

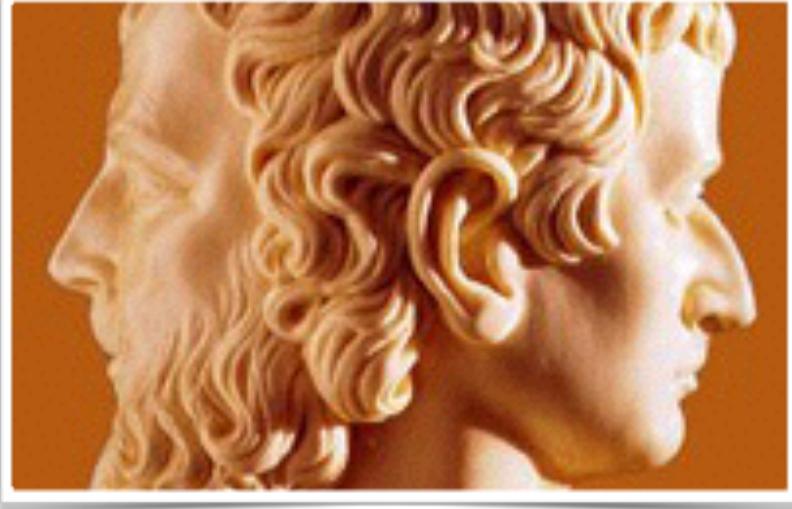
ELECTION UPDATE

EUROPE SHOULD NOW SEEK ADVICE FROM JANUS

SYRIZA is looking for a confrontation

Mr Dragasakis clarifications on negotiations:

Our program provides for a balanced budget and a realistic primary surplus. Whatever the level of surplus, we want to channel it –over the years- in public investment, rather than to pay back the creditors. To have a primary surplus we need development. Otherwise, this is happening today, we have a primary surplus due to taxes and spending cuts. The idea of withholding payment of loans due is discussed within SYRIZA. If we have no agreement by July, we will have a problem. Until then, we can pay the IMF and the ECB loans through the issue of Treasury bills to be sold to private investors. Or we can ask the IMF to postpone for a few months repayments... Payments of July and August will be covered through the latest instalments of the rescue program. We borrow to repay them back. If you get to this point and we have not reached an agreement, we will not be able to pay them. Then we will probably have a crisis.



Waiting for Mr. Tsipras

Janus was a god with two faces

The europeans should be losing their sleep lately as only 8 days before the national elections SYRIZA is very close to win an outright majority. Having cleared the tables in Athens Mr. A. Tsipras will look north in order to conquer the policy ground of German sponsored austerity.

Janus is the god of beginnings and transitions. He is usually depicted as having two faces, since he looks to the future and to the past. The Europeans will need him to tell them what they have done wrong in the past with Mr. Samaras and what might go wrong in the future with Mr. Tsipras.

The latest polls indicate that whatever Mr Samaras has thrown to SYRIZA has not caused any damage. SYRIZA is looking set to gain a majority as it enters the last week of electioneering with a comfortable lead and an estimated 147 MPs in the next parliament. If opinion polls are correct SYRIZA needs only 36% to get an overall majority. People do not care whether SYRIZA will do half as much as they promise. In fact most voters wish that they will not,

A hilarious proposal

A prospective MP for SYRIZA Ms Makri a personal choice of its leader Mr Tsipras, has yesterday claimed that the Central Bank of Greece will unilaterally issue 100bn of euros in order to restore liquidity in the Greek economy. That she said it is bad enough but to continue to defend the proposal today is a joke. No wonder Greeks withdrew 700mn euros today from the banks.

