Financial organisations declare Greece to be in default

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Immediately after Greece struck a deal with its creditors late Thursday night, European Union officials hailed the agreement as an important step toward alleviating the European debt crisis. French President Nicolas Sarkozy declared that the Greek problem was settled and added that a "page in the financial crisis is turning."

A closer look at the deal reached Thursday, however, reveals it to be a further step in shifting the burden of the financial crisis onto the public purse, i.e., the taxpayers, while deepening the agony of the population in Greece and Europe as a whole.

Just a few hours after the agreement had been finalised, following frantic haggling between international financial organisations and the Greek government, the International Swaps and Derivatives Association (ISDA), comprising 15 global banks and investment funds, announced that the deal involved a so-called "credit event." The ISDA argued that Greece had forced nearly 10 percent of its creditors to accept a haircut on their bond holdings by invoking so-called collective action clauses, resulting in a default on its debts.

This means those hedge funds and banks that insured against a Greek default by means of credit default swaps (CDS) are eligible for payment. The payout of CDS due to the default of a euro country sets a precedent that is expected to drive up interest payments on the sovereign debt of larger European economies such as Spain and Italy. The announcement by the ISDA was followed by statements from the rating agencies Standard & Poor's and Fitch concurring that the Greek debt swap represented a default.

Far from warding off insolvency, Thursday's deal represents a significant step towards the official bankruptcy of Greece.

In a report published at the weekend, the head of the Open Europe think tank declared that the Greek debt relief deal could prove to be a "pyrrhic victory." Describing the way in which Greek debt has been socialised at the expense of the tax payer, he wrote: "At the start of this year, 36 percent of Greece's debt was held by tax payer-backed institutions (European Central Bank, International Monetary Fund, European Financial Stability Facility). By 2015, following the voluntary restructuring and the second bailout, the share could increase to as much as 85 percent, meaning Greece's debt will be overwhelmingly owned by euro zone tax payers…" who will be liable to pay in the case of a further default by Greece.

The report notes that "another default could be around the corner, while the austerity targets are wholly unrealistic and kill off growth prospects." It concludes: "This deal may have sown the seeds of a major political and economic crisis at the heart of Europe, which in the medium- and long-term further threatens the stability of the euro zone."

Fears about the consequences of the debt deal led to a sharp fall in the value of the euro at the end of last week. The common European currency fell 1.2 percent against the dollar.

After implementing the austerity demands of the "troika" (European Union, International Monetary Fund, European Central Bank), Greece has experienced a 20 percent drop in its gross domestic product (GDP) and is entering its fifth year of recession. A number of prognoses state that as a result of the latest batch of cuts agreed by the government, Greece may well face another fifteen years of recession.

Predictably, EU officials once again cracked the whip after Thursday's deal and instructed the Greek government to implement without delay the agreed austerity measures. EU Economics Commissioner Olli Rehn declared, "I now expect the Greek authorities to maintain their strong commitment to the economic adjustment programme and rigorously and in a timely manner implement the policy package."

His comments were echoed by German Finance Minister Wolfgang Schäuble, who has played a leading role in pushing through the EU austerity policies. Schaüble arrogantly declared, "Greece has today been given the chance to make it. But Greece will now have to seize this chance itself."

The European Commission has dispatched its own officials to Athens to join representatives from the International Monetary Fund and the European Central Bank to oversee Greek government policy.

Not content with installing their own choice as prime minister, the banker Lukas Papademos, EU officials are discussing how to establish a regime in Greece that can withstand growing popular opposition to the cuts. The EU bureaucrats are leaving no doubt that they consider Greek elections set for April to be unwarranted.

The French business newspaper *La Tribune* reported last week that there is a growing lobby within the EU in favour of the postponement or even cancellation of elections. It writes: "The three parties to the left of the social democratic party PASOK account for 39 percent of those who intend to vote… With such a strong hard left, there is significant risk that the current road map will be called into question."

The newspaper notes that the EU would prefer an election in 2015 and concludes with the warning: "… the risk of an uncontrolled social explosion is at least as significant as the risk of a disorderly default."

What *La Tribune* refers to as the "hard left" is a coterie of organisations that have repeatedly demonstrated their fidelity to the bourgeois PASOK party and its affiliated trade unions. While these organisations pose no risk to Greek or European capitalism, *La Tribune* and the European bourgeoisie are concerned that an electoral victory for them could encourage an upsurge of the working class that would threaten the implementation of further austerity measures.

A cancellation of the elections in April would give a green light to the Greek military to proceed with its own preparations to deal with growing social unrest. Expressing his concerns over such a scenario, the right-wing deputy leader of the European People's Party, Jacek Saryusz-Wolski, warned his European colleges that an intervention by the military would have grave geopolitical consequences. He declared: "A weakening of democracy in Athens, with a possible military involvement to maintain order in the worst of foreseeable scenarios, would be catastrophic for the European Union and its image in the neighborhood—both the south and the east—as well as in the world."

The debt relief deal struck Thursday has confirmed the role of the European Union as an instrument of the banks and big finance. Having bought some time in Greece, the main concern of the EU bureaucracy in Brussels is to build up an even bigger fire-wall for the banks and prepare for a further offensive against the working class throughout Europe, beginning with Portugal, Spain and Italy.

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