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Press release

Germany calls the Greek bluff

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Whilst the flamboyant style of the new Greek minister of finance seems to impress the media, the rhetoric of Mr. *Varoufakis* has quickly lost all of its creditworthiness. This is not due to the general lack of credibility of Greece as a country and its political elite as a group but to the erroneous calculus of a man specialized in in game theory but inexperienced on the battle field. His initial discourse has consisted of threats, underpinned by the assumption that Germany would pay in any case – with or without a new bail out. This stance has evidently ignored the robustness of the German economy, the soundness of its public finances and the political strength of a country attached to the rule of law.

How could *Varoufakis* dare to believe that by putting a revolver to its head, he could influence a German government? Greece has no power to threaten. The contagion effects of a default are no longer to be feared. Strangely enough the QE programme of the Eurosystem coinciding with a potential Greek default would serve as a firewall, even if that effect was not intended by its French and Italian initiators. Ireland, Portugal and Spain will therefore not come under financial strain if Greece declares bankruptcy. Even if as a consequence the Greek government prefers to leave the Eurozone as a face saving measure that will not necessarily mean the beginning of the end of the Eurozone. But it would put an end to a lengthy process of bargaining with country which costs a lot and gives little input to the EU.

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For his part, the German Finance Minister is likely to react with a discreet sigh of relief if Greece opts to leave the Eurozone. Officially that position will be concealed from the public. But there are increasing numbers of officials who believe that the transactional costs of handling the Greek case are no longer bearable. Hopefully that will trigger off a process of redefining the political geography of Europe.

When Mr. *Varoufakis* disingenuously proposed a new deal between Greece and Europe he implicitly admitted that his country is no longer a functioning part of the EU if it has ever been. Suppressing the eligibility of Greek bonds was additionally a judicious move by the ECB to confront the wishful thinking of Mr. *Tspiras's* team with reality. Emergency liquidity lending by the Bank of Greece remains the ultimate rock of hope for Greek financial institutions to survive. But even that rock is fragile. A 2/3 majority in the ECB Council could intervene, on the grounds that ELA is reserved for overcoming liquidity crises of solvent banks. Are Greek banks still solvent?

The end game of the Greek tragedy has started. Hopefully it will arrive at a catharsis which in Greece, may be indispensable in order to generate a new regime, together with new leaders who after a generation's work, will politely knock at the door of the EU. That is perhaps the price to be paid, to make Greece a country of stature.

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