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Greece: Being cast adrift?

EU now openly admitting that it is absolutely prepared for the possibility of Greece leaving the Eurozone

Its Eurozone counterparts are putting pressure on Greece basically to decide whether it wants to stay in the euro. In response to the shock call for a referendum regarding the bail-out made by Greek PM Papandreou on Monday, Germany and France for the first time are openly raising the prospect of Greece leaving the single currency, with President Sarkozy stressing that the question is whether Greece remains in the Eurozone, it being up to the Greek people to answer that question.

Stakes being raised

Aware that Greece needs bail-out funds ahead of a bond redemption due on December 19, Eurozone leaders decided to suspend an (overdue) tranche of € 8 bln of aid until Greece had met all the conditions being asked of it, now including a positive outcome of the referendum. Reacting to this strong pressure from the likes of France and Germany, Greek PM Papandreou agreed on Wednesday to bring forward the planned referendum to as early as December 4, also suggesting that the referendum would be about Greek continued membership of the Eurozone rather than merely the € 130 bln rescue plan agreed after painstaking negotiations at the EU summit last week.

Greek politics looking much messier

Obviously, PM Papandreou is banking on winning a referendum given that opinion polls suggest the Greek electorate is still very much in favor of euro membership, however much it may bridle at the austerity being foisted in it. However, there are growing signs that the referendum will not take place, with key members of the Cabinet, including Finance Minister Venizelos, now questioning whether Greece should put Eurozone membership up for a vote. All of which may be symptomatic of the growing splits within the Government, and the unpopularity of the PM, which may mean that the scheduled parliamentary confidence vote for the Government due late this Friday may be lost. If so, a general election would be triggered, with the referendum put into abeyance. Either way, it seems that the Greek electorate will be casting votes in the not-so-distant future.

If so, the hope would be that a government of national unity would emerge. However, the divides between the current Government and the opposition parties are huge, with the added problem, especially given the ever more urgent financial timetable, being that the latter want to renegotiate the existing bail-out terms. In addition, public frustration with the current political backdrop (neither the current government nor the main opposition party are each able to garner much more than 20% in opinion polls), may mean that neither a general election or a referendum produces a decisive result one way or the other as the electorate refuses to vote in necessary numbers: NB a 40% turn-out may be needed to legitimize any referendum result.

Neither referendum nor election may resolve political limbo

As a result, whether a referendum or election occurs in the next month, the political backdrop may remain in limbo, leaving the country without the bail-out funds it needs by December 19, meaning that a default would then seemingly occur. Whether a default would automatically mean a Euro-exit for Greece is unclear, however. Regardless, it also means that the political chaos that has emerged of late may come to rival that of the current economic and fiscal disorder. This would be especially so as neither potential vote is likely to quell the public protests that have intensified in regard to the cuts and reform measures not just from the likes of trade unions, but the actual civil servants who are supposed to implement them. All of which underscores something that has been evident for some time, ie there are not just major question marks about the ability of Greece to service its debt, but also its intrinsic willingness to service its debt.

Maybe these risks are now being acknowledged more openly by the rest of the EU, with Eurogroup Head Juncker openly admitting that the EU is absolutely prepared for the possibility of Greece leaving the Eurozone. Indeed, given the contagion risks that are being seen through much of the rest of the Eurozone, political leaders may now be

of the view that the € 200 bln-plus currently earmarked for bailing out Greece in coming years could be put to much better purposes.