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# Greek Central Bank Issues Dire Warning on Bailout Talks

Report warns of 'uncontrollable crisis' without a deal; ECB drawn into fray

A painter waits for customers at a square in the center of Athens on Wednesday. *PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES*

By **STELIOS BOURAS** And **BRIAN BLACKSTONE**

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ATHENS—Greece's central bank, in unusually stark language that angered the ruling party, warned Wednesday that failure to clinch a deal with international creditors on desperately needed funding could "snowball into an uncontrollable crisis" for the country.

The left-wing party Syriza responded by accusing the central bank of overstepping its role and undermining the government's negotiating position. The standoff between Athens and its lenders has become politically charged, with each side deeply mistrustful of the other and neither showing signs of giving ground.

The European Central Bank—which includes the Bank of Greece as a member—is facing increasingly tough decisions as the threat of default grows, underlining how even institutions that strive to remain above politics are being drawn into the fray.

"They're under pressure from a lot of sides," said Jacob Funk Kirkegaard, senior fellow at the Peterson Institute for International Economics.

**Greece's next payments**
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**€1.53 billion** on June 30, 2015
Owed to: International Monetary Fund

**€2 billion** on July 10, 2015
Owed to: Treasury bill holders

**€449.1 million** on July 13, 2015
Owed to: International Monetary Fund

Uncertainty over Greece's future in the eurozone has led to a jump in withdrawals from Greek banks, which must be offset by central bank funds. The outflows reached some €1.8 billion ($2 billion) this week as of Wednesday, a bank official said.

The ECB has been regularly signing off on more funds to meet the needs of Greek banks through a program known as emergency liquidity assistance; on Wednesday it raised the ceiling by €1.1 billion to €84.1 billion. The Greek central bank is the conduit for the money but can be overruled by the ECB.

If the ECB decided to restrict Greece's access to these emergency loans, it could quicken the deposit outflows and intensify the crisis—even trigger a Greek exit from the euro.

But if the ECB keeps the spigots open in the absence of hope for a bailout deal, the Frankfurt-based bank's own credibility could be damaged by giving the appearance that it was bending its rules under political pressure.

With time running out, Athens and its lenders—other eurozone countries and the International Monetary Fund—appear deadlocked over how much more Greece must tighten its belt in exchange for needed funding. The eurozone portion of Greece's €245 billion bailout expires on June 30, the same day Greece faces a €1.5 billion payment to the IMF.

“A manageable debt crisis, as the one that we are currently addressing with the help of our partners, would snowball into an uncontrollable crisis, with great risks for the banking system and financial stability” if a deal doesn’t come through, the Bank of Greece report said.

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That could bring a deep recession, a dramatic decline in income levels, an exponential rise in unemployment and a collapse of all that the Greek economy has achieved in the more than 30 years it has belonged to the European Union, it added.

The Bank of Greece’s report amounts to an appeal to the government and its international creditors to overcome their differences, which the bank suggests aren’t unbridgeable in terms of the numbers.

But the report angered members of Prime Minister Alexis Tsipras’s Syriza party, who said it was published to overshadow a nonbinding parliamentary report that found Greece should not pay back its debt.

The bank’s report is likely to escalate tensions between the Syriza-led government and Bank of Greece Gov. Yannis Stournaras. He was finance minister in 2012-14 under Antonis Samaras, whose conservative-led government was more active in implementing the bailout program.

Syriza’s dislike for Mr. Stournaras runs so deep that a good number in the party suspect him of trying to orchestrate the government’s downfall to become prime minister himself as head of a technocratic administration—a claim that Mr. Stournaras’s supporters dismiss.

