GREECE IS TURNING A PAGE BUT WE DO NOT YET KNOW WHAT IS WRITTEN ON IT

Markets collapsed today and the bank shares index has lost 44% in the last three days. Investors are worried for a number of reasons. First, in the first day of the new government all ministers have declared war on privatisations. One of the most successful privatisations the sale of regional airports to Fraport has been cancelled as the previous government was unable to fully complete the process in time[1]. Second, the new government's intentions have become clear that the law on FSF will be amended and the government will be able to appoint the management of banks. In the previous days some well known bankers from the PASOK era have been trying to get the top positions but a backlash within SYRIZA is now changing the plans and new faces closer to the party are front runners. Third, the spectre of a switch off of liquidity from the ECB is also troubling investors. Bundesbank has already fired the first warning shots.

Overall an analysis of the situation points towards a very tense and uncertain negotiation process over the next 3 weeks that may lead to some kind of a showdown with the creditors. Several analysts predict that the government cannot engineer a U-turn without provoking a serious crisis with the creditors including delays in the payment of salaries and pensions and other extraordinary measures. However, such an approach entails the risk of an accident without return. Key European officials have indicated that time is running out. Jyrki Katainen, vice president of the European Commission, said earlier today, that *"the commitments haven't changed and time is running out. We don't change our policy according to elections."* We expect that creditors will not wait beyond the next Eurogroup meeting around the middle of February. The government in the meantime is preparing a new "bridge program" saying that the current one is dead.

Furthermore, the government's public stand on Russian sanctions has raised more questions on the long-term strategy of this government regarding its geopolitical orientation. Some of the fundamental parameters of Greece foreign policy over the last 40 years seem to have been ignored. Public statements of various officials are pointing towards the development of a different foreign policy mix. This conclusion is reinforced by the choice of persons running the foreign and defence sectors of the government.

Bernd Riegert of Deutche Welle gives an indication of the annoyance of European circles: "The European Union has always faced political blackmail by members interested in pushing through their own economic interests. Within

[1] http://www.dw.de/greece-halts-privatizations-in-defiance-of-creditors/a-18220648

the bloc, many governments have resorted to the instrument - the difference being that Alexis Tsipras is acting from an acutely precarious economic situation and has no allies in the EU. His behavior is awkward and unprofessional. Greece needs the EU, so efforts toward reaching a consensus and harmony are called for. At the very latest at the first summit in two weeks' time, the other heads of government and state must put the recalcitrant revolutionary in his place[2]". The problem runs deeper than a normal blackmail and other matters of very grave nature may play a role in this change of position.

As we all know Greece has a number of open foreign policy issues that are thorny and this may lead to a destabilization of regular allies turning at the end of the day against Greece.

Standard and Poor's said on Wednesday that it has placed the country's B rating on negative watch and might lower it further into junk territory: *"The CreditWatch placement reflects our view that some of the economic and budgetary policies advocated by the newly elected Greek government, led by the left-wing Syriza party, are incompatible with the policy framework agreed between the previous government and official creditors. In our opinion, if the new Greek government fails to agree with official creditors on further financial support, this would further weaken Greece's creditworthiness… Lastly, we view the recent accelerated pace of deposit withdrawals from Greek banks, and the concomitant increase in ECB financing to the banks, as a credit concern. This is particularly so because access to the ECB, as a lender of last resort, will continue to be linked to the new Greek government's signing of an agreement with official creditors, including the ECB".*

Following a meeting late this evening Mr. Dragasakis tried to reassure investors saying that there are more investment opportunities in Greece. However, he confirmed the government's position to halt major privatisations including some that the process has lasted for more than two years and investors have spend considerable resources preparing the bids. It has been a sad day for Greece, which is desperately looking for investment funds.

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[2] http://www.dw.de/opinion-headless-greeks-endanger-consensus-with-eu/a-18221087