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GREECE MACRO MONITOR

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Tsipras-Merkel meeting seen as important rapprochement step; rising hopes for a partial release of pending loan tranche soon

Tsipras-Merkel meeting seen as rapprochement step after weeks of heightened diplomatic tensions

Reports circulated in the domestic and foreign media overnight portray yesterday's meeting between Greek Premier Alexis Tsipras and Chancellor Angela Merkel as an important rapprochement step following weeks of rising diplomatic tensions over a number of issues ranging from the slow pace in implementing the February 20th Eurogroup agreement and the domestic liquidity squeeze to requests for financial compensations for the crimes committed by the Nazis during the occupation of Greece in World War II. In what follows, we highlight some of the key issues discussed during Mr. Tsipras's meeting with the German Chancellor.

The economic and social hardship caused by the austerity policies implemented in Greece in recent years. Mr. Tsipras made particular reference to the 60 percent youth unemployment rate and called for a "new mix of policies…to get rid of this evil". Yet, he emphasized the need to respect the Treaties and agreements reached with EU partners and called for a successful completion of fiscal adjustment, albeit in a socially just way. In an apparent conciliatory tone, he also admitted that Germany and the rest of official lenders do not bear responsibility for such serious structural problems currently facing Greece as widespread tax evasion and corruption for which the previous governments are to blame. Moreover, in a comment that did not escape the media's attention, he stated that the challenge now is not to tear down anything positive that has been done, but to change the policy mix and introduce reforms to effectively address tax avoidance, corruption and tax injustice.

The pending request for German reparations to Greece for the crimes committed by the Nazis during the country's occupation in World War II. Mr. Tsipras presented the issue as a mainly ethical one that concerns the Greek and the German people alike and blamed the previous Greek governments for downgrading the issue in an attempt to facilitate earlier negotiations on external financial support. On her part, Ms. Merkel said that Germany considers the issue closed, but added that "we have full understanding of the atrocities committed by the Nazis in Greece" and talked about the responsibility to keep memories alive.

On the issue of Greek government finances, Mr. Tsipras stated in his joint press conference with Angela Merkel that the purpose of his visit to Berlin was not to request financial assistance but, through dialogue, to set the political context of cooperation and to find common ground to address the problems currently facing the Greek economy. On that issue Ms. Merkel avoided to commit to the provision of additional liquidity support to Greece, noting emphatically that she is the leader of just one of the nineteen euro area countries and referring to the Eurogroup for any relevant decisions. It should be noted here that the issue of tight State finances has formally been brought to the German Chancellor's attention with a letter sent to her by Mr. Tsipras in mid-March. The letter was leaked to media earlier this week.

Rising hopes for a partial release of pending loan tranche to ease State liquidity squeeze

As we noted in our last *Greece Macro Monitor*[1], the Greek government is currently preparing a f*ully-costed* list of reforms with a view to facilitate an early (partial) disbursement of the pending EU/IMF loan tranche and to avert any insurmountable difficulties in meeting scheduled payments in the crucial days and weeks ahead. In the present juncture, State finances remain stretched as the government struggled to meet significant interest and amortization payments earlier this month[2]. A Greek government spokesman told a Greek TV station earlier today that the said list will be submitted to the Eurogroup by next Monday (March 30) at the latest. Separately, local newswires reported that a Euro Working Group will take place tomorrow to assess the proposed reforms list and allow an extraordinary Eurogroup to convene in the one of the coming few days.

Expectations at this point are for a disbursement of up to €3.1bn in the imminent period ahead, consisting of €1.9bn in profits accrued to the Eurosystem's ANFA and SMP portfolios of Greek sovereign debt and €1.2bn of the remaining €10.9bn HFSF buffer that has already been returned back to the ESM (reducing by an equiproportional amount Greece's outstanding public debt). As regards the latter item, Reuters quoted an official source as saying that Greek State coffers may run out of cash by April 20th and that European Financial Stability Facility will discuss tomorrow the possibility of returning to Greece €1.2bn. An EFSF spokesman confirmed earlier today that Eurogroup President Jeroen Dijsselbloem has asked the Fund to provide an analysis of the matter and that also requested the Chairman of the Eurogroup Working Group to take the issue up at short notice.

On balance, it appears that following last week's EU Summit there is some improvement in the near-term outlook as regards the current state of negotiations in the context of the February 20th agreement. Furthermore, an imminent (partial) resumption of official sector financing would ease heightened financing concerns. According to our calculations, the release of an amount close to that speculated in the press (€3.1bn) would allow the coverage of the government borrowing requirement in the next two months (April-May) without creating insurmountable problems for State finances.

[1] "Greece committed to submit list of reforms to allow partial release of pending loan tranche", Eurobank Market Research, March 22, 2015

[2] As a reminder, the next major debt repayment is due on April 9 when an interest payment to the IMF is due (c. €448mn). All in all, total interest and amortization payments on Greek sovereign debt (held by both official- and private-sector accounts) in the period between April and December 2015 are as follows: Q2: €3.8bn; Q3: €10.2bn; and Q4: €2.3bn. In addition to these, maturing T-bill exposures scheduled for the remainder of the current year stand at €10.1bn in Q2 and €4.4bn in Q3.

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