



# Handling Greece in a perfect system?

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Rabobank Economic Research

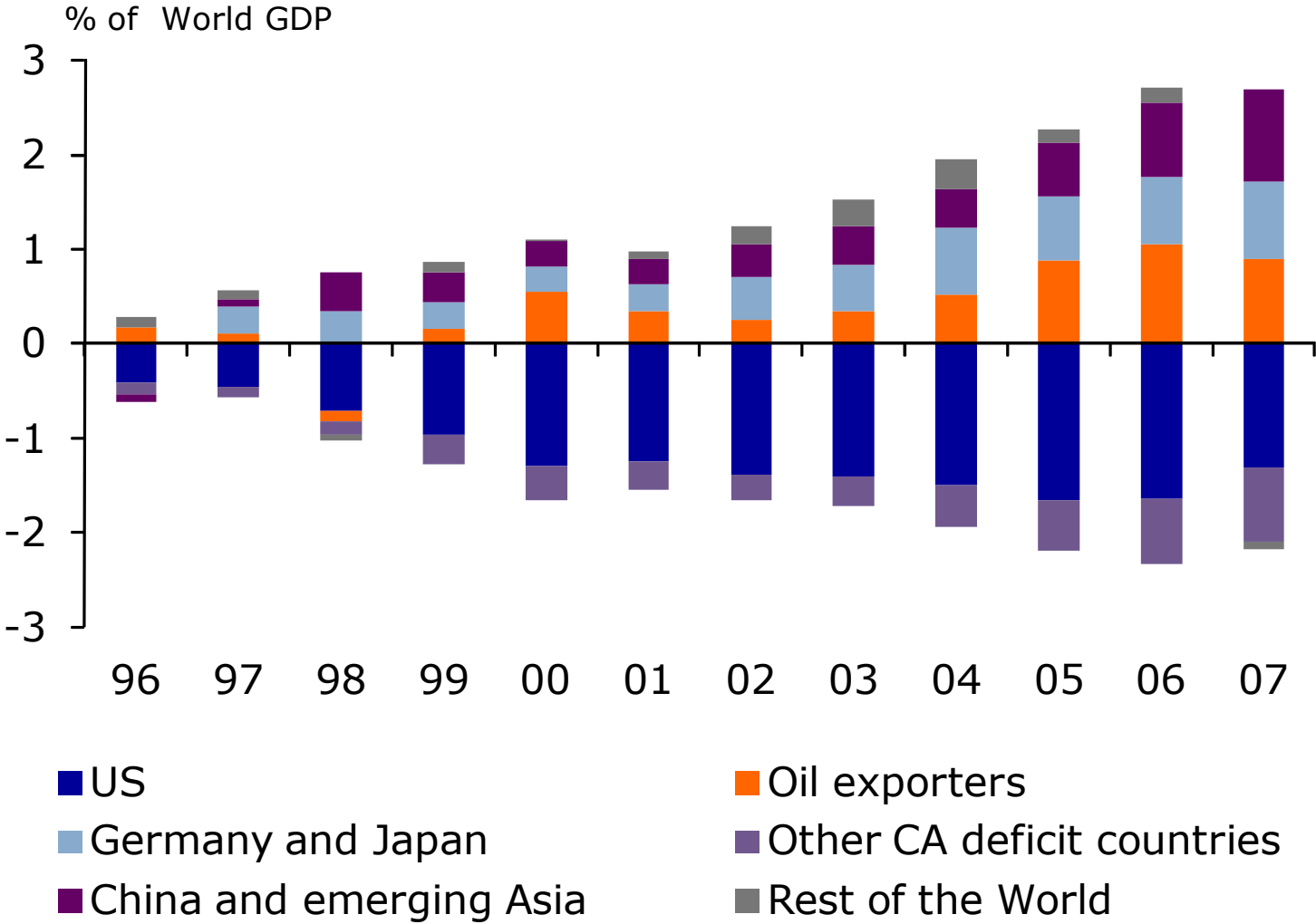
# Agenda



- What happened to Greece and what did we do about it?
- What are we forced to do now?
- How to move towards a perfect system?

