

CONVERSATIONS WITH SYRIZA A NEW GREEK DRAMA IS UNFOLDING

Following two days of meetings with European dignitaries the risk of GREXIT has increased sharply. The experience of those participating in the discussions was surely traumatic. One source close to the participants has commented that some on the Greek side are inept. The Greek side has not presented a well-documented alternative program but only some general ideas that have not persuaded the Europeans. Several issues are of particular concern.

First, the government is planning to implement a number of election promises at a considerable budgetary cost without being able to identify clear sources of financing. They will reinstate redundant civil servants, reintroduce the 13th pension and increase the minimum wage to 751 euro. We expect that the state will have difficulties in payments sometime in March.

Second, several Ministers have continued today to announce the cancellation of privatisations, which could cause an additional 5bn shortfall in financing in 2015/16. Furthermore, the chairman and CEO of HRADF have been asked by the Alternate Minister of Finance to resign halting in this way even procedural matters.

Third, they claim that they will raise revenues by taxing deposits that fled the country since 2012. However, as the experience of the previous government has shown not all depositors have avoided paying taxes in the past and in any case imposing penalties on them leads to lengthy court procedures in an already hard pressed judicial system. It is questionable whether the state can speed up the process without violating basic human rights.

Fourth, the insistence of not negotiating with troika remains a stumbling block, which is difficult to explain, as a joint program must have some kind of coordinating committee. But the Minister of Finance said earlier today, that “we will seek the maximum cooperativity with statutory bodies, but we cannot work together with a shaky committee (troika)”. If negotiations in the past lasted for

months we can imagine how long will take to negotiate in parallel with three institutions. I cannot see any advantage over the previous arrangement.

Fifth, Greek banks are in dire straits caught in a downward spiral as deposit withdrawals have accelerated and the discussion on changing managements and imposing the rule of the new government on running the banks has destabilized investors. S&P has today put the Greek banks on a negative watch. *"We anticipate that deposit outflows will likely persist owing to uncertainties surrounding the new Greek government's negotiations with the Troika (the EU, ECB, and International Monetary Fund). Therefore, in contrast with our previous expectations, we consider it increasingly likely that Greek banks will soon need to access Emergency Liquidity Assistance provided by the Bank of Greece to a material extent". It was again a very belated move by the credit rating agency.*

Sources close to the European delegation have informed that Mr Draghi has asked to be briefed immediately on the progress of discussions and the response of the Greek side.

There are two scenarios: (i) SYRIZA is trying to leverage its position and create some kind of temporary crisis (a drama) so that they can make some compromises afterwards explaining to the electorate the difficulties in the European context. (ii) SYRIZA remains intransigent and causes a rupture with European partners leading to punitive measures default and GREXIT. We should take into consideration a number of parameters. First, the new government has limited ground for a manoeuvre as the elections were fought on a very radical platform against any compromise with the creditors repeatedly saying that the current program is dead. Second, if a deep crisis unfolds the Europeans may not try to stop it and decide to get rid of Greece, as the country is increasingly isolated. As we have seen today both Portugal and Spain have decided to come out in the open distancing themselves from the SYRIZA positions on an international debt conference. Even Cyprus has said today that they will continue with the current program despite the recent difficulties. The Italians will also be

reluctant to associate themselves with Greece. So there is no united front of the South.

We are expecting on Monday more turbulence in the markets as more Greeks will resume withdrawing deposits from the banks and a sell out of bank shares in anticipation of the ECB board meeting on the 4th of February, which is going to decide on the extension of the ELA program. No one at this point can rule out a Cyprus type of situation developing very soon in Greece.

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