package for Greece this summer have left all parties involved bruised: An unexpected call for a referendum on the continuation of the rescue path and its clear rejection by the Greek electorate came as a shock to European creditors, derailing months of arduous negotiations. The subsequent expiration of the second bailout package, the introduction of capital controls, and the temporary closure of Greek banks put the Greek economy on the brink of collapse. The euro area countries then struggled under immense time pressure to reach an agreement that would reconcile Greece's urgent financial needs with the security requirements of the creditors. Germany's hard line in the negotiations that included the threat of a temporary "Grexit" provoked anger and outrage among many commentators on both sides of the Atlantic. After several all-night meetings, the Greek government was forced to accept the draconian terms of the new three-year rescue package. The negotiation marathon has become a symbol of how difficult it is to implement bailout policies in the monetary union.

Wanted: stability

Since then the waves have somehow calmed down. Much to the surprise of many observers, the details of the new € 86 billion programme were hammered out in merely four weeks. There can be no doubt about the fact that very significant economic and political risks are still associated with the bailout strategy. Alexis Tsipras continues to insist on a debt cut that particularly Germany has rejected so ardently before. Yet he has also made clear that there is currently no viable alternative to the July agreement. Contrary to some of his party colleagues on the far left, Tsipras seems to have come to the realization that Greece, which is profoundly unhappy with life in the euro area, cannot risk leaving for fear of provoking a financial and economic crisis that would exceed the current hardship.

Tsipras resigned in late August after a large number of parliamentarians from his own party refused him their allegiance in crucial reform votes, forcing him to rely on the support from the opposition. The new elections were initially seen in Berlin and Brussels as an opportunity to reinforce the much-needed internal mandate to implement the reform catalogue set out in the bailout agree-

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ment. There was a sense – and a good portion of wishful thinking – among the European creditors that the elections would be part and parcel of a strategy of political consolidation in Greece.

The spectre of new uncertainty

Two months ago, Tsipras' approval rates stood at around 70%. Days before the vote, however, Syriza's lead in the polls has all but vanished. Tsipras' party now faces a head-to-head race with Nea Dimokratia, its conservative rival. The outgoing prime minister has for now ruled out a Grand coalition, stating in a televised debate earlier this week that the two parties made an "unnatural" alliance. At the same time, new parties and electoral alliances have cropped up in Greece, some of which could make it into the new parliament. Taken together, the latest developments have put a big question mark over the strength of the new incoming government. At a time when the euro area's priority lies on maintaining stability, the Greek elections have created new unwelcome political uncertainty.

Keeping a watchful distance

It seems that the Europeans have learned from their past mistakes. Their taking sides in the January elections that brought Syriza into power and their support for the pro-reform vote in the referendum this summer was seen as an unduly meddling in national democratic processes. This time round, Euro countries have maintained a watchful distance from internal Greek politics.

Yet policy-makers from member states and the EU institutions have stressed that any new Greek government will have to abide by the agreed terms and conditions in order to receive further payments from the existing bailout package. After the experiences of the past months, there is no willingness whatsoever on the part of the creditors to re-open the agreed programme. There can therefore be no doubt that Berlin and Brussels are watching the upcoming elections in Greece extremely closely. It is also very likely that different scenarios are being developed behind closed doors for what might happen if the reform process is slowed down or even derailed after this election.