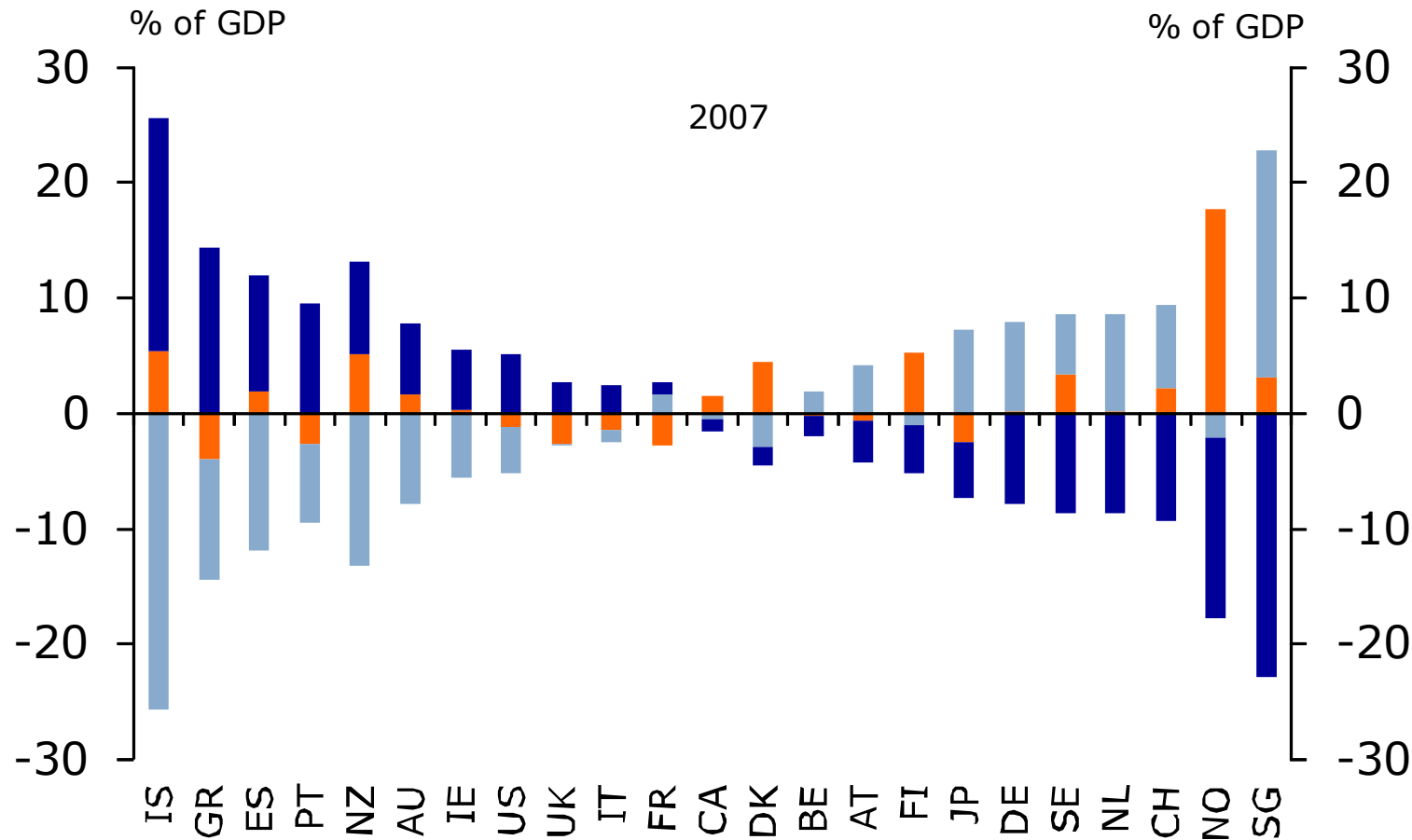
# Globalisation

## Widening global imbalances



# The big shift

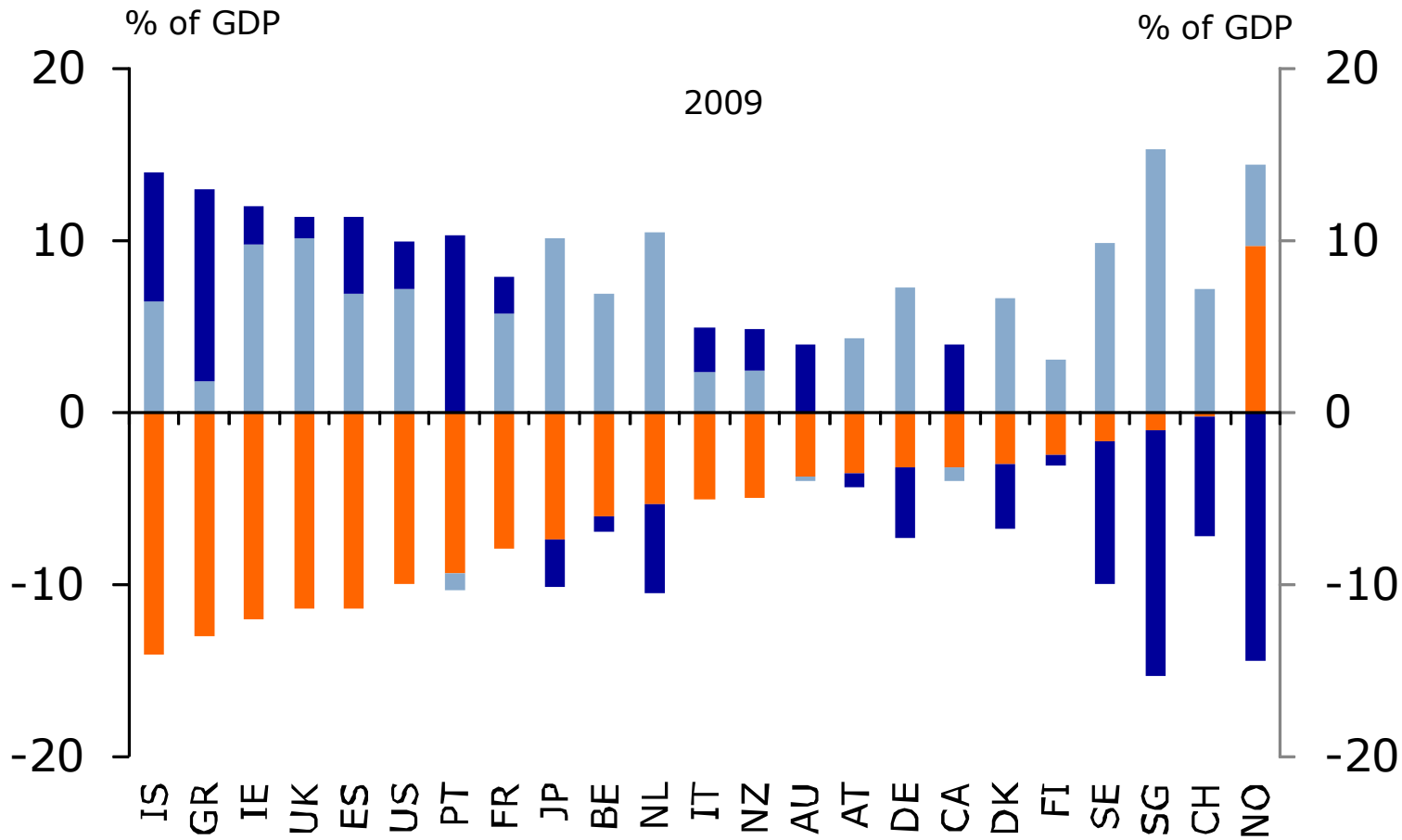
## Global imbalances *prior to the crisis*



