There have been five months since the January election in Greece and four months from the February agreement for the extension of the current program until the end of June. The negotiations between the Greek government and the lending partners (European institutions and IMF) have led nowhere as there has been a widespread belief in Greece that the Greek elections by themselves constituted a “game changer” and the other side sooner or later would have to compromise on its demands for additional fiscal adjustment measures needed to cover the existing revenue shortfall as well as necessary reforms that would facilitate future growth.

At the end of November the fiscal shortfall was of the order of less than a billion Euros (around 900 million), while currently its exact figure hovers over 5 billion. This dramatic increase in what is needed to keep Greece from default is the result of the reversal of a modest expansion that the economy experienced at the end of 2014 and the great uncertainty for the future. It is this uncertainty that is really underestimated by the Greek government in its dealings with its creditors.

The argument of the Greek side is based on the belief that a Greek default and the danger of Grexit would be too large to bear by European financial institutions and as such the lending partners would yield to Greek demands for extending further funds as to maintain the level of “demand boosting” electoral promises. This argument has been reinforced by opinions expressed in favour of a partial default only to the institutional partners (EU governments and IMF), but meet the obligations to the private lenders so that the country at some future point may be able to return to the market for extra borrowing. This is based on the belief that markets really do not have much memory and they only assess risk at the time of the potential market transaction.

However, this argument is flawed, since as much of what the private sector does follows what governments do or not do. The belief that defaulting on the debt obligations to the EU governments and IMF will be without long run repercussions is without any base. Time has already run out (in the sense that even if an agreement is reached, the damage in terms of lost credibility and loss of social capital in terms of trust is already done).

As time goes on, the terms of an agreement naturally get worse for the Greek government as there will be more and more funds required to close the fiscal gap (let alone to obtain a primary surplus which at this point will be very difficult to reach). If also the tourist season is not as strong as it seemed to be at the beginning of the year, things will be even worse. The loss of credibility with the EU partners in particular will mean that any good will towards valid Greek demands for immigration for example will be given low priority.

Of course, the above will be exacerbated in the event of a proper default as there will be no European government willing to support any Greek demand for help regarding such issues. The root of the problem is that the whole negotiation “game” has been approached by the Greek government as a static “once and for all” game.

However, it is anything but that. The last four years have shown that a crisis of such magnitude is an ongoing dynamic process with memory. It will be to our advantage to recognise that even as late as now, since a mediocre agreement is always better that no agreement at all. It is a pity that we have come so far in the process as to not recognize the fact that the system has "memory" and there is also "tomorrow" and not just "today" in how one conducts negotiations especially if you find yourself on the "asking" side.