

What will happen to Greece?

Five possible scenarios

The negotiations between Greece and its creditors have lasted for many months so far. Despite the fact that Athens has gained very attractive rules of financing from the eurozone and the International Monetary Fund, the new Greek populist government does not want to accept them. How can this situation end and why does it have a negative impact on the zloty? Marcin Lipka, Cinkciarz.pl Analyst, explains this matter.

Crucial days for Greece are looming. In June the country has to pay a few installments of the loan from the International Monetary Fund (IMF) to a total value of over 1.5 billion euro. The first needs to be settled before next Friday. What will happen if Athens does not come to an agreement with the creditors by that time and the national vault is empty?

1. Bankruptcy

Debt restructuring from a few years ago has caused Greece's creditors to consist mainly of the eurozone countries, the European Central Bank (EBC) and the IMF. It is theoretically better for the country, because it decreases the risk of foreign capital outflow in case of more serious tension. However, the situation is slightly more complicated.

If the debt for the IMF is not settled, it will put a question mark on the emergency financing of the Greek banks by the EBC. Right now, when the local financial institutions make transactions in the open market, they pawn the Greek bonds in the central bank. This institution on the other hand, ensured them their liquidity by the EBC. It enables the system to work, even though the citizens have withdrawn a few dozen billion euro from their accounts during the past few months.

However, when Greece will stop settling the installments to its creditors, the EBC may limit the liquidity. This can cause paralysis of the banks and their bankruptcy. If it happens, the only solution would be the Cyprus option.

2. The Cyprus option

The solution used in Cyprus is in many matters coherent with what is currently offered to Greece. This proposition is a step closer to the promise of reform. However, there is one detail that differs the situation in both countries. The local banks in Cyprus and even the second of the biggest creditors, Laiki, were allowed to go bankrupt in 2013. Shareholders, bondholders and depositors whose deposit was more than 100 thousand euro have lost their money, but the country was not been charged with those obligations.

This move has been undertaken mainly due to the fact that the banking sector was much bigger than it would have been regarding the sizes of the economy. This on the other hand, was an effect of the local authorities' liberal approach towards the money's origin and low taxes. Due to these reasons, Cyprus attracted the capital from both eastern and western parts of the continent.

In Greece this problem is marginal. However, a danger of the Cyprus option, street protests or the introduction of control of the capital's flow, can be a good scare tactic for the reigning populist Syriza.

3. Exiting the eurozone

If Greece does not agree to the Cyprus option, there is a danger of it exiting the eurozone. Currently, the country is unable to assure liquidity to its banks by itself without the contribution of the EBC. Additionally, gaining money for financing the market is impossible due to the low credibility of Greece.

As a result, Greece will have to convert to its own currency, if the aid from the creditors is not extended. Purchasing power of the new drachma would probably decrease by at least half. And even though it has its good sides, which include the improvement of the country's competitiveness, a sudden impoverishment of the society could cause some serious social disturbances and the moods can get more and more radical.

Exiting the eurozone would also give a negative signal to the whole area of the common currency. It would indicate that they are unable to deal with one of their members. It would result in commotions on the financial markets, although they would probably be less serious than in e.g. 2012, when Spain, Ireland or Italy were undergoing financial problems.

4. Help from outside

In April, there were a lot of rumours that Athens was seeking help from Moscow. President Putin met with Prime Minister Tsipras at the Kremlin. After the meeting, there were a lot of speculations that Greece wanted to get under the Russian umbrella and by doing so resign from the eurozone's aid. This solution could be realistic, if it was not for the financial issues.

Moscow probably offered a few billion euro (prepaid means) for the possibility of transferring gas through the territory of Greece. It is just a tiny amount of the country's needs, and the offer was not too attractive, considering that the current aid package for Athens is worth 240 billion euro.

5. Agreement with the creditors

Despite the recent tensions, common accusations, and undiplomatic statements, the agreement between Greece and its creditors is still the most probable solution. It would benefit both sides, especially for Greece, which has very limited choice. However, it must show its society that it cares for their interests. Especially that the populist government of Syriza finds it very difficult to withdraw from the pre-election promises.

Thus, everything shows that Greece will most probably agree to the reform, and the countries of the eurozone will unlock the aid. However, in the long term the situation may repeat itself. Espe-

cially if instead of reducing its expenses, the country will buy the citizens' votes with higher retirement pensions, overgrown administration, or unreal promises of salary increase. If it happens, Greece will undoubtedly have to exit the eurozone within a few years and return to managing its economy and the monetary policy independently.

Greece, the zloty and the franc

As usual the commotions in Europe impact negatively on the condition of our region's currencies, including the zloty. Some of the investors are withdrawing due to the risk of the situation's deterioration, or hope to buy the overvalued Polish bonds more cheaply, and additionally gaining thanks to the zloty's wear off.

This Greek history has inadvertently overlapped with the presidential elections in Poland. The impact of Andrzej Duda's victory on the zloty's condition is relatively small. If the commotion related to Greece occurs in a politically neutral period, the franc will most likely be cheaper by approximately 0.03 PLN. The "post-election" effect will probably disappear within the next few days, and the zloty will again move to the rhythm of the data from Europe, perspective of the monetary policy's changes on the other side of the ocean, and the national macroeconomic publications.

INFORMATION ABOUT THE BRAND

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The company is also amongst Bloomberg data and analysis suppliers. Cinkciarz.pl EUR/PLN forecasts have been awarded first place in the world for four consecutive quarters in Bloomberg's rank Best EMEA Currency Forecasters Q3 2013 and the first place for the CZK/EUR and ZAR/USD forecasts for the first three quarters of 2014. The forecasts of Cinkciarz.pl's analysts for the currency pair CZK/EUR have also been awarded the first place in the world for 2015 Q1.

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