■ Public sector balance ■ Private sector balance ■ Net capital inflows/outflows

# The big shift

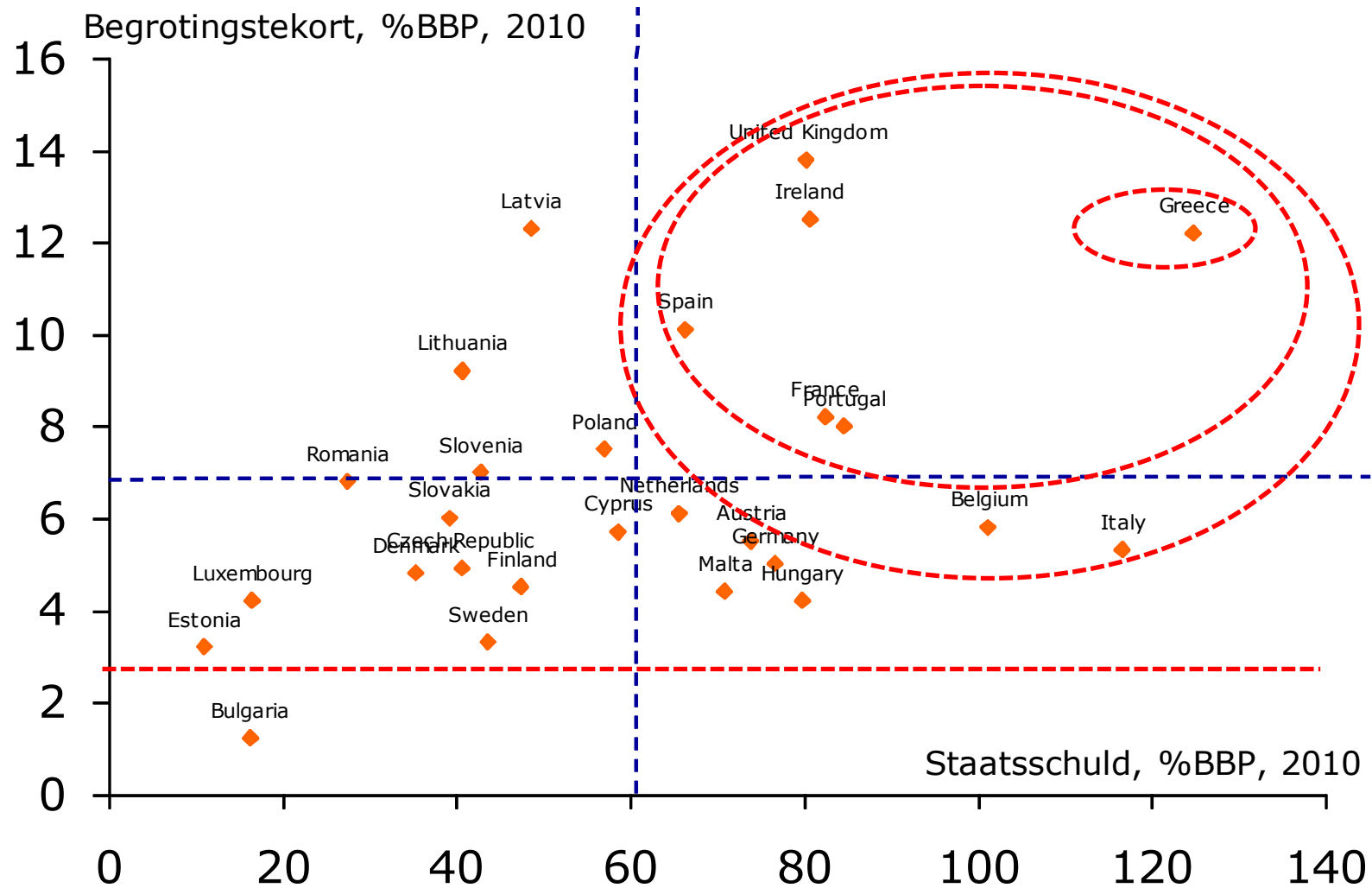
## Global imbalances *now*



■ Public sector balance 
 ■ Private sector balance 
 ■ Net capital inflows/outflows

