

# GREECE UPDATE

## SYRIZA politicians confused or liars

Deputy Culture Minister Nikos Xydakis "Greece had 200 years the drachma and achieved great things while under the euro I do not think we had great progress." Within hours he retracted the statement!

The economic progress of Greece is undeniable over the last 200 years despite great disasters as the 1897 default, the Minor Asia defeat and retreat, the 1945 civil war, the 1967 junta and the 1974 coup d' etat in Cyprus followed by the Turkish invasion.

However, the drachma was associated with continuous devaluations, high inflation and high interest rates, extreme poverty emigration of the population (to the USA, Germany, Australia) especially in the 1950s and 1960s.

The Minister is ill advised to open such issues without any historical or economic substantiation let alone because he is a Minister of Culture. I leave aside the fact that during these 200 years that Greece achieved so much according to him the Left was never in power!!!



***Acropolis restoration work in progress but the country is collapsing!***

## A Dreadful weekend and a long Monday

Mr. A. Tsipras has returned from Petrograd and started discussions with his negotiating team on how he can narrow the gap with the creditors. This is a good indication. But it is an exercise in numbers that could have been concluded months ago before the collapse of the real economy and the discrediting of Greece.

Persons familiar with the discussions have indicated that the adjustment will again mainly be on the revenue side. But as a last resort Mr. A. Tsipras has indicated that he might after all cut the higher pensions to appease the creditors.

Let us hope that this time the proposals are better substantiated than a week ago.



## The 47 pages that have put an end to the SYRIZA pre-election promises to the middle classes

The middle classes have voted for SYRIZA in groves believing promises for the abolition of the hated real estate tax (ENFIA). The most prestigious neighbourhoods in Athens have become overnight SYRIZA's strongholds. They should have known better.

ENFIA will stay on for a long time and even if it is abolished it will be replaced by some other draconian property tax. And the same middle classes considered now as rich will continue to pay solidarity taxes over and above the going tax rate. Who is considered rich in Greece. Anyone with a declared income above 30,000 euro! Yes declared because in Greece the true declared income is for those that they cannot avoid to evade such as salary earners or for the small number of honest professionals.

This first time left government has again walked on the steps of its predecessors and has forgotten the fight against tax evasion. Some of the legislation proposed and passed gives amnesty to serious tax evasion.

The middle classes have to find another champion!

According to media sources measures include:

- The elimination of early retirement options starting from Jan. 1, 2016.
- A special one off levy on companies with more than €500,000 in annual profits.
- The increase in “solidarity levy” for individuals earning more than €30,000/yr.
- 3 bands for VAT rates; creditors want 2 bands; Greek govt proposes to move more products to higher band of 23%, in order to cover fiscal gap.
- A zero deficit clause, debt break for Greek budget; clause would include automatic spending cuts in case threshold is breached.

The Greek govt would be willing to adopt additional fiscal measures, if agreement with creditors includes commitment to debt relief.

### *There is no Time*

The real economy is collapsing. Public works have stopped throughout Greece as contractors remain unpaid. Some contracts have been interrupted and contractors are claiming huge penalties from the state. Consumption has collapsed as all decisions have been postponed. Super markets have unleashed a war of discounts to lure consumers.



But all this is nothing compared to the plight of the banks. They rely heavily on ELA. But now there is an additional problem apart from ECB's intentions. Two systemic banks are very close to the point that they run out of acceptable collateral which is required in order to be able to have access to ELA funding. According to market sources Pireas and Alpha Bank have been left with 5bn euro of acceptable collateral. With the current trends they can last at most a week.

The banks have already introduced informal limits and they refuse to hand out cash in excess of 1,000 euro on demand without ample prior notice.