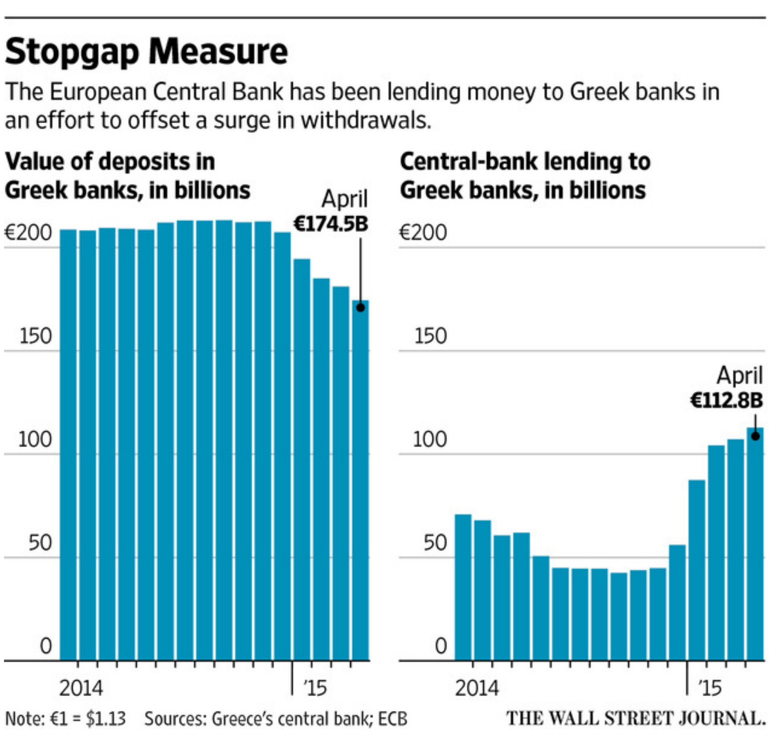
"With his monetary policy report today, the governor of the Bank of Greece not only exceeded his institutional role but is also trying to create an asphyxiating framework for the moves and negotiations of the Greek government," Syriza said.

Greece's dispute with lenders will come to a head at an EU summit on June 25, if not earlier, at which either Mr. Tsipras or German Chancellor Angela Merkel may have to back down. Eurozone finance ministers are holding a meeting Thursday in Luxembourg, but Greek Finance Minister Yanis Varoufakis has said that he won't bring any new proposals to the session.

On Wednesday, he told reporters in Paris that he wasn't expecting a deal at the level of finance ministers.

Mr. Tsipras has accused creditors of trying to humiliate Greece and says that Athens cannot accept demands for deeper austerity, which creditors say are needed to restore Greece's long-term financial stability.

Few Greeks support the conditions set in exchange for the bailout, which has kept the country afloat but is seen as having pushed it into a depression.




"In the event we have an honorable agreement, my colleagues and I will undertake the cost of seeing it through," Mr. Tsipras said Wednesday. "In the opposite case, it will be us again that will say the big 'no' to a continued catastrophic policy for Greece."

EU officials rejected Mr. Tsipras's claims that its proposals were unreasonable. "It is wrong to say that the [European] Commission is trying to impose austerity on Greece," Pierre Moscovici, the EU's economics commissioner, said.

Greece's lenders are demanding €3 billion of fiscal savings measures in 2015 alone. Mr.

Tsipras's Syriza party has proposed measures worth more than €2.5 billion over the next two years.

ECB President Mario Draghi has avoided the spotlight amid Greece's increasingly acrimonious debt talks, saying repeatedly that a solution lies with politicians, not central bankers. Yet he may be forced soon into the political arena.

If Athens misses the €1.5 billion payment to the IMF on June 30, that wouldn't necessarily force the ECB to cut access to its emergency lending, because Greek banks hold only a small amount of Greek government bonds as a share of their total assets. But other types of assets used as collateral could be impaired if Athens can't pay its bills.

The ECB "could wiggle out and maybe not cut [emergency lending] completely off if Greece missed an IMF payment, if they thought there was a prospect of a deal," said Raoul Ruparel, co-director of Open Europe, a London think tank.

A more significant date is July 20, when Greece must pay €3.5 billion to redeem bonds held by the ECB under a bond-buying program that ran from 2010 to 2012.

If Greece defaults on the ECB, "then surely there's no way they can keep" the emergency lending going, Mr. Ruparel said.

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