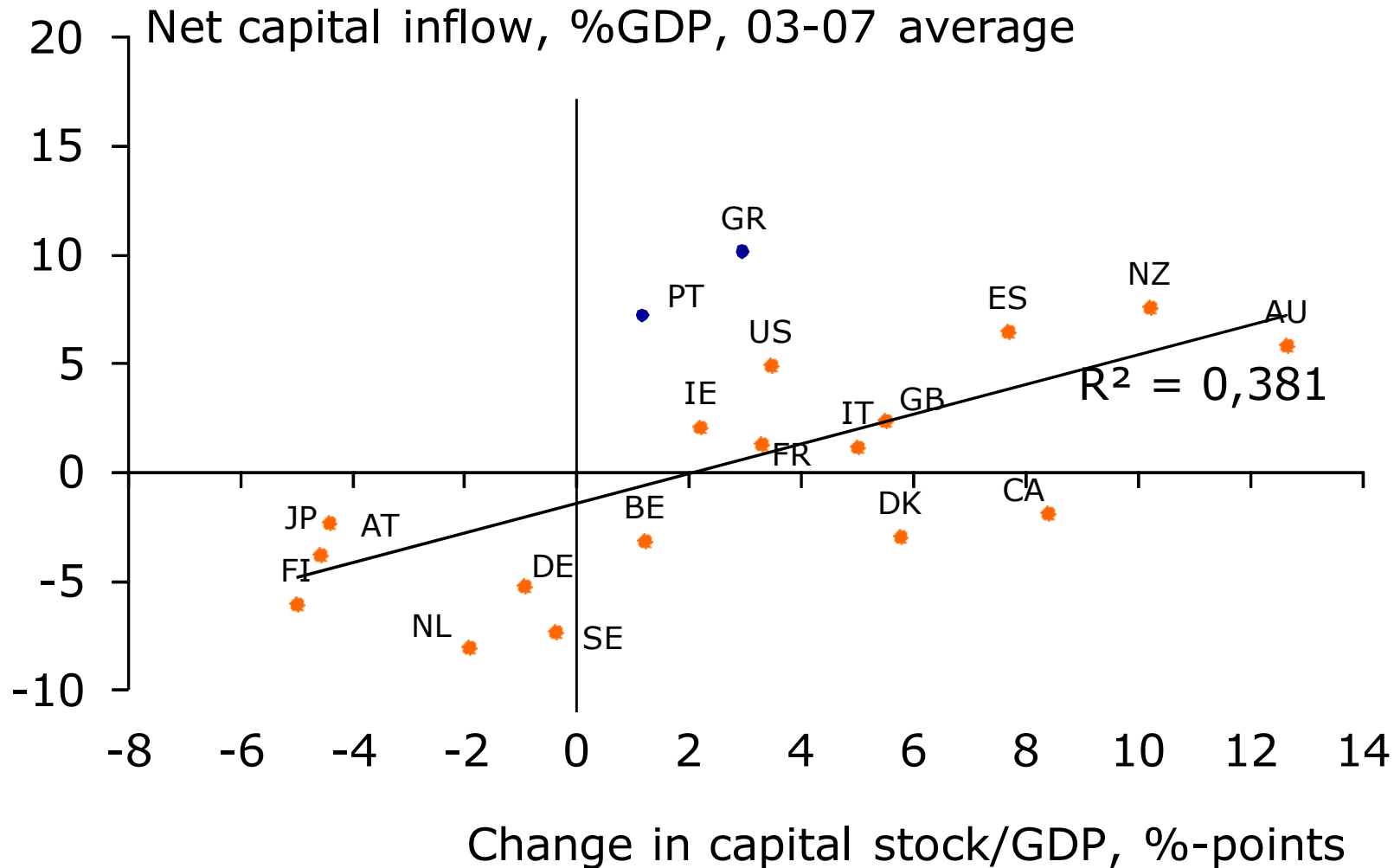
# European differences

Where lies the *ring (or reign?) of fire*?



