

THE SITUATION WITH GREECE

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On July 5th Greek voters decidedly rejected a European Union and International Monetary Fund (IMF) lead bailout package in a simple YES, NO referendum. While extending a financial lifeline, the bailout package would have implemented strict conditions that see a range of further, painful austerity measures imposed on a country that already has an unemployment rate over 25%, where the average family income is at a 12-year low, and over 40% of children now live below the poverty line. On the surface, who could blame Greek voters for not wanting more fiscal restraint that could only exacerbate an already dire economic situation? But a key rationale of Greek Prime Minister Tsipras' plan of putting this critical issue to a national referendum was his hope of ultimately brokering a more attractive deal with Greece's creditors. A high stakes game of poker, the timing of which presents somewhat of a quandary; over 1.6 billion euros in debt came due to the IMF on June 30—technically, the referendum question not only became moot after this date, but practically speaking, put Greece in a weakened financial state. The announcement of the referendum triggered capital controls including the closure of Greece's banks and limits on depositor withdrawals and transfers. The government's failure to secure a plan of arrangement with creditors will bring only further weakness and distress to the country's crippled financial economy. And without a deal to restructure, defer, or otherwise find a source for immediate debt repayment, Greece is highly likely to be expelled as a member state in the European Union (EU).

While the prospect of a "Grexit" may be perceived as grim for the Eurozone, and a possible catalyst for global economic turmoil, the reality of the situation is that its ultimate impact would be more illusion than substance. This is not the first time that Greece has teetered on the edge of monetary and fiscal uncoupling from the EU—recall back to mid-2012, when again, Greece was the center of global concern. Since then, and more pronounced in recent months, the problems within Greece have already been substantially priced into the economic system and within financial markets. The more significant, immediate drivers of market consequence are closer to home, with expectations for a shift in monetary policy (to tightening) by the Federal Reserve; the consequences of a material slowing within the Emerging Markets; and now visible cracks indicating potential risks to the sustainability of the global economic recovery.

While the fate of Greece within the European Union will likely be decided this coming Saturday, as Greek Prime Minister Tsipras desperately appeals to European leaders, notably Germany for bail out relief that would prevent its exit from the EU (and now with agreement to austerity measures that are far harsher than those of the previous deal turned down in last weekend's referendum), stay or go, the EU and the world will carry on. While not entirely turning a blind eye to the situation in Greece, relative focus on the broader macro environment and other significant issues will likely prove more impactful.

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