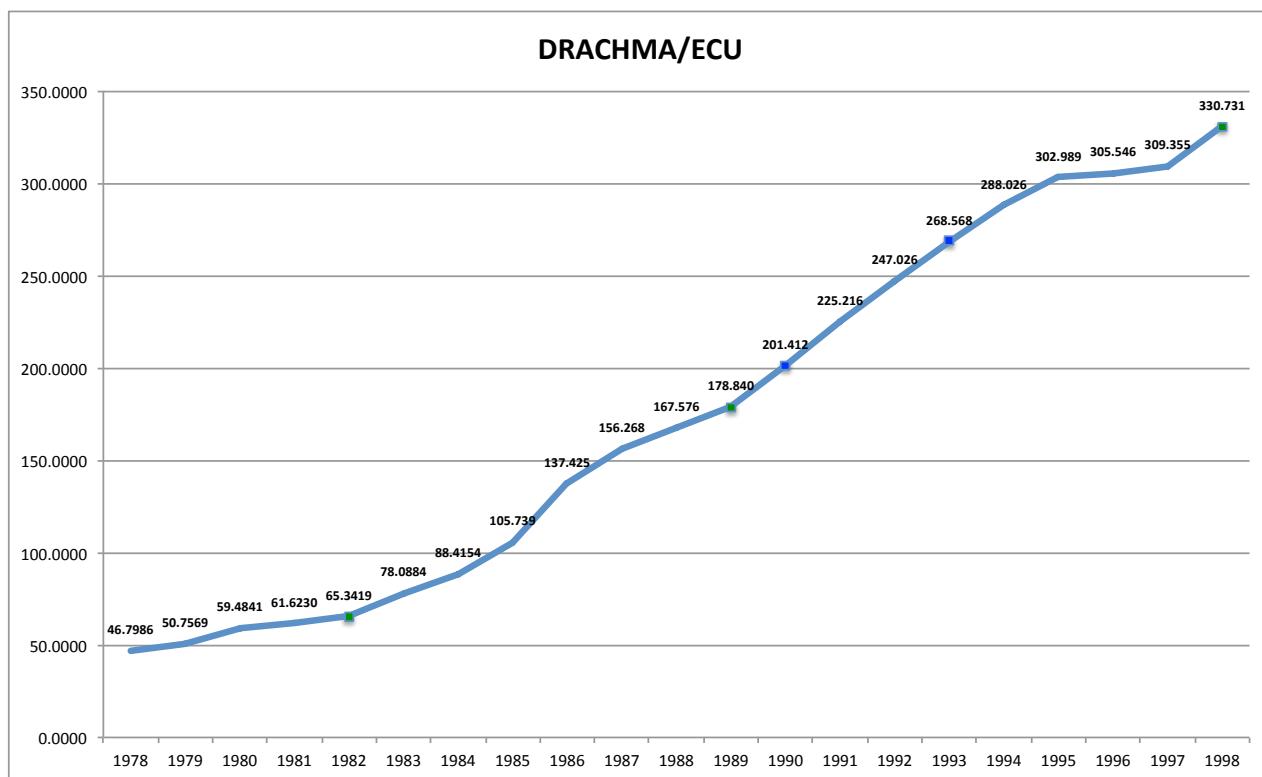
Mr. A. Tsipras thought that as long as he can pay public sector salaries and pensions he can survive. The private sector continues to bleed and is increasingly unable to keep up with tax obligations and employment levels. A major disaster is looming.

The uncertainty has hit tourism as well. In some major destinations cancellations are taking place as foreign tourists are worried about the possible difficulties following a default.

So Mr. Tsipras is running out of time not only because the creditors are pushing him but because everything is collapsing around him. He should have known better.

### *A drachma reminder*

The drachma was a horrible currency for those that they are old enough and have leaved through the 1980s. Mr Papandreou the senior was the high priest of populism in post war Greece. He would give hand outs with the one hand and devalue the currency with the other. The Automatic Price Adjustment meant that wages were indexed to inflation. Thus a self feeding cycle of wage and price inflation has developed. The result is shown in the graph.





### *Greeks in favour of economic suicide*

The drachma was devalued by 174% in the 1982-89 period when he was in power. In 1989 inflation was standing at 13.7%.

What will happen in Greece if a return to the drachma is engineered by the government will be much worse than in the 1980s because the economy has dramatically changed since then.

In today's demonstration organised by SYRIZA against austerity a leftist group ANTARSIA (REVOLT) has raised a banner in front of parliament in favour of rupture and GREXIT. These forces are in a minority within society but the government's attitude reinforces the most negative voices by the day.

### *Emergency Measures in Place*

The Minister of Public Order has today confirmed that the government has initiated an emergency plan to secure sensitive infrastructure including banks embassies and government offices in case of disturbances. Plain clothes police are patrolling the streets and guard buildings.

Prothema has reported today that the Prime Minister's office has taken over emergency planning responsibilities from the Ministry of Finance. The emergency competencies include food and fuel rationing.

### *What to expect on Monday*

Information coming out of the PM's office is limited and contradictory. It seems that they are working around the same ideas of measures with limited prospects for success as the creditors will be reluctant to accept half baked solutions. In terms of tactics the greek government will try to avoid lengthy technical discussions in the Eurogroup and try again to negotiate at the European Council level. Sending in the Eurogroup the same failed Minister of Finance is a recipe for disaster but also a good way for Athens to distract its partners. The decision to hold a six part (Tusk, Draghi, Juncker, Lagarde, Dijsselbloem, Tsipras ) level meeting in advance of the Eurogroup is a way of securing a full understanding of the Greek positions and avoid any repetition of the lecturing on behalf of Mr Varoufakis to his colleagues.

There are three main scenario: (a) complete success with a full blown agreement on all outstanding issues including a firm commitment to reschedule the debt on the part of the creditors and release of the last tranche (b) a limited extension of the existing program with some commitments on the part of the government and limited funding from the creditors and (c) complete failure to reach agreement which will lead to rupture and default.

As we stand today the middle scenario is the most likely to occur provided that the European leaders have not decided that they have enough of the Greek distraction. In this case both sides will live to fight another day. However, the Greek government will be further cornered as the real economy will enter into the ice age in the middle of the summer.