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DRACHMA SPARKS GLOBAL DEPRESSION

If Greece goes, it could pull the world with it, says Sarah Hewin, Regional Head of Research for UK and Europe at Standard Chartered.

"It is not inevitable that Greece ends up leaving the Euro zone but the risks are great, if we look at the sequence of events that might evolve. If the EU and IMF are unwilling to come up with new money for Greece, then new money has to be found or there's a chance that Greece will stop servicing its debt and at that point we would be looking at a breakdown in relations between the EU and Greece.

"Now, if Greece no longer has financial support, not just for its government but potentially also for it banking sector then the reintroduction of the drachma might be the only option that is left.

"If we get to the stage where Greece does leave, it would mean the need for more bail-out support for countries like Italy and Spain to meet their financial requirements so we are looking at a very risky situation, potentially one that could bring upheaval across the region.

"It's a somewhat anxious period for everyone in Europe and the real concern is that if we do see a Greek exit, the question will be, who's next? And potentially the survival of the euro as a single currency could come into question. At that point it could go from being a Greece and European issue to a global issue."

Hewin spoke in May at a press conference called The New Normal: Markets Emerging in the Super-Cycle.

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GOODBYE GREECE, THANKS FOR THE MEMORIES

Greece IS going, it's just a matter of time, says Arnaud Leclercq, Partner at Lombard Odier Capital Partners and Head of the New Markets.

"A Greek exit from the Euro zone? It is not a matter of if, but rather when and how. The endgame to the debt crisis has not changed; only massive debt restructuring can put a term to the vicious spiral. Policymakers have unfortunately not yet embraced that conclusion and are continuing to buy time.

"In this context, the recent European Union summit delivered a number of welcome measures, addressing the main pressures points in the Euro zone periphery: negative spiral between overleveraged public and banking sectors; fiscal instability and ongoing deposit leakage and bank balance sheet deterioration.

"While necessary, these measures are not sufficient in our view. Their shortcomings are lack of both detail and firepower. In particular, no details were provided on the future banking supervision system. On the fiscal issue, no additional firepower was provided. While welcome, the "growth pact" only represents 1.2 per cent of Euro zone GDP. Given the low local fiscal multiplier, it is unlikely to provide more than a one-time 0.8-1 per cent boost to economic growth in the periphery. Finally, no mention was made of a European Union-wide deposit guarantee scheme, which would be the most effective measure to counter deposit leakage.

"While positive, the decisions taken during the last European Union summit are not a bazooka. And for Greece, there is really no option left but to default totally on its debt and exit the Euro zone. It is currently having to spend one fifth of its government cash receipts to service debt at rates that are subsidised. A massive currency devaluation would also help restore some competitiveness, without overly damaging inflationary consequences short-term."

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