Greek banks with their back to the wall

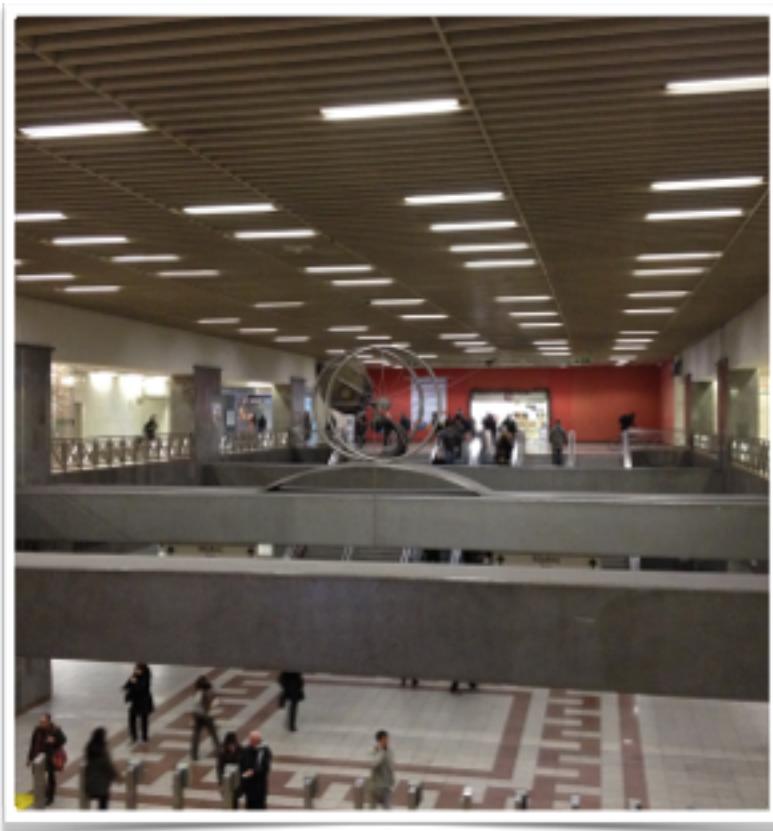
Greek banks had to seek liquidity through ELA again yesterday as deposits are dwindling and they fear the worst in the run up to the elections. A **zerohedge** commentator, Tyler Durden has claimed today that "**the bank run has started**" (<http://www.zerohedge.com/news/2015-01-15/greek-bank-runs-have-begun-two-greek-banks-request-emergency-liquidity-assistance>).

In reality there are three separate pressures on bank deposits:

- The state continues to issue treasury bills and forces banks to buy them.
- Large companies and exporters do not repatriate funds and keep reserves in country to a minimum.
- Small depositors have started to withdraw as they hear what SYRIZA promises.

otherwise a deep crisis with Europe may lead to a chaotic GREXIT. But they are fed up with ND and the docile and gentle attitude towards Europe. They are fed up with the old faces, the inept management of a very difficult situation and the policy inconsistencies. The mainstream parties need badly a thorough restructuring and only a defeat and blood letting will lead to renewal.

ND has lost this war as PASOK did in the past for very specific reasons. First, they were never very professional with negotiations with troika. Preparation is an unknown word and in many rounds the Greek side was unable to elaborate credible alternatives. If ones look at the MOUs will find thousands of detailed obligations without the necessary justification and the regulatory impact assessment. Prescriptions coming out of a rule book that no one has evaluated in depth. Second, ND had no clear vision for the day after and therefore was hiding behind the troika agenda. Even with the European structural finance funding they were unable to elaborate a new growth model. They squandered a lot of funds to refinance the big road contracts that have collapsed. Third, meritocracy was never a high priority on their agenda. Ministers general secretaries and other dignitaries have been appointed from the same old pool of



tried and failed politicians. One can identify few notable exceptions. The biggest mistake was done last June when Mr. Samaras appointed washed out populist politicians in key positions. Moreover, he appointed as Minister of Finance an analyst which had no political commitment, little determination and no guts at the most crucial turn in the political fortunes of this government. Now in the run up to the elections Mr. Samaras has no one to carry the burden of the debate on economic policy. There is no one of statute in ND to take on the ramblings of the opposition.

