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Greece central bank chief calls for bailout overhaul

Kerin Hope in Athens

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Greece's finance minister Yannis Stournaras

Greece's central bank governor has urged the country's creditors to rework a core element of Athens' new bailout, saying ambitious budget surplus targets agreed with the leftwing Syriza government are "unrealistic and socially unattainable."

Yannis Stournaras called for "a new deal" that would reduce the fiscal surplus, before debt payments, Athens must achieve — from 3.5 per cent to 2 per cent of national output — beginning in 2018.

The lower target would allow "for a more balanced economic policy mix with emphasis on the reduction of taxation, encouraging private investment and contributing to sustainable growth rates," Mr Stournaras wrote in an article published in the Financial Times.

Mr Stournaras's stance puts him in league with the International Monetary Fund, which has argued for months that the surplus targets are unrealistic. But it puts him at odds with both the German government and Alexis Tsipras, the Greek prime minister, who has been in an open war of words with the IMF about its efforts to revamp the programme.

It is not the first time Mr Stournaras, whose office is independent from the government, has distanced himself from Mr Tsipras's policy.

At the height of last year's Grexit stand-off, he publicly warned Mr Tsipras was risking an "uncontrollable crisis" through his brinkmanship with creditors. Last month, he sparked controversy by arguing the belligerence of Yanis Varoufakis, Mr Tsipras's former finance minister, cost the country €86bn.

Despite its call for debt relief and lower surplus targets, the IMF remains highly unpopular in Greece. Mr Tsipras has long railed against the fund and has for months sought to force it out of the third bailout programme — in part because Syriza officials believe their EU partners will, over time, prove more lenient.

Mr Tsipras accepted the higher target demanded by the EU last year in an eleventh-hour agreement that spared the country bankruptcy and a chaotic exit from the eurozone. He restated his willingness to abide by it last month to ensure disbursement of €7.5bn in bailout aid needed to avert default on a sovereign debt repayment that falls due in July.

By tacitly siding with IMF arguments, Mr Stournaras would make any effort by Mr Tsipras to oust the fund more difficult. Both Mr Stournaras and the IMF argue that setting a high target would shrink the country's chances of recovery and further delay a long-awaited deal on debt relief.

"Lower fiscal targets and debt relief are the incentives that will keep the Greek economy and society going," Mr Stournaras wrote.

Mr Stournaras argued that Greek debt would be sustainable with a 2 per cent annual primary surplus and "rather moderate debt relief which does not inflict losses on lenders". He also proposed a 20-year extension on loan maturities and the repayment of capitalised deferred interest in equal instalments over 20 years.

Mujtaba Rahman of Eurasia Group, a risk consultancy, said the current 3.5 per cent target "probably isn't attainable" in later years but that it would be too politically challenging for Greece's lenders to revise them before next year's German elections.

"If these targets are missed it means more austerity and more political instability. The Bank of Greece is trying to draw attention to this," he said.

The Greek proposals have already been discussed informally at a meeting of eurozone central bank governors. Detailed projections will be included in a Bank of Greece monetary policy report due to be published on Wednesday, a central bank official said.

The economy is set to shrink by another 0.3 per cent this year before rebounding, with growth of 2.7 per cent forecast in both 2017 and 2018, according to the report.

The Syriza-led government last month pushed through parliament a €5.4bn fiscal package of pension cuts and tax increases, including a 1 percentage point rise in the basic value added tax rate to 24 per cent.

“The willingness and ability of Greeks to pay these additional taxes will be limited. Austerity is reaching breaking point in Greece,” Mr Rahman said.

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