

A TRAGEDY OR A CATHARSIS

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Syriza's landslide victory just prevented the radical-left party to gain an absolute majority of seats in the Hellenic Parliament. Alexis Tsipras, who will doubtless become the next prime minister waited no time before announcing a government coalition within the smaller party Independent Greeks. The junior party represent a right-leaning – opposite to Syriza in the traditional political spectrum - political formation sharing with Syriza mainly anti-euro and anti-establishment polemic overtones. Besides some moderation in Tsipras recent statements, his choice for a government partner seems to indicate that the visible hallmark of the new government will be a hard-nosed negotiating stance against the European interlocutors.

Tsipras is building a tight corset around its political room of manoeuvre which might make his next choices even more costly than they naturally are. From the political point of view, two aspects need to be considered: first of all, Syriza remains a fragmented coalition of smaller and mostly inexperienced political formations held together by a strong anti-establishment rhetoric. So its consistency has to be entirely tested in future daily governing management. Secondly, time does not play in favour of Greek negotiators as institutional commitments need to be renewed and potential financial disruptions darken the new government's door.

Syriza defines itself as a Coalition party of the democratic and radical Left, which has its roots in popular struggles for Greek independence, democracy and labour and anti-fascist movements in Greece, “drawing inspiration from the progressive anti-neoliberal changes in Latin America”.

Since May 2012, when Syriza has emerged from national elections as the second largest party in the Parliament of the Hellenes, with 17% of votes, it has attempted to evolve from an alliance into a single party. The first and founding congress took place in July 2013 and elected Alexis Tsipras as President of the party, as well as a 201-member Central Committee. However, the coalition is less than homogeneous. Since its conception, some of the component organizations did not agree with the transformation of Syriza into a single party and retain their relationship to Syriza as allied groups (active citizens, democratic social movement - Dikki, Dea, Keda).

Syriza tends now to distinguish itself as a new and different voice from the so-called “pro-Memorandum governing parties”. The party program promises that “it will abolish the memoranda signed with the Troika of lenders when it assumes office and will re-negotiate the loans. At the same time it will promote a program of social and economical reconstruction, aiming at development that promotes human needs and well-being and respects nature”. Syriza wants to fight “for the re-

foundation of Europe away from artificial divisions and cold-war alliance such as NATO”.

The party believes Greece must renegotiate debt arrangements and conditions with its creditors: the “troika” of the European Commission, the European Central Bank and the International Monetary Fund. It has pledged to stop policies that have been causing widespread poverty. According to its leader, the austerity policies imposed on Greece do not belong to any of the European Treaties. Consequently, a redesign of the euro-crisis strategy does not entail departing from Athens' association to the European Union. On the contrary, in his most recent statements, Tsipras has acknowledged the European institutional commitments of his country. Syriza has to take into account that an overwhelming majority of Greek citizens express a clear preference for staying in the European monetary union and preserve the euro as the national currency. Consequently, Syriza's strategy is mainly aimed at nullifying the agreements reached by former Greek governments with the Troika.

The Greek position as a debtor country has markedly improved, although poverty and unemployment remain disturbingly high. Greece budget deficit has been eliminated, while the primary balance, that is excluding interest payments, is predicted by the IMF to be between 3 and 5 per cent of GDP in 2015. Greece also has an external surplus of about 1 per cent of GDP, compared with a deficit of over 14 per cent in 2008-09. Although the economic stability of the country has been regained, this has largely to do with the favourable terms granted by the recent European agreements on the interest rates paid by Athens on its debt. For that very reason, the continuation of Greece economic rebalancing largely depends on its relation with the creditors. The Greek public debt amounts to 317 billion euro, or 174% of Greek GDP. Since 80% of the public debt is in the hands of European institutions, represented by the Troika, Athens seems to have little choice other than seat down with the symbol of all that is antagonist to its program. earlier restructuring has lengthened the average debt maturity to more than 16 years, with an effective interest rate of 2.4 per cent. In comparison, Portugal pays on average double as much on its loans.

Moreover, the new government must start negotiations with the Troika as soon as possible on outstanding loan and repayment issues which fall due by February 28 when the European side of the Troika agreement expires. This component, which is dealt with by the EU Commission and the European Central Bank, should have already expired in December last year, but its duration was expanded in order to overcome the period connoted by political uncertainty over the appointment of the new President of the Republic and the consequent call for snap elections on January 25.

A further postponement of the negotiations is deemed highly unlikely. In the absence of an agreement with the Troika, Greek banks will not be able to become financings from the ECB since the later will not be legally allowed to accept Greek sovereign bonds as a guarantee for the loans. In this context, an even greater urgency is given by the risk of a bank run by Greek depositors uncertain over the future of their holdings. Sovereign bonds are rated as junk and the ECB is allowed to approve their eligibility under two conditions: the first is that the Troika delivers a positive assessment of the current adjustment program. The second is that the political will to adhere to the program remains visible and consistent with the fiscal commitments already underwritten.

All four Greek systemic banks – Alpha Bank, Euro-Bank, Piraeus Bank and Ethniki Bank – had to relinquish access to private financing and depend on the Emergency Liquidity Assistance provided for by the ECB. The Greek financial system remains dependent on nearly 50 billion euro of Emergency Liquidity Agreement financing from the Bank of Greece. The board of Governors of the ECB decides on the approval of each ELA on a qualified majority of two thirds. Given the current tensions within the ECB governing body, it should not be ruled out as entirely unrealistic that a blocking minority could take form and prevent ELA to be maintained. In that case, banks would still be able to refinance through the Bank of Greece, but the latter could not refinance itself any longer through the ECB. The money provided by the Bank of Greece would thus represent a form of electronic money creation outside the Euro-system and de facto this process would enact the creation of a new non-euro currency, likely to run in parallel with the euro within the Greek borders.

A similar case occurred in Cyprus in March 2013, when the Parliament voted against the Troika conditions branding them as “blackmail”. The Cyprus government had to verify that the ECB was not ready to approve an ELA in favour of the local banks absent an agreement with the Troika. The Parliament had to cave in and accept the memorandum on the wake of a growingly threatening bank run countered by a system of capital controls limiting cross border financial mobility.

On this backdrop, the rational scenario would be for the new Greek government to engage in a new negotiation with the Troika that would represent the third adjustment program for Greece. However, given the harsh tones against the Troika that have characterized Syriza's campaign over the last three years, Tsipras would find almost impossible to cave in and abandon its battle-horse few days after its landslide electoral victory. The internal heterogeneity of the Tsipras' Coalition could be severely tested particularly from its most radical left fringes.

Syriza's way out would be to obtain some significant concessions in the new package engaging directly the European institutions before – or instead of - sitting down with the Troika. Among the possible concessions, there could be a clause that would tie residual debt servicing to realized rates of economic growth, even longer maturities on outstanding loans, or a lengthy grace period before debt servicing recommences. Needless to say this would open a Pandora box on the side of other countries subject to adjustment programs with the Troika. The potential tensions within the euro area would inevitably escalate. A preventive initiative should be immediately taken up from the European institutions themselves before the situation becomes unmanageable and prey to national rhetoric.