

THE POLITICAL IMPLICATIONS OF THE CURRENT ROUND OF NEGOTIATIONS WITH TROIKA

In an article in the Financial Times (19-9-2013) "**Third time lucky? The latest plan to rescue Greece**" Peter Spiegel has thoroughly presented all the main thorny issues facing the current round of negotiations between troika and the Greek government.

The main items on the negotiation agenda include:

- The requirement for taking additional fiscal measures amounting to € 2 billion in 2014,
- Delaying the decision on debt relief until after the elections in May, and
- The non-implementation of the decision deferred maturity of the bonds held by the Eurosystem (ANFA's) that would cover part of the financing gap for next year.

A new austerity package is expected to totally destabilize the coalition government, as both coalition partners have based all of their political strategy on the assumption that "no new measures" will be enacted. IMF is in agreement that no horizontal measures are required but troika is stressing the need to continue the consolidation effort with structural changes in expenditure and revenue collection. However, structural measures are not without heavy political cost as pressure on taxpayers to cover their obligations is resulting in confiscating either bank accounts or property. This practice leads to the expropriation of the middle classes the electoral backbone of the coalition government.

Regarding the debt relief, Greece is seeking a quick solution that will improve the climate for the Greek economy and strengthen the hand of the coalition government in the run up to at least two electoral processes next year. Although the IMF is in agreement with Greece on this issue the Europeans are inclined to take the decision much later. Eurozone governments fear that assistance for Greece to reduce its debt early will be interpreted as a failure of the Greek program and will undermine their own electoral campaigns.

The issue of covering the financing gap for next year will be discussed and agreed upon by December. The Greek government is aiming at a solution that will not require a new memorandum. But complications arise by the insistence of the ECB not to accept any deferring of the maturity of bonds held by the Eurosystem and for those issued to support the banks in 2009.

On top of that, the two sides have not found any agreement for the resolution of the three indebted public corporations that have received state aid over many years (LARCO, Hellenic Defense Systems and ELVO). This is a prerequisite action for the disbursement of 1 billion euro of aid pending since June 2013.

Financing gaps, shortfalls in revenues delays in the implementation of reforms unachievable targets based on unfounded forecasts and openly admitted mistakes have come back to haunt both the creditors and the Greek government. Although, the IMF has admitted that it got it all wrong regarding fiscal multipliers, corrective action seems impossible as there is no willingness on the part of Europeans to further share the burden of adjustment. The third package is at risk of being too modest and as a result recovery will be fragile and subdued preventing Greece from returning to the markets with conviction in late 2014 or even later.

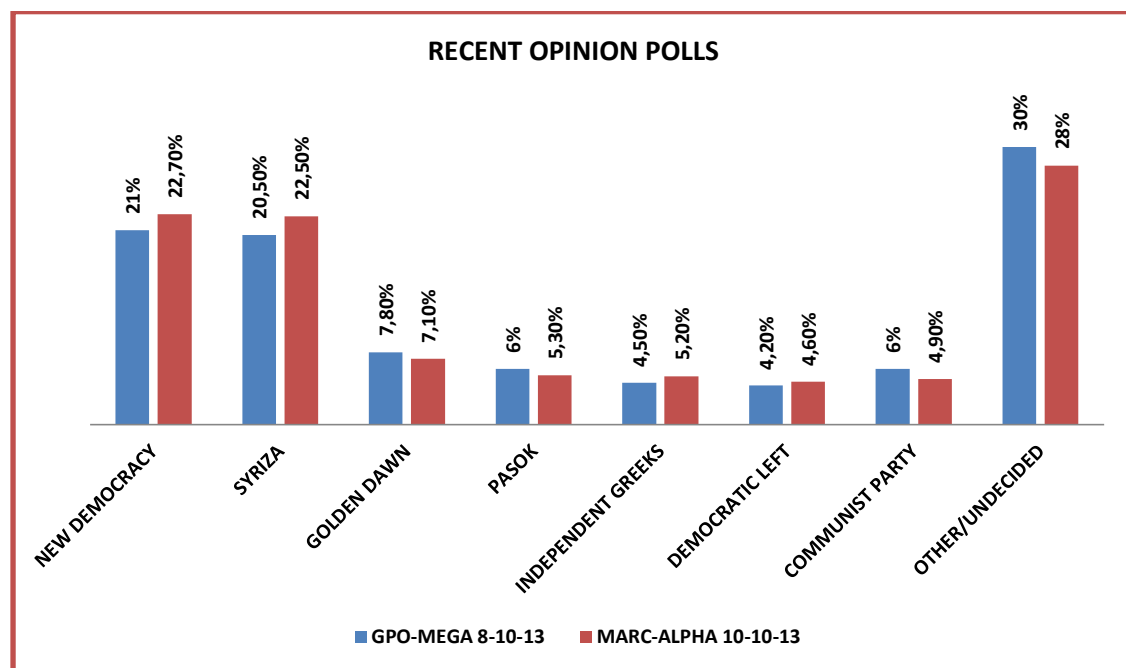
The political environment in Greece has taken a dramatic turn as the clamp down on Golden Dawn has resulted in a rather modest decline in its electoral influence and the parties of the coalition are struggling to keep their grip on power. A slim parliamentary majority does not guarantee long term survival and the lack of any credible plan for the day after is proving a real handicap in attracting middle class support. On top of that the lack of meritocracy coupled with widespread mismanagement, internal wrangling on alliances and a revival of the old clientelism practices are undermining the last bits of credibility.

SYRIZA on the other hand is not able to capitalize on widespread dissatisfaction of voters as their proposals leave the door of GREXIT wide open. The opposition cannot persuade the electorate that they really have an alternative viable strategy. However, it is inevitable that they might gain

enough protest votes in the next elections and form a government which may survive for a limited time period until a total economic collapse carries them away.

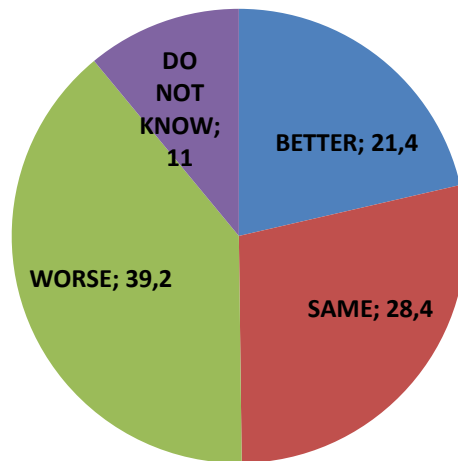
In general there is a lack of credibility for the political system as a whole and that is a real handicap for the functioning of a democracy. People do not believe either the assurances of the government (no more measures) or the promises of the opposition (magic solutions).

The most recent polls indicate a stalemate.



Furthermore, public opinion is clearly aware that the election of a pro-SYRIZA government will not resolve anything. In a recent opinion poll (GPO for MEGA) people were asked whether a SYRIZA based government formed in 2012 with Mr. A. Tsipras as prime minister would have made things better. Over 2/3 of those asked replied that things would have been either the same or worse. This is hardly a solid basis for an all-out assault on the 'winter palace' of power.

A SYRIZA BASED GOVERNEMENT WOULD HAVE MADE THINGS:



The outcome of these negotiations is likely to determine the future not only for this government but also for Greece as a European country. It will be a grave historical mistake on the part of the Europeans if they do not realize that additional modest assistance is required **now** rather than in the spring of 2014 as then it might be too late.

S. Travlos 17-10-2013