

# Pressure grows for more Greek cuts

*Europe should help Greece – but not as an imitation IMF*

This week, Greeks took to the streets to protest against the brutal fiscal adjustment that they now face. Little wonder. George Papandreou's government agreed a necessarily tough plan with Brussels to reduce the country's fiscal deficit, which was 12.7 per cent last year, to a mere 2 per cent in 2013. But the vague guarantees offered by other eurozone governments in return for this discipline have not eased the pressure for deeper cuts.

A delegation in Athens from the European Commission, the European Central Bank and the International Monetary Fund is concerned that Greece's proposals rely on extremely optimistic growth forecasts. Meanwhile, Standard & Poor's and Moody's have both sounded warnings about the country's sovereign debt rating.

If Greece loses its "A" rating from Moody's, its bonds will not, from the end of this year, be eligible for use as collateral at the ECB. So there is also a risk that the country's financial system could suffer a shock as a large slug of its financial assets became illiquid. A downgrade could also doom Greece to a state funding crisis. Yields on two-year Greek debt rose 74 basis points yesterday.

A country recently found to have cooked its books must work hard to build confidence, especially if it

also has a long-term history of being an unreliable debtor and a mountain of pre-existing debt. Athens needs even harsher fiscal discipline in the coming year.

This is why other European governments should avoid becoming intimately involved with the Greek squeeze. Blame for the country's distress is already being allocated abroad. This week, both the mayor of Athens and the country's deputy prime minister have raised the spectre of the Nazi occupation of Greece in the 1940s.

So the IMF should lead the international monitoring effort and, if necessary, offer conditional funding to the country to help it cope with its problems. That will avoid poisoning European relations – and prevent the EU lurching into closer union as a means of getting through this debt crisis.

This is not to say that Europe can do nothing. So long as the Greeks follow a credible deficit reduction plan, its bonds should be eligible for exchange at the ECB – even if it suffers a downgrade. If the central bank thinks it necessary, it should seek an indemnity from other eurozone countries. This is hardly ideal, but it will buy time for Greece to put its house in order. The ECB's collateral rules must not be the cliff-edge that Greece tumbles over.

