

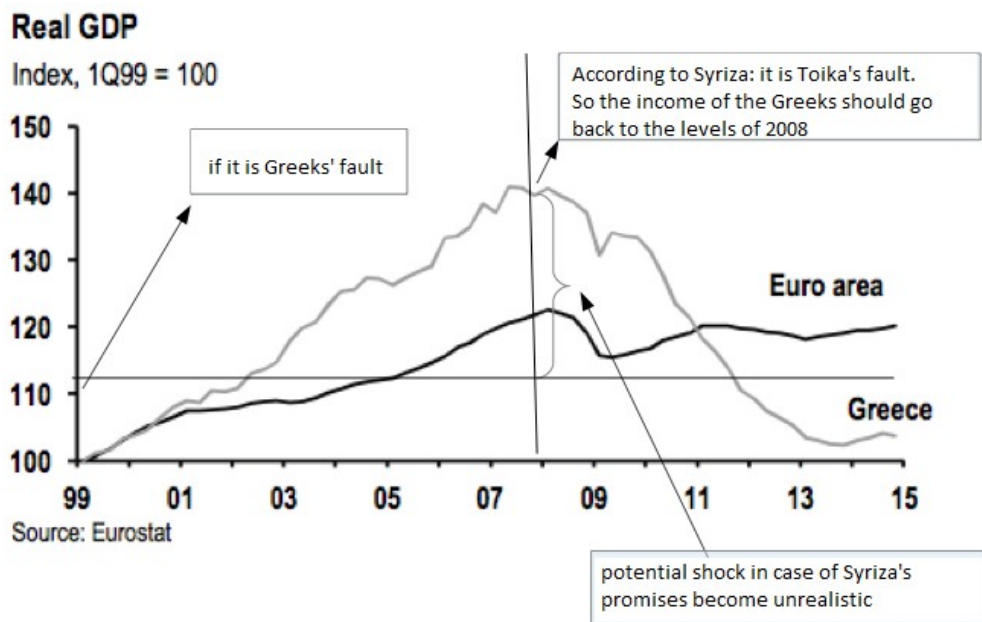
THE RISK OF A SUDDEN BANK RUN IS UNDERESTIMATED IN ATHENS AS WELL AS IN BRUSSELS

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The graph below shows the development of the Greek real GDP since the launch of the euro, relative to the real GDP of the euro-area. The first years, particularly after 2002 when Athens joins the common currency and up to 2008, show the sensational improvement of Greek incomes relative to the European average. As it is well known, that progress went lost entirely in the following years.

The interest of this development resides in the political use that is being done of it. Since its victorious electoral campaign, Syriza's narrative imputes the responsibility of the decline in Greek incomes



entirely to the mismanagement conducted by the Troika. By doing so it legitimates expectations by the

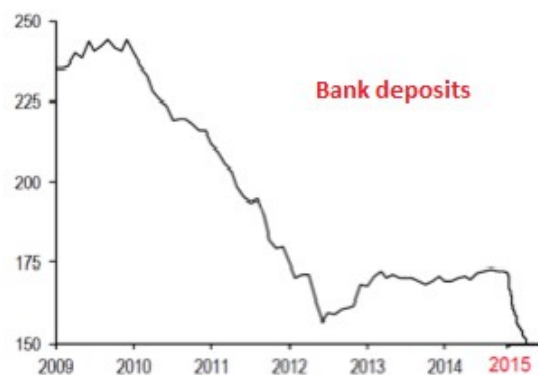
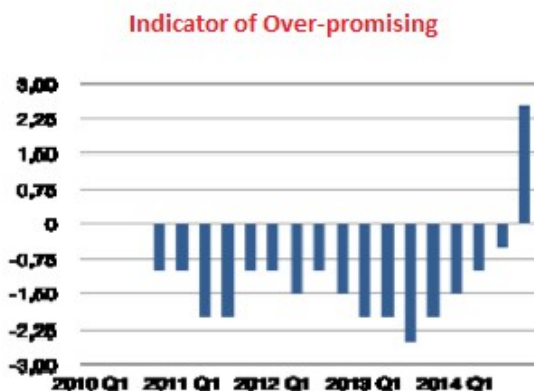
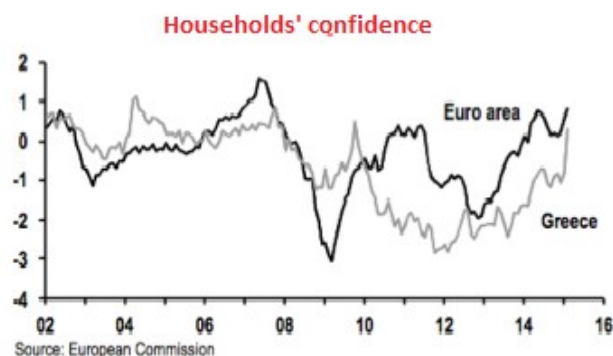
Greek citizens that, once the Troika's misconducts have been acknowledged and repaired, real incomes will be restored at the level of 2009, i.e. roughly 40% above the levels of 1999.

Since 2009, the narrative underpinning the Troika imputed the critical conditions of the country to its past mistakes, starting with the excessive fiscal profligacy that had persistently brought Greek budgets out of line. In this reading of the crisis, the Greek economy had to go through a dramatic process of internal devaluation that would have ended only with the recovery of internal and external stability, that means a fiscal primary surplus as well as a balanced current account. During this process the Greek GDP plunged dramatically and went back to levels comparable with those of 1999.

The two narratives are irreconcilable. However we should assume that the average household in Greece expects a reasonable compromise to fix the adequate level of incomes somewhere between the current level and the level of the euro area, as in the line parallel to the x axis in the graph. By doing so, they would accept that the past Greek governments had mismanaged the economy since the beginning of the euro, but that the Troika bears responsibilities in impeding the economy to keep up with the rest of the euro area.

Although the adequate level is arbitrarily identified, what strikes is the distance between that level and the level of the expected income as prefigured by Syriza's narrative. I define the delta between the two levels as the potential shock of a sudden revision of expectations by Greek households. Such a shock could occur if Syriza fails to prevail in the current negotiations with the Brussels institutions.

The sudden revocation of Syriza's promises could thus have dramatic effects. In order to understand the dynamics of a political trauma, we should take into account some of the reactions that have accompanied Syriza's coming to power. In the two upper panels of Graph 2, one can see the different development in confidence indicators of households (left-hand panel) and of firms (right-hand panel). Under normal conditions, the two sentiments should proceed parallel to each other: improving consuming sentiments among households tend to reinforce investment plans by firms, more employment and so on. If the two indicators diverge, it is likely that the promises of improving households' incomes are not believed by firms because they represent false promises. In fact "over-promising" is one classic definition of populism. As shown in Graph 2, in the lower panel on the left hand, I then build an indicator of over-promising by subtracting the level of confidence sentiments among firms from the level among households. What stands out dramatically is the level of divergence that coincides with Syriza's coming to power.



The lower and right-hand panel shows the consequences on the level of deposits in the Greek banks. The current level is much lower than shown in the graph and it is now around 130bn euro.

Projecting the potential shock in households' expectations – as estimated in Graph 1 – into the flight of deposits shown in Graph 2 sheds a disturbing light on the potential risk that Greece is currently undergoing. A Grexit could happen suddenly and dramatically through a bank run. The protraction of conflictual negotiations is undermining the solidity of the Euro area itself. A problem that is evidently underestimated in Brussels as well.