

GREECE UPDATE

IS SYRIZA TURNING?

"The wise are instructed by reason, average minds by experience, the stupid by necessity and the brute by instinct". (Marcus Tullius Cicero)

Mr. A. Tsipras has indicated during an interview two weeks ago that he is willing to make concessions in order to reach an agreement with the institutions. Since then conflicting statements from leading cabinet ministers have once again confused both investors and the electorate. During the recent Eurogroup (Monday the 11th) the Greek side tried to persuade creditors that they will comply with the decisions reached on the 20th of February.



The economy cannot wait much longer

There is no question that Greece is falling apart. The real economy is at the worse point since the crisis erupted in 2009 as the state is defaulting on domestic payments failing to honour both obligations towards

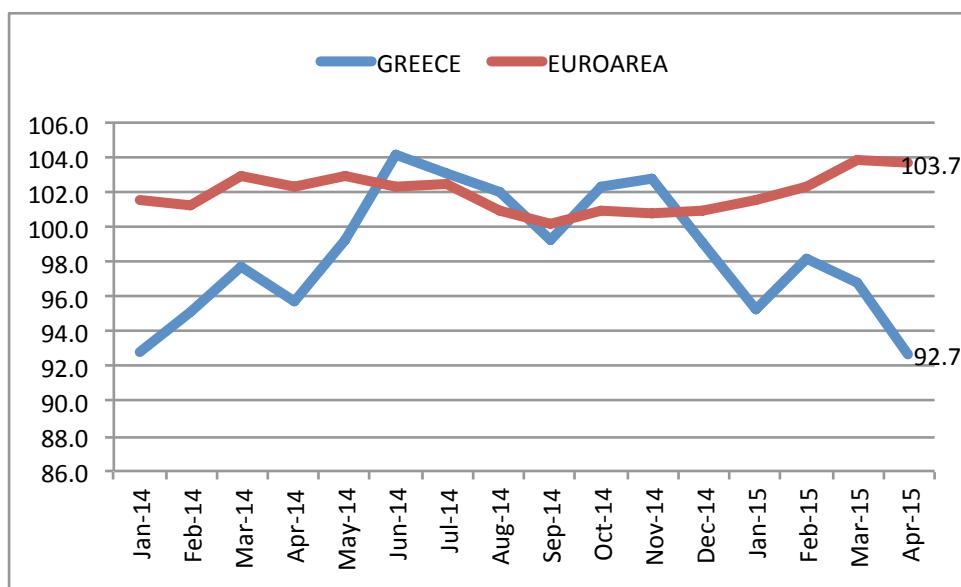
Change of guard in front of Parliament. A change of government will not be so peaceful!

contractors and VAT returns on corporations while the banking system has seized to support the private sector. The corporations and their shareholders have no reserves left to support their enterprises resulting in further delays in the payments of employees a contraction of production and failure to repay their loans.

As a result we expect GDP to contract by at least 0.5% in the first quarter of 2015.

Bank deposits are continuing to dwindle as Greeks are running for safety. Another 7.5 bn euros have evaporated in April. NPLs are soaring again as business are unable to keep up with repayments. The ECB continues to support the banks but within the next six months they will require another capital injection. There is a widespread expectation that some form of a bail in will be inevitable.

Since November 2014 when the current round of political instability has started economic sentiment in Greece started to decline and a new round of divergence of expectations from the Euro area has occurred. Up to March 2015 consumers remained rather more optimistic than business but in April everyone in Greece understood that there will not be an easy solution as the government has promised. As a result economic sentiment has collapsed (see graph).



Again as in the previous month car registrations in April have soared by 19%. This is difficult to explain in the current circumstances. However, there is a turn towards small city vehicles (with very low taxation) covering 75% of the registrations. Furthermore there is a tendency for the replacement of vehicles powered by oil with those powered by the much cheaper petrol. So the primary factor behind the growth in car registrations is economy with consumers getting out of larger and more expensive to operate vehicles as they realise that the current crisis will go on for much longer.

