

The Greek clash

Greece stands at a crucial junction in history, but both tines of the fork spell trouble for the Mediterranean country. Accepting its creditors' demands for more austerity could deliver another blow to an ailing economy that badly needs stimulus. Yet the path of default leads to eventual exit from the euro currency and uncharted territory.

- Kenneth Lim

€72b

Greece is trying to negotiate access to 72 billion euros of bailout funds from its chief creditors by June 30 in order to service its massive debt. The Troika of key creditors are the Eurozone governments, the European Central Bank (ECB) and the International Monetary Fund.

Greek 10-year bond spreads vs German bunds



973 basis points

Even having taken €240 billion of aid so far, Greece continues to struggle to pay its sizeable debt. Greece today has to pay almost 10 percentage points more than Germany to borrow money for 10 years.

Austerity bites

Creditors will not release any aid unless Greece agrees to additional austerity measures, including tax hikes and pension cuts, that they argue will put the country's fiscal spending on a stronger footing. But Greece's government has balked at those demands, with Finance Minister Yanis Varoufakis saying of the Troika's proposals: "The combination of austerity and social injustice they would impose upon a population devastated already by... austerity and social injustice."

June 30

1.6b euros repayment to the IMF

If no deal is reached and Greece cannot pay the IMF, it may lose access to future aid. If the ECB decides that a non-paying Greece is not simply in "arrears", but actually in default, that could also pave the way for Greece to exit the euro.

July 20

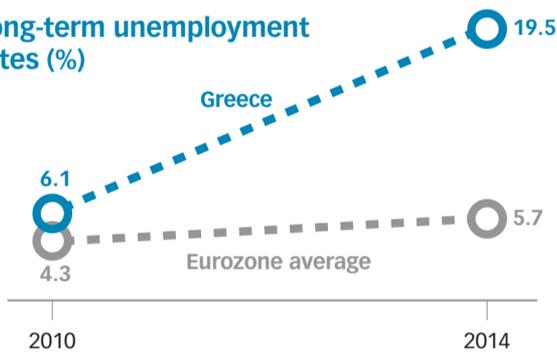
3.5b euros repayment to the ECB

The maturity of bonds due to the ECB present Greece with its biggest make-it-or-break-it date. Default and Greece will almost certainly have to leave the euro. Pay, and the country will survive to negotiate another day if it has to.

Who's right?

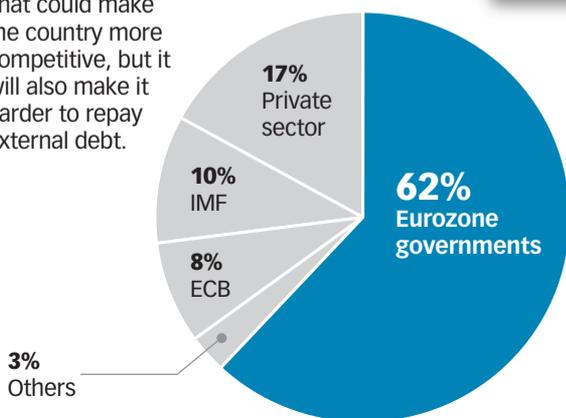
Five years after Greece asked for its first bailout, the country's economy remains in dire straits even after numerous rounds of austerity measures.

Long-term unemployment rates (%)



Painful farewell

Leaving the euro is not ideal either. Greece will almost certainly face massive devaluation of the drachma if it returns to its former currency. That could make the country more competitive, but it will also make it harder to repay external debt.



July 5

Greece will hold a referendum on whether to accept its creditors' demands

Greece's creditors have not been willing to extend any deadlines for the referendum, so the referendum will probably not have any significant impact on a deal. But a strong rejection of the creditors' terms could send Greece on its way out of the currency union. Ironically, acceptance of the creditors' terms could also mean trouble for Mr Tsipras, who has been urging voters to reject the creditors.

*Should I stay or should I go now?
Should I stay or should I go now?
If I go there will be trouble
And if I stay it will be double*

The Clash, 1982