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# GREECE UPDATE

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## 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!

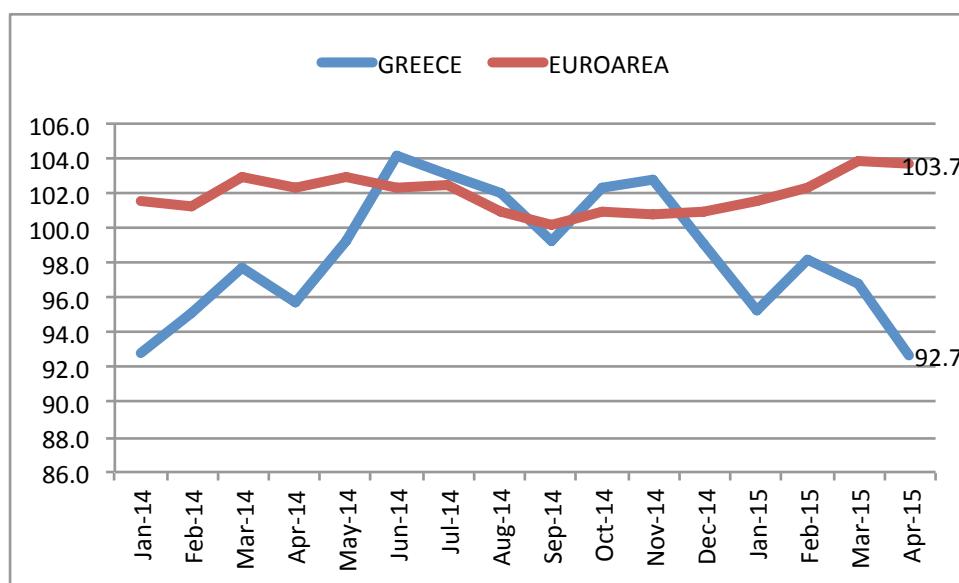
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contractors and VAT returns on corporations while the banking system has seized to support the private sector. The corporations and their shareholders have no reserves left to support their enterprises resulting in further delays in the payments of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

**As a result GDP has contracted by 0.2% in the first quarter of 2015 according to HELSTAT (a future revision may lead to a steeper decline in GDP). The trend is likely to continue in Q2 as liquidity and confidence conditions are worsening.**

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 that 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% compared to March. This is difficult to explain in the current circumstances. It seems that Greeks withdraw their cash from banks and buy durables especially vehicles in case a Grexit leads to steep devaluation and higher prices on imported goods. In this way people try to shield themselves from the anticipated impact of a default. It is a behaviour seen in other crisis hit countries like Russia and Cyprus. 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 probable 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 possible Greccident 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. SYRIZA is afraid of the possibility that Mr. Y. Stournaras might resign his post and lead the opposition. Hence the attacks have been especially venomous.



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

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.

After all SYRIZA is an old party comprising of various shades of the statist left that dominated the ideology of Greece in the 1970s and 1980s. Despite the collapse of the Soviet Union they have survived as an anticapitalist opposition without being able to elaborate a realistic alternative policy package. In fact SYRIZA is loaded with the same old materials that the other established parties had in abundance. Renewal will not come from SYRIZA. The prime minister Mr. A. Tsipras may realise now that he needs another vehicle of transformation but there is no time to create one from scratch.

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 it is a more strategic decision based on the prospect of a possible default and Grexit. Since the 18th century the Russians have 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.

At this conjecture, whatever happens with the negotiations a reconstruction of the political landscape seems inevitable. The demarcation lines will be drawn between pro-european and nationalistic (both leftists and right wingers) forces and it is difficult to predict which front will prevail. It depends on the personalities. On the pro-european side a number of different alternatives are discussed. One plausible scenario is to ignore the existing political parties (ND and PASOK) and establish a new broad movement for the salvation of Greece headed by a political leader of some status without any connection with the MOU years (K. Karamanlis is frequently mentioned). If this is not possible then a centre left alliance may be established trying to lure away from SYRIZA all those middle class voters who have realised that the current government is taking Greece to the abyss. In this latter formation POTAMI and PASOK forces may align under a personality which will be able to attract more voters from the right as well. Developments will depend on how Mr. A. Tispras will handle the present round of negotiations over the next 40 days.

### 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 to their own members and as a result they might not be able to enact the necessary measures in time. Creditors at some stage in the next 15 days will have to offer Greece a definitive package of reforms and fiscal measures on a take it or leave it basis.

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 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.