Politics are in a cul de sac

Despite the apparent failure of the government in its negotiating tactics and the rapid deterioration of the economy SYRIZA retains its support among the electorate. All opinion polls

indicate that if early elections are held SYRIZA will probably win an outright majority. This is largely due to two factors: First, they have not enacted yet any new austerity measures while they pretend to negotiate with the creditors in order to get a hard bargain. Second, they have as opposition the two parties (ND and PASOK) with discredited leaders which have not yet resigned following their defeat last January. The centre of politics has not yet been revived and POTAMI remains a marginal political force unable to persuade voters for its longterm dynamism.

At the present conjecture SYRIZA dominates the political scene and even after a Graccident they might be able to survive blaming the creditors and their local supporters. They have proved very efficient in the blame game and recently they have turned their guns towards the Governor of the Bank of Greece the respectable Mr. Stournaras. He is probably the last remaining hurdle before they get full control of all the levers in the economic system damaging even more the credibility of the economy.

Those Europeans that expected SYRIZA to enforce a break with old habits will be disappointed.

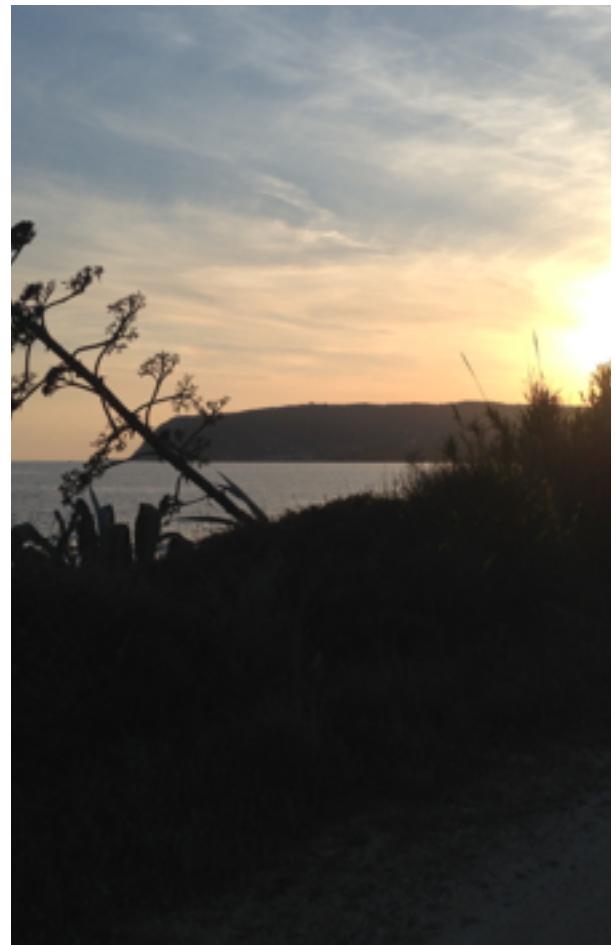
Nepotism lack of transparency and an aversion to meritocracy have been present in the first 100 days of this government.

SYRIZA has developed ties with Russia. What exactly they expect from such a relationship is difficult to see. Some may think this is just a tactical move. Others believe that is a more strategic decision based on the prospect of a possible default and Grexit. Since the 18th century the Russians played a number of power games with Greece but when the going was tough they left Greece in the cold. A deflated Russia will not be able to offer Greece much help in the near future but this does not stop politicians of both extreme right and left hoping for Russia to become a “Deus ex Machina”. Greeks have historically waited for the gods to save them and it seems that the current crisis has made them to adopt a more metaphysical attitude than before.

Conclusion

SYRIZA is trying to turn and find some common ground with the creditors as they realise that the alternative will be chaos and destruction. But they do not realise yet how far they will have to go with concessions to the creditors. They continue to cultivate illusions to the public and as a result they might not be able to enact the necessary measures in time.

Beyond this the big question remains: Even if the current government manages to strike a deal with the creditors will they be able to govern in an effective way, regain the initiative, build



The sun is setting in the Ionian. Will Greece survive another month?

confidence and attract foreign investment? This is not the dominant scenario because they lack the market mentality being tied to the old statist leftism of the seventies. Greece is set to go through another ice age unless something radical happens soon.