



Greek Economic Crisis: What next?

An FTI Consulting London and Brussels Analysis

Yesterday evening, the people of Greece delivered a crushing 61.3% to 38.7% “no” vote in a referendum on whether to accept the terms of an international bailout submitted by the European Commission, the European Central Bank and International Monetary Fund.

As Asian markets began to open this morning, the Euro had already fallen 0.4% against the dollar and 0.5% against the pound - to an exchange rate of 1.41 to Sterling.

"You made a very brave choice today. However, I am fully aware that the mandate you've given me is not to break with Europe, but rather to strengthen our bargaining power to achieve a sustainable agreement... and an end to the vicious cycle of austerity." – Greek Prime Minister Alexis Tsipras

Reaction in Athens

Following a week of campaigning around a referendum that has divided and torn the fabric of Greek society, the country's far-left Prime Minister Alexis Tsipras hailed the “*brave decisions of the Greek people*” and called for unity. Tsipras described the result of the referendum as “*a shining light in European history*”, adding that his “*government's negotiating position is strengthened*” following the result of the referendum and reiterating the Greek government's call for a deal that is “*sustainable*” and “*breaks the vicious cycle of austerity.*”

Tsipras further stated that the “*ECB understands the economic and humanitarian situation in Greece*”. He also emphasised strongly that the issue of Greece's debt will be on the negotiating table as of tomorrow following the publication of the IMF's report (EU capitals had been pressuring a deferral of publication until after the referendum date).

According to Tsipras, “*Greece will return to the negotiating table*” during the course of today in order to find an alternative solution to the country's economic woes. In an effort to convey a spirit of national unity, Tsipras has called a meeting of all political leaders to take place later today, in which he will outline the government's plans and listen to other parties' suggestions and concerns.

A new day?

While Tsipras' own position has been widely characterised by the media as overly aggressive, his remarks have paled in significance when placed alongside that of his Finance Minister Yanis Varoufakis who described the creditors as "terrorists".

As the sun rose in Athens this morning, Varoufakis was summoned to the Prime Minister's office and fired from his position. Having set up his now-famous brand of rhetorical fireworks in order to win the referendum for Tsipras, his continued role as Greece's de facto chief negotiator on bailout-related matters was felt to be an impediment to further progress. His resignation statement was typically caustic; stating that he "wore the creditors' loathing with pride".

A new Finance Minister will be announced today – with Syriza expected to nominate a more low-key and consensual figure to advance negotiations.

Whether, however, the departure of Varoufakis or the Greek government's referendum victory win will translate into strengthened bargaining power for the government remains to be seen.

The European Commission President Jean-Claude Juncker is expected to hold a conference call with European Central Bank head Mario Draghi and Jeroen Dijsselbloem, who heads the Eurozone group, later this morning. The European Central Bank's Governing Council will also hold a session today in order to authorise – or otherwise – an emergency credit line for Greek lenders depending on emergency credit to stay afloat.

Greece's prospects are, however, bleak.

Public opinion polls in Germany show that 90% of voters support cutting ties with Greece and forging a new Eurozone without the country's involvement. While Angela Merkel's public position remains one of support for Greece's continuation in the single currency, the conservative Christian Social Union who comprise a good chunk of her support in the Bundestag have long since given up on Greece. Germany's Vice-Chancellor and Social Democrat leader Sigmar Gabriel declared that, "with the rejection of the Eurozone's rules of the game, which has been expressed in this majority 'no' vote, negotiations on further multibillion euro programs are scarcely conceivable." Merkel's hands may well be tied.

With German support for Greece ebbing away, France and Italy are perceived as the country's only remaining allies. The Italian Finance Minister Pier Carlo Padoan was the first to call for the immediate resumption of talks. President Hollande has already spoken to Tsipras via telephone ahead of his meeting with Angela Merkel later today.

Next steps: five possible scenarios

While the situation in Athens remains deeply volatile, five possible scenarios could play out in the coming days:

Scenario 1 – Greece and its creditors find a sustainable solution, backed by the broad support of Greek Parliament following a meeting of Greek political leaders this afternoon and completion of the cabinet reshuffle. Given that anti-bailout parties hold a majority in the country's Parliament, this would rightly be interpreted as a major climb down for the government.

Scenario 2 – No deal is reached this week, and Greece is forced into a "bail-in" where bank accounts above €8,000 are cut by 30%. Given the widespread consternation in Greek society at the limiting of cashpoint withdrawals to €60 a day and a ban on overseas cash transfers during the course of the referendum, such a move would likely spark mass civil unrest and the largest protests since the military junta in 1974.

Scenario 3 – Return to the drachma. This prospect receives a tremendous amount of airtime in "western" media markets yet continues to have limited domestic support. Indeed, part of the ability of the Syriza party to transition from an "outsider", fringe party to the political mainstream was its public commitment to remain in the Eurozone. This scenario is also likely to lead to street protests and a period of profound uncertainty in international money markets.

Scenario 4 – If no deal is reached, the Tsipras administration may be forced to step down following a vote of "no confidence" in Parliament. With the country's pro-EU opposition leader Antonis Samaras having resigned earlier this morning, it is unclear as to who would lead the opposition campaign. Nevertheless, it is possible that the EU may step in to provide an interim solution to the economic crisis until a more malleable government takes office.

Scenario 5 – A doomsday scenario where the Greek public and political classes eschew both Eurozone and European Union membership in favour of financial and political support from Russian President Putin. While such a scenario is seen as unlikely, the Russian Government has already publicly stated its willingness to "stabilise" Greece's economic situation in exchange for control of the country's railway system and the Port of Thessaloniki – presumably to replace its vulnerable Mediterranean naval port in Syria. achievable.

The impact upon "Brexit"

The United Kingdom is in a complex position when it comes to the issue of Greece, the Eurozone and its associated problems. As a non-Eurozone country, the British Government has no formal involvement in discussions around the future of Greece's membership of the Euro or any bailout mechanism that may ultimately be found to put the country back on track. Even the hardest of Eurosceptics would not argue, however, that instability in the Eurozone is a good thing for the British economy or British jobs. Instead, the British position in the run-up to the referendum can be described as one of "arms-length" support for the "yes" campaign.

Nevertheless, the "no" vote is arguably a boost for the Prime Minister's push for renegotiation of the UK's membership of the European Union. While few people envisage a hasty Greek return to the drachma, the possibility must now be credibly considered alongside a range of others. In essence, the cherished EU principle of "ever closer union" appears to be more than a little shaky – and indeed open to being reversed. Conservative negotiators will likely seize upon any opportunity to re-open the treaties in order to accommodate Greece's predicament as a chance to push the UK's case for EU reform.

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