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Greece Must Keep Cutting Or 'Probably' Exit Euro, Flaherty Says

By Theophilos Argitis - Sep 9, 2011 4:22 PM GMT+0100

Greece may have to leave the euro if it fails to press ahead with its budget-cutting plans, Canadian Finance Minister [Jim Flaherty](#) said.

"It's necessary for the Greek government to stay the course," Flaherty told reporters in Marseille, France, where he is attending a meeting of Group of Seven officials. "The alternative is probably that they leave the euro. I expect the Greek government would want to continue their fiscal consolidation."

G-7 central bankers and finance ministers convene today for their first face-to-face talks since they promised "coordinated action" on Aug. 8 to calm financial markets. Flaherty said investors remain to be convinced that governments can tackle their balance sheets.

There seems to be some hesitancy among leaders to press ahead with commitments to reduce deficits, Flaherty said.

"This comes down to political choices that have political consequences, choices that affect their opportunities for re-election," he said. "There aren't easy, comfortable answers here and I certainly worry if any of my colleagues are starting to think that we can have a comfortable answer by delaying fiscal consolidation."

Debt Fears

Credit-default swaps on Greek debt yesterday surged to a record, signaling a 91 percent chance the nation will fail to meet debt commitments, and the cost of insuring against default on European corporate debt climbed today.

A measure of banks' reluctance to lend to each other in [Europe](#) this week rose to the highest in almost 2 1/2 years and about \$5 trillion has been wiped off global equity markets since the start of July as debt fears rippled around the world.

“There is a continuing concern here that the euro zone folks still don’t have a handle on the problem and it’s clearly impacting on the global economy,” Alan Alexandroff, co-director of the University of Toronto’s G-20 Research Group, said in an interview. “There is some concern the EU, particularly the French and the Germans, simply haven’t come up with a formula to really resolve the sovereign debt problem.”

Greece said this week it will accelerate further austerity measures as pressure mounted from European partners before the payment of the sixth tranche of bailout loans under last year’s 110 billion-euro loan (\$150 billion) package. A scheduled quarterly review of [Greece’s](#) progress by the European Union and the [International Monetary Fund](#) was unexpectedly suspended for 10 days and won’t resume until mid-month.

‘A Possibility’

Asked if he thought there was any chance Greece would opt to leave the euro, Flaherty said, “I don’t know. No doubt it’s a possibility. It’s been written about. Lots of economists have talked about it.”

He said he’s not advocating Greece’s exit from the European common currency.

“It’s actually none of our business,” he said. “I want a solution to the fiscal challenges to the EU. And we’re careful about that. I don’t suggest to my European colleagues about precise steps they can take.”

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