default diminished. Interest rates on ten-year debt fell 0.707 of a percentage point to 10.6 per cent and the three-year yield dropped 2.13 percentage points to 19.7 per

The Athens stock market leapt by 8 per cent yesterday, erasing losses it suffered on Monday

"toxic".

Striking a more conciliatory tone after speaking by phone with Mr Tsipras, Jean-Claude Juncker, president of the European Com-

choppy ride. Paul Donovan, a UBS economist, said: "We expect a deal to be done, but probably only after a lot of wailing and gnashing of teeth."

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Could Europe recognise a sensible Syriza?

Willem Buiter, Ebrahim Rahbari
Comment

The eurozone's continuing travails again loomed large at the World Economic Forum in Davos last month. However, despite the well-known and formidable challenges, a few green buds of optimism are beginning to show.

The 50 per cent fall in the oil price is a boon for the eurozone countries, all of which are big oil importers. The 5 per cent fall in the (real, trade-weighted) euro should boost exports and domestic production, while business and consumer sentiment have started to improve.

The European Central Bank's recently announced €1.1 trillion quantitative easing should reverse the previous decline in its balance sheet and further ease financial conditions. Even the fiscal picture is improving a little, largely thanks to increased "flexibility" (for this, read "fudging") in the European Union's fiscal rules.

One should not forget the offsetting factors: the world economy remains relatively soft, Russia is contracting sharply and the crisis in Ukraine is escalating, while eurozone supply-side reforms remain excruciatingly slow.

The long-term challenges are daunting, but the rare combination of a benign external shock and a brave monetary policy initiative should add at least a little spring to the eurozone's step. We would not be surprised if the eurozone managed to exceed the prevalent meagre growth forecasts of 1 per cent or so for 2015 for once.

Might we also be witnessing a political spring? The victory of the leftist anti-austerity Syriza in Greece, coupled with the growth of anti-euro sentiment in the eurozone creditor countries, has alarmed many observers. Even though we recognise the risks, we want to point to less alarming and perhaps more likely possibilities.

Some of Syriza's policies that are seen as its most controversial are in fact rather sensible — notably, public and private debt restructuring, an end to austerity and the linking of debt service to growth. Others are sensible and not even controversial, such as finally getting serious about tackling oligopolies (and oligarchs) in Greece and clamping down on tax evasion. Others are clearly unreasonable. For instance, why raise minimum wages when unemployment stands at 25 per cent?

Clearly, not only in Greece and elsewhere in Europe, many established political parties have been discredited. A change of personnel in high places may produce a more realistic approach to the eurozone's problems.

The creditor countries may, at last, recognise that there can be no reckless borrowers without reckless lenders and that, since their loans are not going to be collected, they should be written off in short order.

Greece's path since May 2010 has been characterised by undue reliance on austerity and insufficient reliance on structural reform. A reversal of these relative weights would benefit all.

The risk of Grexit and the ensuing contagion to other eurozone periphery member states persists, nonetheless. Syriza's sensible demands may fall on deaf ears. Germany and the rest of the eurozone will not agree to a face-value haircut on the €210 billion granted to Greece under the two bailout programmes. Even a soft debt restructuring is not all that easy.

Yet Greece needs new money soon because it cannot access the markets to raise funds to meet upcoming debt service requirements, let alone deliver on its promise of increased social spending.

Greece will get new funds from its international lenders only in return for a proper programme, which could, if common sense, goodwill and trust are absent, involve structural reforms and a degree of fiscal austerity that may be too much for Syriza.

There is a bargain that would make both creditors and debtors better off. Reaching it will require statesmanship on both sides. History will be their judge. Spring is coming early in the eurozone, but whether politicians allow flowers to bloom fully remains to be seen.

● *Willem Buiter is chief economist at Citigroup, where Ebrahim Rahbari is European economist*

Deflation on horizon as Chinese price rises slow

Leo Lewis Beijing

The Chinese economy lurched closer to deflation last month, as the rate of consumer price rises fell to depths last seen in the aftermath of the financial crisis in 2009.

The January reading of consumer prices showed the index rising only 0.8 per cent from the same period a year ago, taking most economists by surprise and prompting speculation that Beijing had expected PPI to fall by 3.8 per cent in January, but were forced to build a 4.3 drop into their models. It was the 35th straight decline.

The fall in the CPI and PPI indices, even without the distortional effects of Chinese new year, offers more evidence that the world's second-biggest economy is in persistent slowdown. Big external factors, such as weaker energy prices, have made their

heavily. The country's property sector is in the grip of a prolonged downturn and, as recent trade figures suggest, slowing domestic and international demand for Chinese goods is exposing overcapacity throughout the manufacturing industry.

Analysts at HSBC said that while falling oil prices and lower food price inflation were

Chinese central bank to come under pressure to cut interests rates between now and the end of March.

The health of China's corporate sector may already be experiencing some of the early effects of a deflationary spiral. Julia Wang, an HSBC analyst, wrote: "The contraction of input prices and output prices suggest that firms' profit margins are being squeezed."

However, Julian Evans-Pritchard