SYRIZA is capitalising on all these shortcomings and delivers promises. More than Mr Papandreu did in 2009 when he said "There is plenty of Money"! The SYRIZA economic analysis is kids stuff or hilarious according to one Greek professor (<http://www.brookings.edu/blogs/up-front/posts/2015/01/05-greece-assessment-syriza-political-risk-pelagidis>). But nevertheless it is enough to gain support from the dispossessed and some middle class voters that are pressured by real estate taxation. The latter are committing suicide because they will be paying the new high value real estate tax promised by SYRIZA which will lead the middle class to desperation. The nearer we come to the elections the more policy contradictions emerge. The voters seems that they have made up their mind and they do not care. But the Europeans will now face the music.

It is very difficult to keep track of the conflicting statements made by SYRIZA dignitaries every day in the news. If all of these are conveyed to the creditors the rate of heart attacks and strokes will jump in certain european capitals.

Negotiating with SYRIZA

Negotiations with SYRIZA are going to be based on three chapters. Public finance, reforms and debt restructuring. On the **first chapter** SYRIZA is in favour of balanced budgets and low surpluses spend on investment. They rightly point out that the economy cannot sustain over the longer run these high forecasted primary surpluses. However, it is questionable whether they will be able to keep a balanced budget as revenues are already collapsing and promises on their part are skyrocketing.

On the **second chapter** SYRIZA speaks a different language. They dislike reforms especially pension and social security ones and privatisations. But both are crucial for the public finance chapter because numbers do not add up. Unless a new pension reform is introduced the system cannot survive and the budget will not be able to cover the shortfall. Privatisations are also important for financing as in all troika calculations a diminishing but sizeable part of the gap is covered by privatisation revenues. SYRIZA at the highest level has announced that all past privatisations will be checked for legality reasons and appropriate action will be taken.

The **third chapter** is crucial for SYRIZA because a generous arrangement will make some room for interest payment savings and thus for diversion of funds to public expenditure. The Europeans have ruled out any haircut but they are open to some rearrangement of maturities and possibly another round of interest rates cuts on some of the loans (see Bruegel analysis <http://www.bruegel.org/nc/blog/detail/article/1533-how-to-reduce-the-greek-debt-burden/>). A compromise on this chapter is possible provided that SYRIZA agrees on the continuation of reforms.

In the negotiations time is of essence as Greece is running out on reserves and banks on deposits. If negotiations stall a bank run will take place for real and only the security forces will be able to stop it. Can it happen? Yes it has already started today. But for some reason SYRIZA is not very concerned as

their chief economic spokesman has said they want to conclude negotiations until June. He actually implied that unless they agree on SYRIZA terms Europe will face a crisis because Greece will not be able to pay back loans.

Creditors are short sighted

Europeans are not only concerned with numbers. They have been negotiating with Greek politicians for too long and they are disappointed with their attitude. Greek politicians have failed to take a lead in the tackling of the crisis. They too often put the blame on the creditors side as if the crisis was caused by the Europeans. However, the adjustment imposed on Greece was too harsh and ND with PASOK paid a huge political cost. The post mortem will also show grave policy mistakes by troika. The creditors should have moved faster in the direction of a compromise and give some space to pro European politicians to manage the situation. It is understood that they had little trust in them especially on the two leaders following the European election backlash and the ensuing government reshuffle. But European leaders have too often played hide and seek with the Greek government and insisted on the completion of an evaluation on a program that there was no realistic possibility of being fully implemented.

European leaders have left too many issues to be resolved by the technocrats. Now they will have to negotiate with Mr. Tsipras and decide on old dilemmas of GREXIT, default within Eurozone or any other great idea (<http://www.bruegel.org/nc/blog/detail/article/1542-why-a-grexit-is-more-costly-for-germany-than-a-default-inside-the-euro-area/>). Bear in mind that default within the eurozone will be catastrophic for Greeks as they will be unable to adjust and continuing with the current policies of internal devaluation will be nearly impossible. In the meantime deposits will be lost to cover failing banks and the protection of accounts below 100.000 euros will not be possible. As we all know there are no wealthy Russian depositors in Greece (as in Cyprus) or english pension funds and wealthy investors (as in Iceland) to pay the cost of bank restructuring. In case of default within the Eurozone any Greek government will take then the decision to leave the eurozone and the Europeans will just have to forgive a large amount of debt at least equal to the implied loss from the ensuing devaluation.

