

<https://blog.en.erste-am.com/parallel-currency-greece/>

Parallel currency in Greece?

Gerhard Winzer



© © Fotolia

Last Sunday, the Greek people decided with a clear majority to follow the proposal of their government. With 61.3%, the No camp rejected the conditions of the expired adjustment program. Thereby, Greece is one step closer to an exit from the Eurozone and the European Union.

What follows is unclear. The terms of the creditors – reforms in exchange for financial aid – will also be embedded in a still possible third program. Greece is not able to service its debt without financial aid. In the meantime, the primary balance, i.e. the budget balance exclusive of interest payments, is probably already negative. Furthermore, the European Central Bank will no longer accept Greek governments bonds as collateral for the emergency loans.

Therefore, a political decision whether to guarantee the Greek debt will have to be taken by the countries of the EU or the EMU. If this is the case, the ECB would be able to continue to supply emergency loans. Either way, the Greek government will probably issue Vouchers (IOUs) soon, to pay for expenditures (pensions). This would represent a parallel currency which would rapidly lose value, if the IOUs are not 1:1 convertible into Euros.

Greek banks will remain closed and the capital controls implemented. No financial aid, a frozen financial system and a too strong, i.e., not devalued own currency will lead to a further severe recession. A working financial system is a necessary condition for the proper functioning of the economy. The absence of an economic recovery and the possible withdrawal of the ECB emergency loans argue for the conversion of deposits into bank equity capital. The only other possibility is a currency reform, i.e., the conversion of euro cash, deposits, and obligations into a new currency.

De jure, Greece will remain a member of the Eurozone for the foreseeable future. Due to capital controls and the probable introduction of a parallel currency, Greece has de facto said goodbye to the EU.

Things can still be turned around. The Greek government never accepted the conditions of the expired adjustment program. Neither a debt haircut nor economic stimulus measures were included. Both would support the sentiment of the Greek people. But the moral issue – who wants to pay back debt and accept austerity – remains. If both the creditors and the Greek government are of good will a compromise between reform and aid can still be reached.

The European Central Bank is an important stakeholder not only for Greece. The council has affirmed that everything within its mandate will be done to safeguard the financial system. The instruments are rate cuts, the bond buying program (QE), and the conditional provision of unlimited amounts of liquidity to governments (OMT) and banks. In addition, new instruments can be invented, like crises-induced asset purchase programs.

On markets the already fallen risk appetite will remain subdued. Temporary price losses of government bonds with credit risk, higher corporate credit spreads and falling equity prices are conceivable. In case the ECB provides more stimulus measures, the Euro will weaken.

As long as the negative spillover effects on financial markets remain restricted, sentiment among consumers and corporations will be affected only to a limited extent. Bank's balance sheets are sounder, government's fiscal policies no longer restrictive, the European Central Bank's policy is extremely expansionary and has invented new tools and a bailout fund (ESM) has been installed. Thus, the moderate economic recovery in the EMU will not be derailed. From a strategic point of view, the big question remains: What will be stronger – the integration or the disintegration forces within the EU and the EMU?

Legal disclaimer

This document is an advertisement. All data is sourced from ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Erste Asset Management GmbH and ERSTE Immobilien Kapitalanlagegesellschaft m.b.H. unless indicated otherwise. Our languages of communication are German and English. The prospectus for UCITS (including any amendments) is published in Amtsblatt zur Wiener Zeitung in accordance with the provisions of the InvFG 2011 in the currently amended version. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Erste Asset Management GmbH and for ERSTE Immobilien

Kapitalanlagegesellschaft m.b.H. pursuant to the provisions of the AIFMG in connection with the InvFG 2011 and regarding ERSTE Immobilien Kapitalanlagegesellschaft m.b.H. published in Amtsblatt zur Wiener Zeitung or at the web site www.ersteimmobilien.at. The fund prospectus, Information for Investors pursuant to § 21 AIFMG and the key investor document/KID can be viewed in their latest versions at the web site www.erste-am.com or www.ersteimmobilien.at or obtained in their latest versions free of charge from the domicile of the management company and the domicile of the custodian bank. The exact date of the most recent publication of the fund prospectus, the languages in which the key investor document/KID is available, and any additional locations where the documents can be obtained can be viewed on the web site www.erste-am.com or www.ersteimmobilien.at. This document serves as additional information for our investors and is based on the knowledge of the staff responsible for preparing it at the time of preparation. Our analyses and conclusions are general in nature and do not take into account the individual needs of our investors in terms of earnings, taxation and risk appetite. Past performance is not a reliable indicator of the future performance of a fund.



Gerhard Winzer

Gerhard Winzer has worked at Erste Asset Management since March 2008. Up until March 2009, he was Senior Fund Manager in Fixed Income Asset Allocation; he has been Head Economist since April 2009.

He holds a degree from a polytechnical college and studied economics and business at Vienna University with a special focus on financial markets. He holds a CFA charter and participated from 2001 to 2003 in the doctoral programme for finance at the Center for Central European Financial Markets in Vienna.

From July 1997 to June 2007, he worked in research at CAIB, Bank Austria Creditanstalt, and UniCredit Markets & Investment Banking. His last position was as Executive Director for Fixed Income / FX Research and Strategy. He was responsible for research on asset allocation at Raiffeisen Zentralbank (RZB) in Vienna from July 2007 to February 2008.