

SYRIZA HAS TO DECIDE WHICH WAY TO TURN BEFORE IT IS TOO LATE

It is very difficult even for insiders to decipher what is going now in Greece. At the surface the government is completely unchallenged and continuous to dominate the domestic political debate and the opinion polls. But the cracks cannot be hidden any more. It is without question that the government has won the backing of the Greek people for the tough stand that has taken against the creditors and their antics. But in reality little has changed in the substance of the relationship with them.

First, the government has been completely unprepared to face the challenges of managing a crisis-ridden country. Some of the alternate ministers have been sworn in today almost two months after the election. Very few general secretaries have been appointed while most of the public sector companies continue to be run by the previous managements, which for many years have been targeted by SYRIZA when in opposition.

Second, continuous contradictory statements create a generalized confusion regarding the direction of policy. This is more so in the privatization front where everyday a different perspective is announced.

Third, negotiations with the creditors have been a constant source of divisions within the government and the party. The left faction of the party is opposing any deal with the creditors, which does not include a debt write-off. The Speaker of the House Ms. Konstantopoulou is distancing herself from major policy commitments of the government and follows an independent line on very serious procedural questions regarding the participation of the Golden Dawn MPs in parliamentary procedures.

Fourth, the first legislative initiatives were sloppy patchworks that exhume amateurism and have created tensions with the creditors and confusion within the government.

Fifth, the first scandal has hit the government and it is a very serious one connecting the Alternate Minister of Administrative Reform with his law practice and desperate sacked public sector employees. The Minister used to sign private agreements with sacked employees that he will receive up to 12% of their future income in case they are re-instated. Mr. Katrougalos continued to sign private contracts with clients up to January 27th, 2015 when he was sworn as alternate minister. Despite claims that all rights to remuneration issues have been assigned to the law firm that he was a member until mid-2014 evidence suggests that he took care to maintain the full payment rights for himself, as evidenced by the relevant supporting documents. The whole thing looks so suspicious because from the first day Mr. Katrougalos has been announcing the rehiring of redundant employees. This serious event follows penalties imposed by the tax authorities on another SYRIZA MP who is a lawyer by profession.

Sixth, some of the earlier policy announcements seem to favour specific business interests. The decision to go ahead with a tender for internet-based games licenses is not so innocent. OPAP has always been targeted by SYRIZA in opposition and the undermining of its position is seen as a way to balance the market in favour of other big domestic players who lost the chance to control the market a couple of years back and now they are seeking revenge.

In the mini after hours summit of the 19th of March the Europeans have decided to give Greece another chance. They will provide liquidity in return for a definitive list of reforms and the clear promise of implementation. The outcome of the discussions was not a foregone conclusion. However, strong pressure from the American side on the Greek government and also on the Germans has produced some results. The Americans have conveyed to the Greek side to cooperate with the Europeans and stop the brinkmanship and posturing.

The Americans do not wish to see Greece become another failed state in a troubled region. The Arab springs brought chaos and ISIS throughout the region and although Greeks are too conformists to take up arms, destabilization might have led to an

unacceptable level of security risks. Ties with Russia came also into the equation as even before the election several parties had close relations of some nature (unable to elaborate further in this note) with the Russians. The American side and the Germans know too well that Russia is not reliable or creditworthy partner for the countries in the area but it still possesses the capabilities and networks to destabilize existing alliances. For the US presence in the region, few places are as important as the southern island of Crete, home to facilities that provide command control and logistics support to US and NATO operating forces.



In the short term the blackmail by Greece may produce some results but over the longer term it will further undermine its position within Europe. In any case security analysts know that Greece will not survive for long after leaving NATO and the EU as the neighbourhood is a difficult one for stray dogs.

Furthermore, the Europeans do not wish to take the blame for a collapse in Greece. The local political trade union and business elites are to blame for this protracted

crisis but the final collapse may be triggered by a bank run or a default on an official loan due to the extreme liquidity crunch. Therefore, European leaders gave Greece a final chance but they fear that this government will be unable to deliver on promises as in the past.

In this conjecture the honeymoon is over with the government. Now they will have to govern and implement the 20th of February Eurogroup agreement. The new set of reforms will be transparent and definitive in terms of costs and benefits. According to sources it will include a new structure of VAT rates (geographically and across sectors and products) as well as tax increases on cigarettes, spirits, wealth and the first privatisations. But even this new list will not produce the required results as the economy has stalled and more measures will be required if a reduced surplus of 1.5% is to be achieved in 2015. Up to now further cuts on the expenditure side a delay in payments to the private sector (VAT rebates) and a slow down in the public investment program have contained the budget deficit. But this approach is hearting the real economy and the banks as NPLs increase by the day to the point that the Greek Banks will require new capital injections before the end of the year.