# European differences

## What was the inflow spent on?

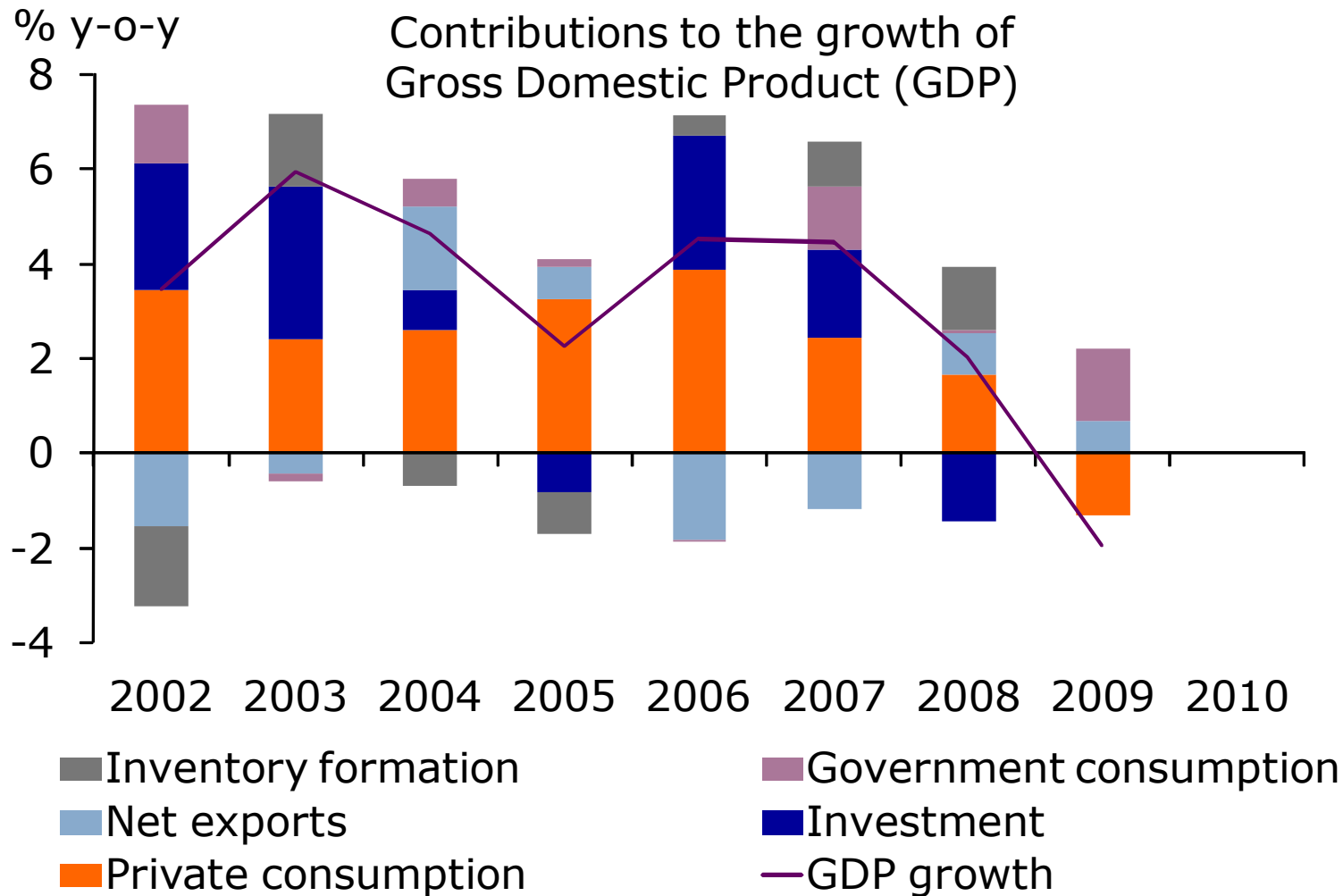


# Greece

## Domestic demand as primary growth driver

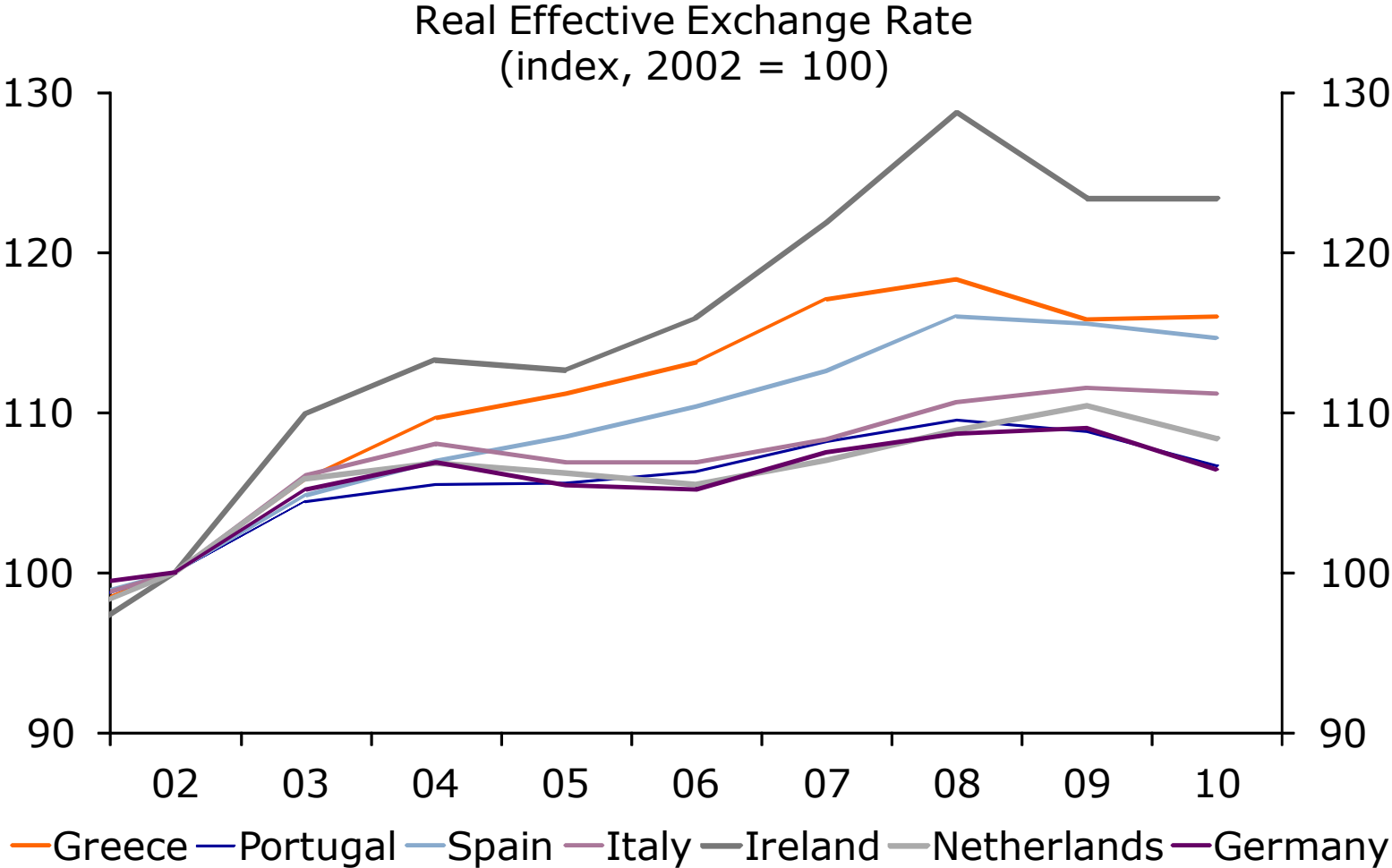


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# Greece

## Erosion of cost-competitiveness

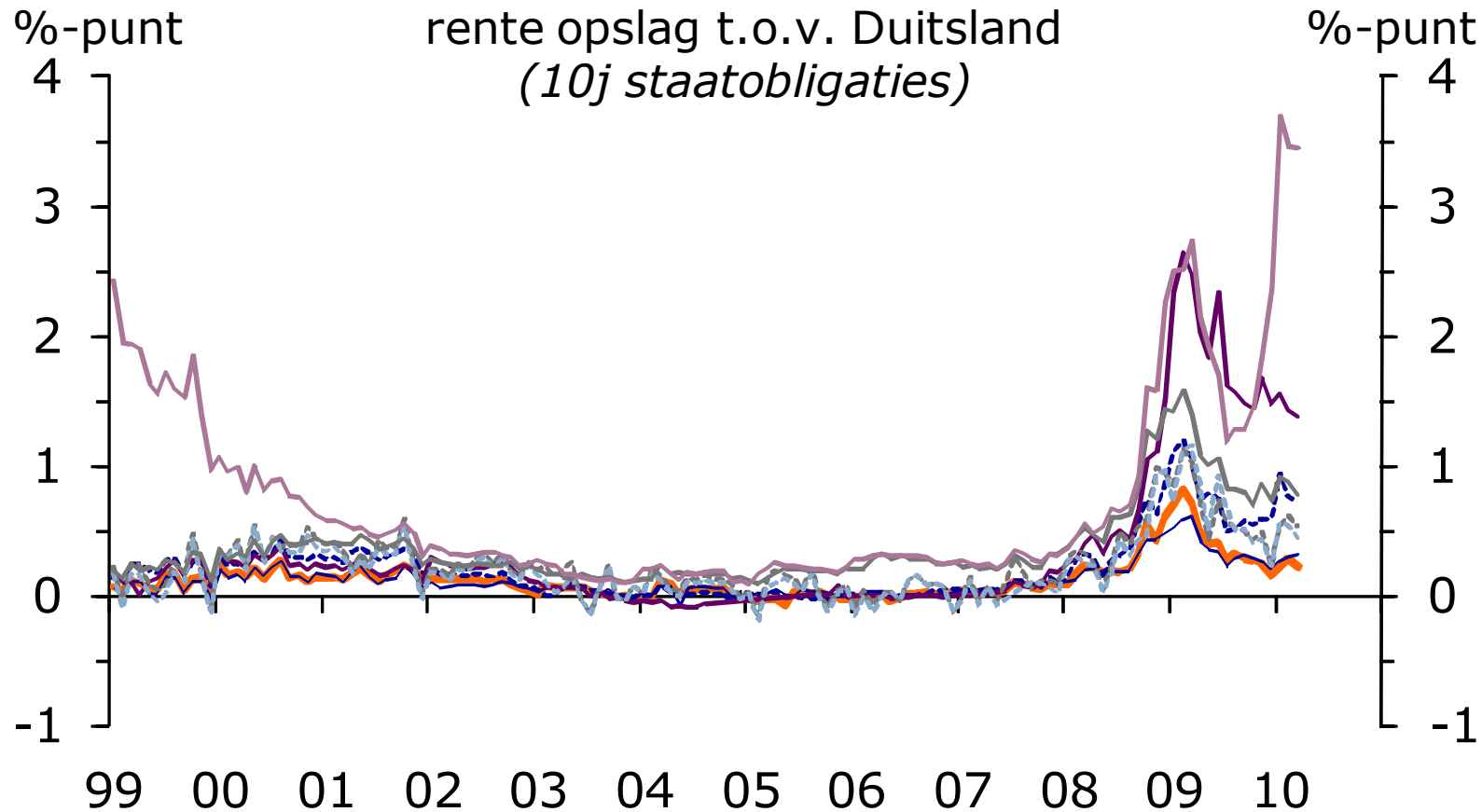


# Greece

## Market discipline took a holiday



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— Nederland

— Frankrijk

..... Spanje

— Ierland

..... België

..... Oostenrijk

— Italië

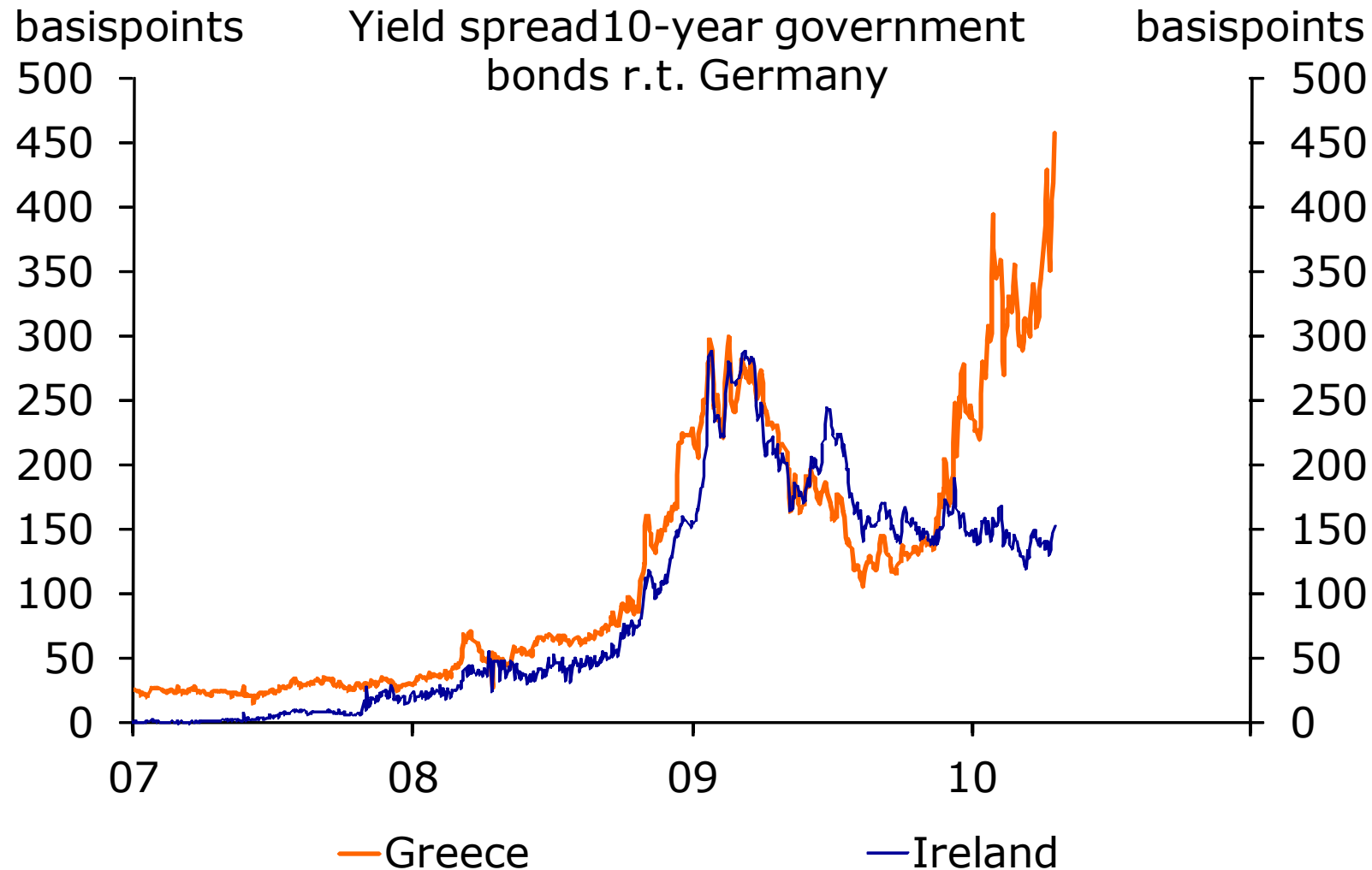
— Griekenland

