



# Opinion Article

No 21  
June 2015

## Latest developments make an interim agreement a little more tangible

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We are in the final stretch of negotiations in light of the country's pending payment of installments (to the IMF and the ECB). Several developments in recent weeks have led to a change of circumstances and thereby the strategy of both sides is bound to change as well.

Among the most important thereof are the following:

- For the first time after a long time, the global markets emphatically indicated last Friday (12-06) that the risk of a Grexit is not negligible. Spain's bond yield rose by 20 basis points relative to German bonds, thus pointing to increased investor unease. A possible explanation could be that in previous years investors had been accustomed to agreements being reached at the last moment, thereby considering that this would be the case once again, but they gradually began to doubt.
- This was the first time that the IMF decided to withdraw from discussions, in a symbolic move. As we know, the US has the greatest influence on the IMF. Furthermore, in the recent G-7 summit the US President put the blame for the non-solution on the Greek prime minister, thus indicating a change of attitude.
- In the recent local elections in Spain the radical left party Podemos exceeded expectations and now emerges as a main contender of power in the coming national elections of December. A possible success of the tactics followed by SYRIZA would translate into an increase of its electoral strength.
- Deterioration of the Greek economy. Revenues below the targets due to reduced activity in all sectors, amid

uncertainty and continued outflow of deposits.

- Mr. Tsipras emphatically defined his government's red lines and turned down the creditors' proposal in parliament last week. Nevertheless, his emphasis solely on EKAS (Social Solidarity Benefit for Pensioners) and VAT on electricity usage suggests that a partial fulfillment of these two issues could lead to an agreement.

## Possible changes in the strategy of Greece and its creditors

### *Creditors*

On the one hand, they are trying to avoid a possible crisis of the Eurozone edifice as a result of a new Greek bankruptcy and a possible Grexit. On the other hand, they wish to avoid the strengthening of extremist parties in the EU and especially in Spain.

With regard to their first concern, many European politicians had long been persuaded that the risk of a Grexit would have a limited impact on other European economies, especially after the PSI which essentially eliminated the Greek bonds held by European banks. Several prominent investors are wondering, however, how the ECB and the EU political elite will be able to be convincing with regards to their ability to keep much larger countries (Spain, Italy) in the Eurozone in case of a new bankruptcy and a Grexit. The credibility of the ECB will be at the forefront, which will possibly lead to a change of sentiment and thus to higher interest rates, which would in turn cause serious problems in the Eurozone edifice. On the other hand, the major weapon of the ECB is quantitative easing, whose use it believes would suffice to offset any negative developments resulting from a possible Grexit.

Regarding their second concern, the EU political elite deem it extremely important in the long term. Making several concessions to SYRIZA would set a precedent and could lead to a road of no return, with continuous rifts and conflicting ideologies and strategies within the EU.

### *Greece*

The pressure on the Greek side is rapidly mounting. The economy is getting worse beyond any expectation and banks continue their operation only due to the ELA mechanism, the country is politically isolated after the change of stance of the US which had hitherto maintained a balance, while tensions within SYRIZA are reaching dangerous levels. The recent decline of markets due to Greece vindicates SYRIZA, which has long been speaking of a possible Grexit threat, while at the same time it fairly improves its bargaining position, although this strengthening has come rather late. In my opinion, however, the most important question is how SYRIZA will manage to withdraw from its red lines and retreat from its known commitments to the electorate.

Escaping from this stalemate through elections or a referendum should no longer be considered a possibility due to

lack of time, given that we have now reached a breaking point. Moreover, the polls show that SYRIZA would probably increase its power and could form a majority on its own. Even if the party formed a coalition government with Potami instead of ANEL, there are few things that would change in the negotiation strategy. The expectation of some that the Left Platform of SYRIZA will be set aside is rather unrealistic, as it would translate into political suicide for Mr. Tsipras.

## The most plausible scenario

I believe that the analysis of recent developments shows that both sides are looking forward to an agreement, albeit temporary. This would prevent a possible bankruptcy and allow the European economy to continue its hesitant recovery. Chances are that the two sides will meet somewhere in between, although this point will clearly be much closer to the creditors' positions. This balance point will allow Mr. Tsipras to brag within the country for having negotiated hard and remained firm on his government's red lines, while at the same time it will offer a powerful lesson to the people of the Eurozone, i.e. that the strategy of Greece does not lead anywhere. How will this be done? Greece will probably be offered the opportunity not to change its stance on a relatively minor issue, such as EKAS, but not without the Greek people having undergone a prior powerful shock like the nonpayment of wages or temporary capital controls, in order to set a European-wide example. The unexpected factor lies in the risk of an accident at any point, which is increasing due to lack of time and the unpredictable strategy of Greece.

Nevertheless, even a temporary agreement means that the worst is yet to come. In their majority, the foreigners have gotten well accustomed to the Greek mentality over the past five years. They know that even if we agree to undertake reforms, the chances of practically implementing them and changing the model of our economy are minimal. They will eventually run out of patience. If our mentality remains unchanged, the country is either headed for bankruptcy every two or three years within the Eurozone, or we shall find ourselves outside the Euro in hope that one day we will be able to recover by printing money. I believe that the difference between these two scenarios will be negligible unless we are able to change our mentality.

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