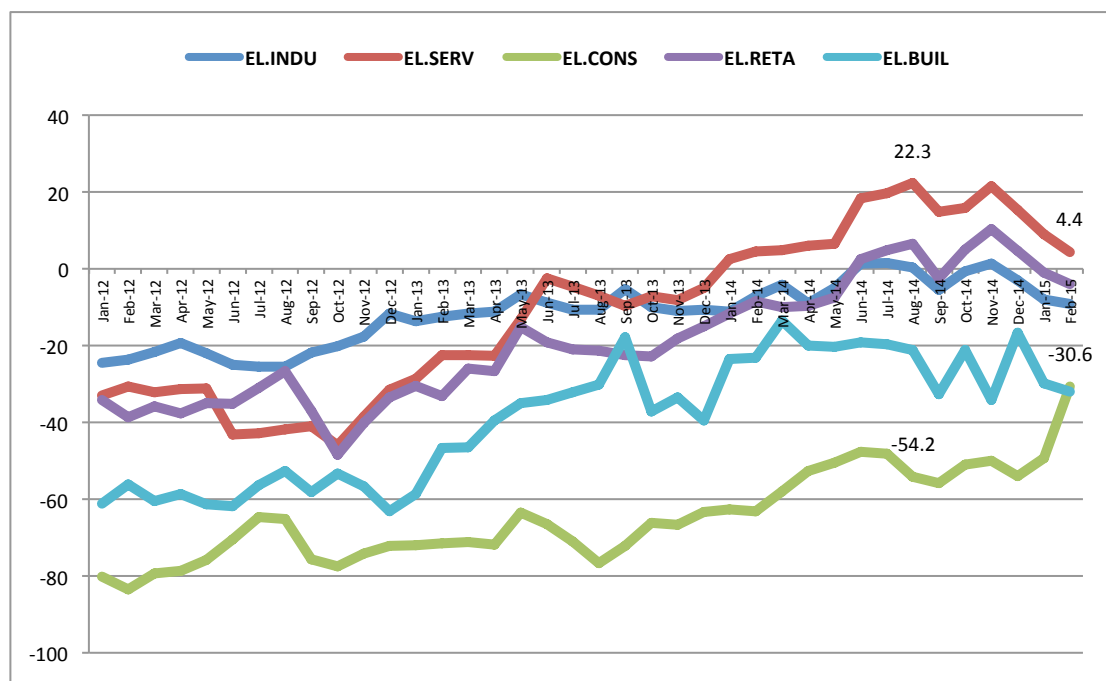
The banking system under stress

BANKS	NATIONAL	ALPHA	EUROBANK	PIREOS
Results 2014	N.A.	-329 mn	-1.21 bn	-1.97 bn
NPLs	19.2 bn (27% of loans)	20.6 bn (33.8% of loans)	17.3 bn (33.4% of loans)	29.5 bn (33.8% of loans)
Coverage ratio	57%	62%	56.3%	57%
Reduction in deposits Jan-Feb 2025	-6 bn	-5.6 bn	-4.9 bn	-8.5 bn
Total deposits Feb 2015	40 bn	37.3 bn	36 bn	47.9 bn
Dependence on the Eurosystem Feb 2015	24 bn	22.4 bn	29bn	29.2 bn
Capital 2014	8 bn	7.3 bn	4.11 bn	6.9 bn
DTA for 2014	3 bn	3.6 bn	3.7 bn	3.6 bn
Risk weighted assets	59.6 bn	52.6 bn	39 bn	57.4 bn
Total Assets	113 bn	72.9 bn	75.5 bn	89 bn

Source: Banking News

A closer look at the economic sentiment indicator is required to show some major contradictions developing within Greek society. The consumers are the only category feeling that things will turn to the better and spending power will increase. There was an improvement of more than 23 points since December 2014 indicating that the general public was expecting a SYRIZA victory leading to an end in austerity. In fact car registrations in January and February have exploded at the same time as tax revenues collapsed. It shows that old attitudes in Greece die-hard.

Economic sentiment breakdown



Source: European Commission http://ec.europa.eu/economy_finance/db_indicators/surveys/time_series/index_en.htm

On the contrary all the business indices deteriorate over the same period. How the new government is going to manage these expectations is difficult to predict but they have to deliver on promises with other people's money.

The agreement reached in the mini Summit is pushing the government towards its limits. On the one hand they have to provide a credible list of reforms with positive public finance outcome. On the other, these reforms must be accepted within SYRIZA where to certain quarters reform is a dirty word. The parliamentary group will have to make a stark choice between voting on these reforms and political

instability. The second trend might just prevail until June when more difficult decisions are to be taken.

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