Immediate Need for a National Salvation Government in Greece

Six weeks after the elections, bankruptcy is looming

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On economic matters, the path of the present Greek government has been disastrous. Diametrically opposite positions are taken by ministers. The minister of economics expresses erratic contradictory positions from day to day, and sometimes on the same day.

The negotiation at the Eurogroup displayed acrobatics and useless extreme confrontation. Many actions were taken for their style rather than their substance. Greece went to the negotiations asking for money, but neither did it receive any money, nor it decreased its debt, but instead was obligated to continue the agreement with the lenders (Mnemonio) without receiving anything in return. All the countries of the Eurozone, including Spain, Portugal, and even Cyprus, followed the hard line of Germany. Greece found itself completely isolated. Many are worried about the possibility that Greece will leave the Eurozone, the European Union, and even NATO.

The government actions have created huge economic uncertainty. The progress of four years and the success in achieving a primary surplus disappeared. Greece is again at the cliff's edge. The Greek State does not have enough money to pay civil servants salaries and pensions as well as its loans in March and April of this year. Because of this, the government has instituted an emergency forced borrowing from Greek pension funds and from the European agricultural subsidies. There are no other sources of money within Greece. Without new money from Europe, at the end of March Greece will face bankruptcy. It may be able to declare bankruptcy within the euro and avoid Grexit. But this would require support for Greece from the European Union (as in 2012) that, unfortunately, the present government does not have. Without such support, bankruptcy within the Euro will very soon result in exit from the Euro. The probability of bankruptcy of Greece is approximately 25-30%.

Exit from the Euro and institution of a new drachma currency would be a total disaster. The Greek banks would collapse. The new drachma would have an exchange rate of about one thousand to a euro, while the old drachma was 340 per euro. The buying power of Greeks would be reduced to half or one third of the present one. Greeks would be much more poor than they are now. Because of the shortage of foreign exchange, there would be significant shortages even for necessities such as medicines and fuel. Syriza would be able to finance its program by printing large quantities of new drachmas, but this will increase inflation and poverty. Additionally, Greece would then be a small country in the Middle East, at the mercy of the powerful countries in the region, especially Turkey.

<u>It is absolutely necessary to immediately form a government of National Salvation</u> before Greece finds itself in a disaster of the dimensions of the Asia Minor Disaster of 1922. Such a government, advised by highly reputable economists, can propose much better solutions, and

will have the authority to sign long term agreements with the creditors in the name of all Greeks. Such a government must make the structural reforms that will make the economy more competitive. It must reduce the huge size of the State and the number of civil servants, and this will help reduce the burden of taxation. And of course it must see the Europeans as partners and friends rather than opponents.

The negotiations

At the negotiations at the Eurogroup, the Greek government retreated on almost everything.

- Even though Greece is running out of cash, the Greek government did not succeed in receiving a single new euro from the EU and the IMF.
- The Greek government failed to receive the last installment of the old program/Mnemonio of 2014 (7.2bil), or even a part of it.
- The Greek government failed to get permission from the ECB so that Greek banks would be allowed to buy additional Greek State 3- and 6-month T-bills. The ECB has imposed a limit of 15 bil on the amount of Greek State T-bills that Greek banks can hold. This is because a significant part of the Greek banks' assets in the "liquidity support" of 100 bil provided by the ECB. Mr. Varoufakis asked that the ceiling be raised to 25 bil, but Mr. Draghi did not allow it replying that he would change the limit only if it is suggested to him by the Eurogroup.
- The Greek government failed to receive a "bridge program" of a few months of funding before getting into a new program/Mnemonio, as Greece had suggested.
- The Greek government failed to reduce the nominal value of the debt to the EU, which the main government party presented as the main Greek demand during the election campaign.
- The Greek government failed to even start the discussion on the elongation of the debt maturities (a solution that I has first proposed in an article in Kathimerini), even though the Europeans had practically accepted it during the Samaras administration.
- The Varoufakis proposal on permanent bonds to be held by the ECB was rejected by the ECB.
- The Varoufakis proposal for a program of bond payments only when Greece would grow was not discussed at all.

In contract, despite its pre-election promises, the government agreed to the following.

- Supervision by the Troika (EU, IMF, and ECB) under the name "institutions."
- Accepted the old program/Mnemonio and that there will be an evaluation before Greece receives the last installment of 2014.
- Agreed to start a new program/Mnemonio with terms under discussion, but without Greece receiving any money before the terms are agreed.

Was there anything useful for Greece achieved in the negotiations? The ECB has given 100 bil. Euros to Greek banks under the condition that Greece is in a program/Mnemonio. If an agreement to extend the Mnemonio was not achieved last Friday, the ECB could withdraw this liquidity, and as a result, the Greek banks would collapse, capital controls and withdrawal limits would be imposed, and possibly there would a "haircut" of large deposits as in Cyprus. The avoidance of this disastrous scenario (for the moment) is the only achievement of the negotiations this far. Unfortunately, this scenario is coming back, since Greece does not have money to pay salaries and pensions and its loan obligations at the end of the month or close thereafter.

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