

Interview with Börse Online 07 July 2015

Herr Heise, today the heads of state and government are to meet for the next Greece summit. Is the eurozone undertaking one final attempt at reaching an agreement or will the eurozone show Greece the red card?

The resumption of talks is likely to prove extremely difficult. I think the door for negotiations with creditors remains open. But it's now up to Greece to propose an acceptable alternative plan that lays out how things are to proceed after the referendum.

Talks have already been dragging on for five months. What shape might a possible compromise take?

The last bailout program offered by Greece's euro-partners should serve as the starting point for further talks. From the creditors' perspective, a compromise cannot entail the longer-term financing of Greece's deficits just because the government is opposed to austerity. At best perhaps an extension of the consolidation plans is conceivable, given that the economy has deteriorated dramatically thanks to the government's zig-zag course. But that only makes sense if the Greek government tackles institutional reforms which improve the country's economic clout in the medium term. If the Greek government comes up with a convincing concept along these lines, its creditors should not dismiss outright a debt restructuring. This could be achieved by the ESM buying up the remaining Greek government bonds on the ECB's books, thus reducing Greece's short-term financing needs. In addition, a further extension of the already very long maturities of the bailout loans could be considered, although this would not plug the financing gaps in the short term. More important than the maturity extension would be the release of available EU funds to boost investment activity in Greece.

But following the clear vote by the Greeks, can Greece be kept in the euro at all?

An agreement between Greece and its creditors is still possible, but Grexit is now the more likely scenario. From the creditors' perspective it is absolutely essential that Greece commits to a balanced budget in the foreseeable future and shows itself willing to modernize its state system and its economy. If Greece fails to come up with such a fiscal and economic concept, Grexit is inevitable.

The Greek banks are dependent on the ECB for life support. But how can the ECB continue to grant Emergency Liquidity Assistance without breaching its mandate?

In my view, without progress in talks between Greece and the eurozone member states, further emergency loans to Greek banks will not be warranted. At the latest when the rating agencies formally declare Greece to be in default, the ECB would not only have to limit ELA loans, but cancel it in full. Hence, a swift agreement between the creditors and Greece is needed. Once the ECB pulls the plug on Greek banks, Grexit has arrived.

If, despite all the efforts, Grexit becomes unavoidable: what would be the impact on the eurozone economy and particularly on Germany?

For the Greek economy Grexit would be dramatic, but in the eurozone and Germany the impact on the economy would be limited. Given the relatively low volume of trade, a further drop would have no notable repercussions.

In the short term there is a risk of contagion to other countries, but the ECB and the eurozone member states would act decisively to contain the negative effects so as not to jeopardise the economic stabilisation process. It needs to be ensured that the Greek debt row doesn't drag on - such uncertainty would be bound to weigh on business expectations. It is quite simple - the longer the impasse lasts, the greater the potential damage.

Many commentators regard the 20th of July as the crunch date, when Greece has to transfer EUR 3.5bn to the ECB. As things stand, what do you think: Will Athens manage to pay or will Greece then finally be broke?

Greece is unlikely to have sufficient funds of its own to pay back the ECB loan. Moreover, the shriveling primary surplus is unlikely to suffice to cover public sector salaries and pensions. Without an agreement with its creditors, Greece will be insolvent on the 20th of July at the latest. Greece will then be forced to issue a parallel currency to provide the banking sector with liquidity and protect the economy from complete collapse.

What do think will happen on the financial markets: Is a possible Grexit already largely factored in or could we see further sharp slides on the equity markets should Greece really drop out of the eurozone?

Elevated Grexit fears are doubtless a negative factor for the financial markets, but so far they have reacted calmly. I believe that, despite the growing probability, Grexit is not yet fully priced in but that markets will not panic when it does happen. Given the uncertainties the introduction of a new currency in Greece entails, European stock markets could temporarily slip back to their level at the start of the year, but then new buying opportunities would open up.

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