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Greece threatens top court action to block Grexit

Exclusive: European leaders warn in concert that a 'No' vote on Sunday means Greece will be pushed out of the euro



The one-week closure of the Greek banks and the dras ic escalation of the crisis over the weekend caught investors by surprise Photo: Konstantinos Tsakalidis/Bloomberg



By **Ambrose Evans-Pritchard**

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Greece has threatened to seek a court injunction against the EU institutions, both to block the country's expulsion from the euro and to halt asphyxiation of the banking system.

"The Greek government will make use of all our legal rights," said the finance minister, Yanis Varoufakis.

"We are taking advice and will certainly consider an injunction at the European Court of Justice. The EU treaties make no provision for euro exit and we refuse to accept it. Our membership is not negotiable," he told the Telegraph.

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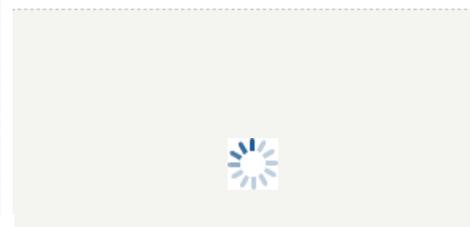


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Greek finance minister Yanis Varoufakis (Photo: Kostas Tsironis/Bloomberg)

The defiant stand came as Europe's major powers warned in the bluntest terms that Greece will be forced out of monetary union **if voters reject austerity demands in a shock referendum on Sunday.**

"What is at stake is whether or not Greeks want to stay in the eurozone or want to take the risk of leaving," said French president Francois Hollande.

Sigmar Gabriel, Germany's vice-chancellor and Social Democrat leader, said the Greek people should have no illusions about the fateful choice before them. "It must be crystal clear what is at stake. At the core, it is a yes or no to remaining in the eurozone," he said.

Chancellor Angela Merkel – standing next to him after an emergency meeting of party leaders – was more oblique, but the message was much the same.

She praised hard-liners in her own party and insisted that the eurozone cannot yield to any one country. "If principles are not upheld, the euro will fail," she said.

The refusal to hold out an olive branch to Greece more or less guarantees that it will not repay a €1.6bn loan to the International Monetary Fund on Tuesday, potentially setting off a domino effect of cross-default clauses and the biggest sovereign bankruptcy in history.

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Any request for an injunction against EU bodies at the European Court would be an unprecedented development, further complicating the crisis.

Greek officials said they are seriously considering suing the European Central Bank itself for **freezing emergency liquidity for the Greek banks at €9bn**. It turned down a request from Athens for a €6bn increase to keep pace with deposit flight.

This effectively pulls the plug on the Greek banking system. Syriza claims that this is a prima facie breach of the ECB's legal duty to maintain financial stability. "How can they justify setting off a run on the Greek banking system?" said one official.

Mr Varoufakis said Greece has enough liquidity to keep going until the referendum but acknowledged that **capital controls introduced over the weekend** were making life difficult for Greek companies.

Money is being rationed by an emergency payments committee made up of the key agencies and the banks. "We are having to prioritize spending," he said.

The one-week closure of the Greek banks and the drastic escalation of the crisis over the weekend caught investors by surprise. Most had assumed that a deal was in the works.

Yields on Portuguese 10-year bonds spiked 47 basis points to 3.17pc before falling back as hedge funds look more closely at other EMU crisis states suffering from political dissent and austerity fatigue.

The sell-off ripped through debt markets in southern and eastern Europe. Yields jumped 24 basis points in Italy and Spain, and 22 points in Romania. German Bund yields dropped 13 points to 0.79pc on safe-haven flight.

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The iTraxx Crossover index measuring risk on European corporate bonds jumped 42 basis points to 332 in one of the most violent one-day moves since the Lehman crisis in 2008, an ominous sign that any fall-out from 'Grexit' may be harder to contain than supposed.

European leaders insist that there is no longer any serious risk from contagion now that the EMU bail-out fund (ESM) is in place and the ECB has full power to act as a lender of last resort, if necessary by buying the bonds of vulnerable states on a mass scale.

This insouciance is not shared by the US Treasury or the US Federal Reserve. Britain's Chancellor, George Osborne, warned that Grexit could be traumatic. "I don't think anyone should underestimate the impact a Greek exit from the euro," he said.



European Commission president Jean-Claude Juncker (Photo: EPA) Photo: EPA

The clash between Greece and the creditor powers has become deeply personal. "Goodwill has evaporated," said Jean-Claude Juncker, the European Commission's president.

He lashed out at the radical-Left Syriza government, accusing premier Alexis Tsipras of failing to tell his own people the "whole truth" about the terms on offer. "Playing off one democracy against 18 others is not an attitude worthy of the great Greek nation," he said.

Mr Juncker said angrily that he had "tried again and again" to stick up for the Greek people but warned that there is little he can do to stop events running their fateful course. "A 'No' would mean that Greece had said 'No' to Europe," he said.

"This isn't a game of liar's poker. There isn't one winner and another one who loses," he said, adding that he felt betrayed by the "egotism, and tactical and populist games" of the Greek government.

Yet at the same time, Mr Juncker intruded deeply into the internal matters Greek democracy, exhorting voters not to "commit suicide" and kicking off what amounts to a referendum campaign by the Commission itself.

He denied that the creditors were demanding pension cuts as part of the deal, a claim dismissed a "preposterous lie" by one Greek official. In fact Brussels wants a cut equal to 1pc of GDP by next year, including a phasing out of the low pension supplement, and other indirect measures.

One Syriza MP, Dimitris Papadimoulis, caught the mood in Athens. "Juncker is calling for the overthrow of the government," he said.

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