

MACROCOSM

## Confidence Game in Greece

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**Papandreou wins his confidence vote -- but there's no confidence Greece won't still default.**

In the early hours of Wednesday morning (Greek time) Prime Minister Papandreou [won a confidence vote](#) in his new cabinet, following a week of chaos in Athens (see "[Black Wednesday in Greece](#)" June 16, 2011). With the so-called "troika" (the European Union, the European Central Bank and the International Monetary Fund) requiring the previously agreed austerity measures to be passed by the Greek parliament by June 30, the confidence vote makes the start of a challenging week for Papandreou's administration. Here's the probable timeline for the coming week:

- The medium-term austerity plan for Greece is split into several different bills -- an "omnibus" bill and separate "implementation" bills for its constituent parts.
- The troika wants the omnibus bill and the major implementation bills for privatizations and taxation measures -- the other implementation parts of the omnibus bill are not deemed as critical, and voting on these will likely be postponed until later July.
- New Greek Finance Minister Evangelos Venizelos gained approval for the medium-term austerity bill at cabinet level yesterday, and it is on target to be put to parliament on June 28.
- At the moment, despite [at least one rebel](#), the ruling PASOK party whips believe they have the numbers to get this vote passed.
- Following the passage of the omnibus bill, the implementation bills are due to be voted through on June 30.
- The implementation bills are going to be forced through parliament under emergency procedures in order to avoid the usual three day debate that such bills are normally allowed.
- While there is opposition within PASOK to the bills being rushed through parliament, it does not seem -- at the moment -- that this opposition will lead to outright MP rebellion. In a press conference this afternoon, Venizelos said that he had gained support from opposition MPs that will allow the votes to proceed on schedule.

On the face of it, passage of the austerity package seems likely at the moment, but it looks to be tight -- PASOK's majority is only 4 MPs. Unfortunately, for Greek politicians there will be other pressure points to be overcome before the next check from the troika arrives in Athens.

### Update to strategic view

**EUROPE MACRO, EUROPE BONDS:** The passing of the confidence vote in Papandreou's government means that Greece has passed the first hurdle in a long steeplechase. If the Greeks do not succeed in passing the austerity package to the satisfaction of the troika before the Eurogroup meeting on July 3 and 4, then a near term default becomes highly likely.

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- Unions in Greece have called for [a 48 hour strike](#) for June 27 and 28 to coincide with the vote on the austerity bill.
- The clock is ticking for Greece with the Eurogroup meeting expected to decide on disbursement of the fifth tranche of bailout 1 -- yes, we're numbering them now -- scheduled for July 3 and 4.
- Greece has a T-Bill redemption of €2.4 billion on July 15 and a €6.61 billion bond falling due on August 20. It needs the €12 billion disbursement of the fifth tranche to meet these payments.
- In a further twist to the austerity package, [there are reports this morning](#) saying that the EU/IMF inspectors currently in Greece have discovered problems with the projected savings from the package as it is currently constituted.
- Meanwhile, Finance Minister Venizelos has managed to make few new friends in the troika with reports saying he [attempted to renegotiate](#) the package after his appointment.
- In a press conference this afternoon Venizelos announced that he was dropping a property tax measure that had previously been included in the austerity package.

Greece is expected to dominate the European Council meetings today and tomorrow, but it is unlikely that any concrete decisions will be taken. However it is worth keeping an eye on for pointers as to how much support there is in Europe for a second Greek bailout.

- Among the proposals being put forward is an easing of Greek access to EU structural funds -- EU investments in less advantaged areas of the union. Greece is due another €15 billion by 2013, but these funds are not available for current spending, and must be matched with local funds. Any easing of the requirements for local matching investment is likely to be opposed by other EU governments.
- It is also unlikely that there will be an announcement on burden-sharing for private investors, but talks are on-going between governments and banks in Europe to find a method of voluntary rollover of Greek debt that does not trigger a formal default.
- Currently, there is talk of using the European Financial Stability Facility (EFSF) to guarantee the issuance of new Greek debt to encourage private investors to roll over their holdings.
- In a further development, Greek banks' reliance on ECB funding [jumped 12.5% between April and May to €97.5 billion](#), a further sign of the deposit pressure those banks are coming under (again, see "[Black Wednesday in Greece](#)").

There were two developments on the European bailout mechanism front that are worthy of mention -- because these are ways the troika assures the market of its ongoing commitment to European fiscal stability, and the

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isolation of potential Greek contagion (see "[Greece: Suicide, Not Murder](#)" June 7, 2011). First, the Eurogroup has formally agreed to increase the lending capacity of the EFSF from €250 billion to €440 billion. Due to the complex nature of the EFSF, this means that loan guarantees provided by Euro area members have risen to €750 billion.

Second, the European Stability Mechanism (ESM) -- due to start in 2013, and replace the EFSF -- will now *not* have preferred creditor status, as the IMF does. That the ESM will rank *pari passu* with other creditors should give some solace to sovereigns trying to return to market in the next couple of years.

In all these matters, to understand the depth of the troika's commitment to stability, it is worth keeping article 125 of [the treaty of functioning of the European Union](#) in mind:

*A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State*

Greece is hoping to stretch that article to breaking point over the next few weeks. And the troika will have to go along, especially if -- no, *when* -- Greece defaults.

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### **Bottom line**

The passing of the confidence vote in Papandreou's government means that Greece has passed the first hurdle in a long steeplechase. If the Greeks do not succeed in passing the austerity package to the satisfaction of the troika before the Eurogroup meeting on July 3 and 4, then a near term default becomes highly likely. ▶