

Special Report

June 29, 2015

Grexit – Tragedy, Comedy or Farce?

In a seldom used gambit, Greece chose to bundle its payment to the IMF due on Jun 5, 2015 with three others during the month to where the amount due on June 30 is now EUR 1.6 bn. This was the first ever such deferral by a “developed” economy, and was all the more unpleasant because instead of informing the IMF, as per the rules, Greece went to the media first. Greece also has payments due to the IMF in July of about EUR 1.5 bn, so if it fails to honor the June commitment tomorrow, its dues by the end of July will have nearly doubled.

By and large markets were complacent about Greek default and had not priced in any such event. A Global Macro Survey on June 22 showed that a majority of investors believed that a Greek exit will be only a small negative for markets and only 23% expected a Greek exit to happen within the next three months.

Negotiators on both sides of the table were caught unawares when Greek PM Tsipras called for a referendum to be held on July 5 to let the people decide whether to go along with the creditors’ most recent demand. This decision was all the more surprising since it came after significant progress had been achieved over the past two weeks on reform measures that would open up the remaining funds of the second bailout amounting to EUR 7.2bn. Markets expected that a deal on a program extension was within reach before the current one perishes on June 30. While there have been many breakdowns in negotiation over the past few months, this time it does look different.

IMF chief Christine Lagarde said in an interview with BBC on Sunday that her institution will not step forward to provide additional financial assistance to Greece if the Greek government misses its payment on June 30. She also disclosed that the IMF would not support Greek banks by offering immediate liquidity, essential for the country’s economic obligations toward the ECB and the Bank of Greece.

So, at this point a default looks imminent unless the European creditors put together a last minute deal.

Tsipras has played his last card (in this game) by announcing the referendum. And while much of the world and certainly the creditor “troika” find him completely irresponsible, Tsipras could still have the last laugh in all of this. Many experts believe that the “troika” has made a fundamental mistake by pushing things to the edge where Tsipras has moved for a parliament approved referendum to the Greek people.

On July 5, the Greek people would be expected to answer “yes” or “no” to whether they would want to agree to more austerity measures – increasing the age at which pensions kick in, higher VAT on what to some are essential products and services – to remain in the Euro. Whether the result is a ye in favor of the agreement (i.e., more austerity) or a no in favor of staying out of the Eurozone, Tsipras will gain.

A “yes” vote would give him more power within his own coalition to push through conditions agreed with creditors. It would ease the cash flow and buy him (and Greece) some more time.

A “no” vote by the same token would give him more power with the creditor troika, who clearly would not like to see Grexit since it could trigger who-knows what other problems or where. While most of the Eurozone countries have worked hard to get to the Stability and Growth pact deficit ceilings, all the countries (save, perhaps, Germany) have put up with a lot of suffering. Thus, they will likely be willing to make some more concessions to keep Greece in. Grexit would cost the Eurozone heavily if Greece refuses to pay back its 240 billion euro debt with Germany hit the hardest with 92 billion euro owed by Greece.

Of course, Greece will have major liquidity and capital flight issues in the near term, but at the current time with 26% of Greece’s workforce unemployed, 30% of its people below the poverty line, 17% unable to meet their daily food needs and 3.1 million without health insurance, Greece appears to have little to lose.

They are looking for an option which will give them a fair chance at growth and job creation which according Syrizia and Tsipras’ rhetoric exists even outside of the Eurozone. They may not be wrong!!

Scenario Analysis

