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GREECE: OMINOUS SIGNALS FOR DEPOSITORS

Berenberg Macro Flash

Anyone following the Greek situation must be wondering, what Prime Minister Tsipras is holding out for. While the Greek economy and its financial system are increasingly at peril of a major collapse, Syriza has achieved virtually nothing in the negotiations with the troika. The key conditions for remaining €7.2bn disbursement from the second bail-out remain the same. Worse, a follow-on package is inevitable come July, and with Eurozone and IMF trust shattered, the conditions will have to be tough and the monitoring of the implementation is going to be very tight. Compared to what a hypothetically re-elected Samaras would probably have achieved, Tsipras has been an unequivocal disaster.

Are things coming to a head now? Today, the ECB apparently left the ELA limit unchanged at €80.2bn. This was only the second time since February that it did so and it comes as a surprise. Deposit outflows have re-accelerated according to some Greek media reports to €300m per day from €100m as recently as last week. This may not threaten the immediate liquidity position of Greek banks, who last week were said to have an ELA buffer of €3bn. But there are two reasons for concern. (1) The minority in the ECB who are openly worried about the impact of the deepening Greek recession on Greek banks solvency seems to be growing and putting pressure on the majority to limit the risks to the institution. (2) With no clear data about banks' liquidity position available, the unchanged ELA limit could trigger more concerns by Greek households and companies about potential capital controls and thus trigger accelerated withdrawals.

Greek finance minister Varoufakis may increasingly worry Greeks, too. Not just has he become a disturbing factor in the negotiations with the troika. His – swiftly denied - toying with a tax on ATM withdrawals may get people additionally worried about capital controls. In the current uncertain environment, many may believe that where there is smoke, there is also a fire.

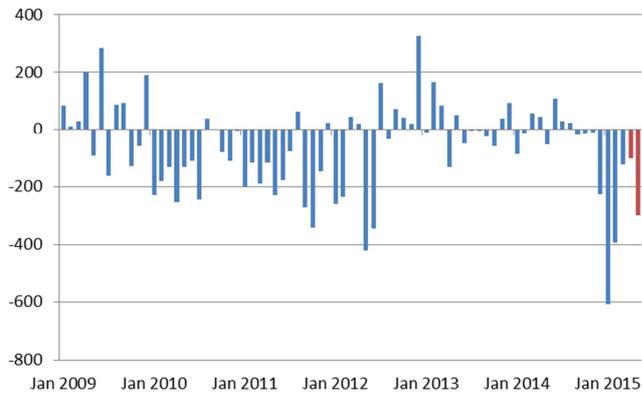
Given that a very strong minority of their governing party openly sympathise with euro exit and given that the government has made little progress in the negotiations while at the same time sinking the Greek economy back into recession, Greeks have remained remarkably sanguine about their bank deposits. After a brief spike just after the January elections, deposit outflows had normalised to relatively small amounts. However, the apparent re-acceleration of outflows could herald new depositor nervousness, potentially aggravated by the ECB and Varoufakis. That would be one way of forcing the Greek issue, alongside the government running out of money.

Prime Minister Tsipras is in a very difficult situation. On the one hand, the Eurozone and the IMF will not help him deliver his impossible election promises. On the other hand, large parts of his party are not yet pragmatic enough to water down these promises and put the interest of the country above ideology. Tsipras depends on the left-wingers around energy minister Lafazanis for his job. The opposition might help him get the approval for the necessary laws in parliament to keep Greece afloat, but will demand conditions that could eventually spell the end of the Tsipras government and even his political career. It is a tough decision which Tsipras is understandably putting off. But every day of delay deepens the recession, destroys international trust, reduces bank deposits, hurts companies and increases job losses.



MACRO NEWS

Chart: Greek outflows accelerating again?



Average daily total private non-MFI deposit changes, € million. Source: ECB, media reports for April and May

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