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Greek Drama – The Final Chapter?

Imagine a country where lines to the ATM machine are hundreds of people long. Imagine that these people line up for hours just to withdraw €60, the daily maximum limit set by the government. Imagine a scenario where you do not have an ATM, so you rush to a bank, only to find out that they are closed. After seeing this scene, imagine that your country just defaulted. Imagine you are an investor who is now scrambling to sell his stocks, only to discover that the stock exchange is closed.

This is Greece now and, last week, it became the 1st advanced economy to default on an International Monetary Fund (IMF) loan. In default and facing exasperated creditors, this may well be the final chapter in its drama.

Comedy to Tragedy

Since 2011, we have already been writing about Greece and its problems. In *A Greek Tragedy* (12 September 2011), we talked about Greece's reversal of fortune. After growing at an annual rate of 4.2% for years, its debt burden grew too large for the economy to bear, sending it close to default. Fears of a contagion swept markets, erasing YTD gains for many equity indices. In a follow-up article, *The Greek Drama Continues* (7 November 2011), we said only time will tell whether this Greek drama will be a comedy or a tragedy. Sadly, recent developments are pointing towards the latter.

Reformist government unseated

Previous Greek governments implemented a reform agenda of tax hikes and austerity in order to prevent their country from experiencing another financial crisis. Unfortunately, these measures proved to be unpopular. Promising to end austerity and restore Greek pride through populist policies, the left-wing Syriza party swept into office and destroyed the delicate balance holding Greece together. It is precisely this election which allowed now-Prime Minister Alexis Tsipras and Finance Minister Yanis Varoufakis to bring Greece to where it is now.

Populist policies, pariah countries

Hopeful as many Greeks are in the result of these elections, history is not on their side. A number of countries have espoused populist policies that resulted in uncompetitive industries, large budget deficits and a complacent citizenry. Perfect examples of these are Venezuela and Argentina. Until now, these countries have remained pariahs with unending debt woes. Considered by the world to be hopeless cases, Greece runs the risk of joining their ranks.

Challenging the troika

Armed with an electoral mandate, PM Tsipras and Varoufakis went on the offensive and challenged the troika – the European Commission, the European Central Bank (ECB) and the IMF. They claimed that the measures being imposed on them in exchange for loans have stifled their economic growth. During these tumultuous negotiations, Greece was burning its limited cash in order to pay its debt. Despite this precarious situation, PM Tsipras refused to back down even when threatened by the troika that they would suspend further assistance, effectively bankrupting Greece by June 30 – the due date of its € 1.6 billion loan to the IMF. Even till the last minute, the troika did its best to negotiate with Greece.

Beware of Greeks bearing gifts

As D-day drew closer, signs of a last minute deal emerged. Investors cheered these developments and stock markets around the world rose. Unfortunately, things were just about to get worse. In the middle of negotiations, PM Tsipras said that he is taking the vote to the Greek people and declared a referendum on the troika's bailout package. With all goodwill now thrown to the wind, all negotiations were suspended until after the results of the referendum. This surprise move from PM Tsipras reminds us of a quote from Greek literature - "Beware of Greeks bearing gifts."

NO

To make matters worse, PM Tsipras urged Greeks to vote "No" and refuse to accept the terms of the troika. This dramatic turn of events struck fear in the hearts of investors who believed that a "No" vote is not only tantamount to a protracted default, but also Greece's eventual exit from the Eurozone. Fearing a repeat of the European sovereign debt crisis (see *PIGS GET SLAUGHTERED*, 8 February 2010), markets sold off, with European indices experiencing their worst quarter in 3 years, sliding more than 4% in June alone.

Times are different, things have changed

Fortunately, times are different now. 5 years ago, when the European sovereign debt crisis started, Greek debt was widely held by banks all over the Eurozone, making a disorderly default and contagion quite likely (see *The 'IPIS' Theory*, 22 February 2010). This time around, most of Greek's debt is held by the troika, limiting its impact on other financial institutions and reducing the likelihood of a debt contagion.

Philippine exposure is limited

That said, the damage to sentiment has been done and fear still abounds, regardless of the outcome of the referendum. If the "no" vote wins, stock market volatility will continue. However, we would like to note that the Philippines' exposure to Greece is negligible. As Finance Secretary Cesar Purisima noted last week, only 0.01% of our exports and 0.02% of our imports come from Greece, as well as 1.4% of total remittances. Thus, our country is insulated from Greece's travails.

Lessons from the Greek drama

While the Philippines is insulated from the Greek fallout, one should be vigilant against populist policies and programs. The past is replete with examples of failed populist programs. Clear analogies can be seen in countries like Greece, Brazil, Venezuela and Argentina that are now mired in poverty caused by populist leaders. History also shows that the best way to alleviate poverty is through the creation of programs conducive to business and investments. Combined with good governance, job creation, improving education and vigorous infrastructure spending, higher GDP growth will uplift the citizenry more than dole outs ever can.

Have a long term view

It is nearly impossible to predict where the stock market will go or what will happen in the short term, as was the case with the Greek drama. Yet, these unpredictable events continue to make global markets volatile. Therefore, an investor should have a long term view on the market and stick to companies and countries which are least affected by what is happening in Greece. Thus, we consider corrections caused by Greece as opportunities to buy. Years from now, one may even have forgotten about what happened to Greece and wonder why he was worrying about his money in the first place.

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