Greek Bank Will Write Off Up To €20,000 In Debt For "Poverty-Stricken" Borrowers

By Zero Hedge
Global Research, April 25, 2015
Zero Hedge

Region: Europe
Theme: Global Economy

Over the past several months, as a result of their lockout from capital markets, Greek banks' reliance on the ECB's Emergency Liquidity Assistance has soared, and at last check was somewhere in the mid-€70 billion range.

The conventional wisdom was that the ECB was merely plugging the hole created weekly (and often, daily) as a result of the chronic Greek bank run which has seen tens of billions in deposits withdrawn from Greek banks since Syriza officially took power earlier this year.

However instead of merely plugging the hole left from declining liabilities (deposits), what the ECB's ELA funding appears to also be doing is compensating for a rapid write down in bank assets (loans) as well, in the form of charged off Non-Performing Loans.

According to Reuters, one of the leading Greek financial institutions, Piraeus Bank will write off credit cards and retail loans up to 20,000 euros ($21,484) for Greeks who qualify for help under a law the leftist government passed to provide relief to poverty-stricken borrowers, it said on Thursday.

As a reminder, the tension over the Syriza's treatment of "austerity" is precisely the reason why the government, which is now insolvent and demanding another European bailout without calling it a bailout, is being generous with one hand – such as writing off unrepayable debts – while confiscating pension funds and municipal cash reserves with the other.

Greece has also been engaging in other, less savory check kiting schemes. Several days ago the NYT reportedthat "Greek banks have even begun to issue bonds to themselves and, after securing a government guarantee, have used the securities to secure short-term financing — a practice that was excoriated by Yanis Varoufakis before he became the Greek finance minister."

On April 8, for example, the National Bank of Greece self-issued €4.1 billion of six-month bonds that carried state backing. But with Greece on the verge of default — Mr. Varoufakis has frequently said his country is bankrupt — those guarantees are no longer worth much.

Subsequently the ECB, which had previously encouraged precisely this scheme to keep insolvent Italian and Spanish banks operating in 2012 and 2013, made it quite clear that it frowns upon such a circular creation of money out of thin air, especially when the only "guarantee" is that of a bankrupt state.

In any event, the big question now is: how will Greece, which every day is engaged in constant negotiations with the Troika, come up with an extension to the unpopular bailout/austerity program that is the hated legacy of the previous regime without calling it precisely that, while on the other hand, how will Europe cover up the fact that Greeks are now openly receiving a gift in the form of a debt charge, and how will Germans react when the German press covers the front pages with more news of German-funded bailouts of Greeks (even though the underlying motive, of course, is to keep the Euro and avoid a return to the hated Deutsche Mark).

And just to hammer that point in once again, earlier today Greek FinMin Yanis Varoufakis told a French magazine that the risk that Greece would have to leave the euro if it has to accept more austerity is no bluff, saying that no one could predict what the consequences of such an exit would be.

Or, back to square one, which as we explained in February, is a battle of leverage: is the threat to Europe from a Grexit higher than the threat to Greece from ending up without funds.

In a conversation with philosopher Jon Elster conducted at the end of March and published in France's Philosophie Magazine, Varoufakis, a specialist in game theory, said this was not the time to bluff over Greece's debt talks.

"We cannot bluff anymore. When I say that we'll end up leaving the euro, if we have to accept more unsustainable austerity, this is no bluff," Varoufakis is quoted as saying.

Greek Prime Minister Alexis Tsipras called for a speeding up of work to conclude a reform-for-cash deal with euro zone creditors to keep his country afloat after talks with German Chancellor Angela Merkel on Thursday.

The leftist Greek premier met the conservative German leader a day before euro zone finance ministers meet in Riga to review progress – or the lack of it – in slow-moving negotiations between Athens and its international lenders.

Unfortunately for Greece, in contrast to the height of the debt crisis in 2012, when Grexit fears spurred panic selling of other weak euro zone sovereigns, investors now seem relaxed about the fate of Greece, which accounts for just 2 percent of the region's economy. "Asked what would happen if Greece was to leave the euro, Varoufakis mentioned comments made by European policymakers who say any contagion effect could be avoided and added that, on the contrary, he believed the consequences would be unpredictable. "Anyone who pretends they know what would happen the day we'll be pushed over the cliff is talking nonsense and is working against Europe," he said.

Still with the Eurostoxx rising to record highs with every passing day even as the Greek financial situation deteriorates, the market has effectively called the Greek bluff. As a result, Greece has been forced to pull its last remaining trump card. Russia.

The increasing pivot by Greece toward the Kremlin has also been extensively covered here, most recently in the form of a near-agreement between Athens and Gazprom to launch the Turkish Stream pipeline, a deal that would also see Russia giving Greece a €5 billion loan. It is precisely the threat that Russia will bypass Ukraine entirely and provide all of Europe's gas via the Turkish Stream, that has finally gotten Europe's, and America's, attention.

According to the Telegraph's Ambrose Evans-Pritchard, "the US is scrambling to head off a Greek pipeline deal with Russia, fearing a disastrous change in the strategic balance of the Eastern Mediterranean as Greece's radical-Left government drifts into the Kremlin's orbit.

Ernest Moniz, the US Energy Secretary, said his country is pushing for an alternative gas pipeline from Azerbaijan that would help break the stranglehold that Russian state-controlled firm Gazprom has on European markets.

"Diversified supplies are important and we strongly support the 'Southern Corridor' to bring Caspian gas to Europe," he told a group of reporters on the margins of CERAWeek oil and gas forum in Houston. He insisted that it was vital to uphold "collective energy security" in Europe.

The concern is that Syriza's flirtation with Moscow goes beyond normal diplomacy and may evolve over time into a strategic shift, causing Nato's Eastern flank to unravel, and dooming any chance of maintaining a united EU stance against Mr Putin.

The Greeks know this. They seem determined to extract the maximum political leverage from the new Cold War.

How this all plays out is still unclear with constantly moving pieces and negotiations in flux, although with Greece having run out of money and forced to impose soft capital controls, two things are certain: a conclusion will have to be reached soon and ii) should Greece complete its pivot toward Russia, everything in Europe will change, and in this case we wholeheartedly agree with the Greek finmin's assessment that "anyone who pretends they know what would happen the day we'll be pushed over the cliff is talking nonsense."

The original source of this article is Zero Hedge

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Zero Hedge