# Greece

## A fundamental lack of credibility



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# Greece

## Question marks regarding EU support



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- EU finance ministers have pledged their potential support for Greece with 3Y loans worth up to EUR 30bn
  - After a lot of confusion in recent months, a 5% rate has been agreed
  - IMF will be involved with another EUR 15bn on top of this
  - Greece will still need to ask for invocation of the rescue package
- But a number of (important) questions remain
  - Official parliamentary approval in all eurozone countries required
  - German Chancellor Merkel appears to have been 'forced' by eurozone peers to go along with the plan and a 'subsidized' rate
  - How does the IMF package fit in? (lower rates, stringent conditions)?
  - If Greece uses the support mechanism, the question is why the special treatment?

# Greece

## Long-term effects



- None, other than bridging 1 year to that long-run
- Greek rescue package doesn't solve underlying problems
- Greek government has pledged ambitious austerity measures (welcomed by ECB), but plans still have to be implemented
- IMF money will come with strings attached – given inability to devalue the currency, the IMF may impose stringent conditions to 'force' higher competitiveness

# Greece

## Going forward



- Markets push Greece into international support
- 2010 solvency then EU-choice
- It's a one-sided bet on Greece pulling through!
- Pushes eurozone into transfer union (a.o. spread compression)
- Overhaul SGP framework into central budgeting with larger federal and more restricted state budgets



**More information:**

[www.rabobank.com/kennisbank](http://www.rabobank.com/kennisbank)