The Economist

Temporary relief

The EU, the IMF and Greece agree to disburse now and argue later

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THERE was plenty of shouting in parliament as Greece's government, led by the leftist Syriza party, pushed through a €1.8 billion ($2 billion) package of tax increases on May 22nd. Protestors, among them a former Syriza cabinet minister, hoisted a banner outside the building declaring "They (the measures) shall not pass". But Alexis Tsipras, the prime minister, rallied his lawmakers: there were no defections. Afterwards Panos Kammenos, defence minister and leader of the right-wing Independent Greeks, Syriza's coalition partner, blasted the rise in value-added taxes on small Aegean islands—which he had just voted for—as "criminal".

From next year Greeks will have to pay more for the small pleasures that have made life bearable during the country's seven-year recession: cigarettes, coffee and even craft beer. VAT will rise to 24% on groceries, mobile phone calls and most consumer goods. "Just surviving has become a challenge," sighed Stelios Paterakis, a retired army officer living on a pension of €800 a month.

The tax increases completed a package of reforms that Greece agreed to after six months of negotiations with its creditors, the European Union and the International Monetary Fund. Their passage could mark a turning point. Last year Greece's economy suffered tremendous damage while the newly-elected Mr Tsipras battled the EU and the IMF, demanding a debt write-off and better loan terms. **According to the Lisbon Council, a think-tank, the six-month confrontation cost Greece more than €40 billion in lost output and revenues before Mr Tsipras capitulated, accepting harsh conditionality in return for an €86 billion bail-out.**

But having accepted the bail-out, the government dragged its feet over the conditions. The May 22nd vote finally satisfied Greece's creditors that they had been met. In the early hours of May 25th, after a grueling 11-hour meeting, Eurozone finance ministers hashed out a deal to disburse €10.3 billion of funds to cover Greece's debt repayments for the rest of the year.
Deep divisions remain between the EU and IMF, which insists that Greece's creditors must reduce its huge debt load to make it sustainable. Germany will not hear of it. The deal struck in Brussels delays the issue until 2018, after the current bail-out ends (and after Germany's election next year). Meanwhile Greece must plod on with pension and tax reforms, and speed up privatising state property.

In sum, the deal extends the long Greek and European tradition of down-road can-kicking. Yet for Greek businesspeople, any agreement is a welcome promise of financial stability. Yields on

Greek bonds are at their lowest since November. Finance ministry officials think the government can return to capital markets early next year. The European Central Bank is set to accept Greek government bonds again as collateral for loans, allowing Greek banks to borrow at cheaper rates. That will free up billions in desperately needed liquidity for borrowers. Kostis Michalos, chairman of the Athens chamber of commerce, summed up the mood: “I have to admit, I’m beginning to feel optimistic.”

From the print edition: Europe