Greece Is In Trouble Again: Bonds, Stocks Plunge As Bailout Talks Collapse; IMF Sees "Explosive" Debt

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It may - or may not - shock readers to learn that Greece is once again on the verge of collapse.

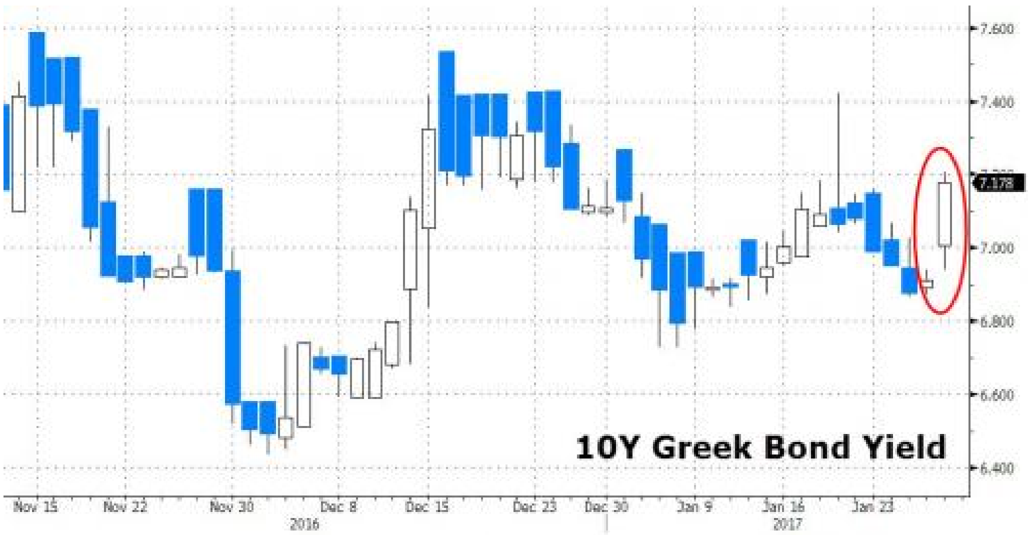
10-year bond yields shot up and stocks tumbled on Friday, a day after euro zone finance ministers acknowledged the country's fiscal progress but once again failed to break an impasse with the IMF over the country's future bailout targets. Early on Friday morning, the greatest Greek nemesis alive, and surely in the afterlife, German Finance Minister Wolfgang Schaeuble said that Greece's creditors won't unlock further financial aid to the country unless the government meets its reform promises, which he said it hasn't done yet.

Two years after its third bailout, Athens and the Troika, or is that Quadriga, i.e., its European and IMF creditors, are still at odds over the fiscal goals Greece can achieve after 2018, when its third rescue programme ends. According to Reuters, the talks have dragged on for months, hindering the conclusion of a bailout review that would help Athens qualify for inclusion in the ECB's much desied bond-monetization programme and return to bond markets as early as this year.

And, yes, the ongoing disagreements have rekindled fears of a new crisis in Greece, which never really emerged from any of the previous ones, which was forced to sign up to another bailout in July 2015 in order to stay in the euro zone.

Worse, hinting that there may not be a 4th bailout simply because the Greek people will snap by then, the Greek parliament's budgetary office warned on Friday that "the fiscal cost of the delays may prove bigger than the benefit of a deal".

Greek 10-year bond yields rose by 21 basis points on Friday, while stocks were 3 percent down. Which means that in the Greek market where an occasional trade takes place once a week, someone sold an oddlot.



"The outcome was tougher than what the market had hoped for," Beta Securities analysts Takis Zamanis told Reuters.

There was some good news for Greece, now in its 7th years of economic depression, when European Commission Vice President Valdis Dombrovskis said that Greece outperformed its fiscal targets last year and was on track to meet its 2018 primary surplus target of 3.5 percent of economic output. **But he added that more discussions were needed on the fiscal trajectory thereafter and on measures which might be needed and would be implemented only if Greece missed its targets**.

In other words, back to square one.

The IMF, which participated in two Greek bailout programmes but is so far only an observer in the current one, says Athens can only achieve a surplus of 1.5 percent of gross domestic product in 2018 unless it adopts more measures now and is granted more debt relief.

The IMF also was the source of bad news, reporting that Greece's debt is "highly unsustainable" and will reach 275% of GDP - this is after it has been "reprofiled" three times already - by 2060 unless the country's loans are significantly restructured, according to a draft confidential review of the country's economy. Without prior bailouts, Greek debt/GDP would be between 400% and 500% as of this moment.

The assessment, prepared ahead of an IMF board meeting on Feb. 6 and seen by The Wall Street Journal, was significantly more pessimistic than that of Greece's eurozone creditors and underscores the difficulty of the fund moving ahead with a new bailout for Greece in the near future.

Under the draft review, which comes as Athens and its creditors once again failed to find an "austerity" solution, **debt is projected to reach around 160% of GDP by 2030 but "become explosive thereafter." Under the same scenario, debt is seen reaching as much as 275% of GDP in 2060**.

> *The assessment presents a contrast with the eurozone's own forecasts. An official eurozone analysis in May projected debt-to-GDP of 104.9% in 2060, under a baseline scenario in which Greece fully implements its bailout program. Eurozone governments are resisting the IMF's push for more debt forgiveness that will come largely at their expense.*
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> *"Greece cannot be expected to grow out of its debt problem, even with full implementation of reforms," the IMF says, adding that the country needs significant debt relief from its European partners to ensure the debt load is sustainable.*
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> *The draft review says that measures agreed by the eurozone in May to ease Greece's debt load need to be further specified, and that "ambitious extensions of grace and maturity periods, a full deferral of interest on European loans, as well as a locking in of the interest rate will be needed" to put debt on a sustainable path.*

Meanwhile, "The pressure is on for the Greek government following yesterday's Eurogroup meeting, since it did not receive substantial support, not even by the supportive EU Commission," Axia Ventures Group said in a morning note. Greece's leftist-led government, which is sagging in opinion polls, is refusing to adopt more austerity measures, saying the country is delivering on its bailout promises.

And so, the impasse will go on until Greece either runs out of money again leading to the next social crisis and bailout, or until either China or Russia acquires it in bankruptcy auction, or the Turks invade.

With The Greek Crisis Back, There Are Five Possible Scenarios From Here

zerohedge.com/news/2017-02-01/greek-crisis-back-again-again-here-are-five-endgame-scenarios

As discussed last Friday, Greece is back in the public spotlight and - hardly surprising - it is once again on the verge of collapse. Greek yields surged in the past week as the country didn't secure a positive review at the Eurogroup on 26 January. Additional noise came from indications that the IMF still views the Greek debt as unsustainable without further measures from the Greek government (the term was "explosive"), as well as additional debt relief clarifications from European creditors.

So is a rerun of the summer of 2015 inevitable? According to Credit Suisse's Giovanni Zanni, the most likely outcome - for now- is an amicable, and quick, resolution. However the longer nothing substantive changes, the more likely it is that the 4, far less pleasant scenarios, kick in.

While it is difficult to attribute a specific probability to each of those, they are ranked them below by the most to the least likely. These scenarios should also provide a roadmap for investors in the process of assessing when risks could increase and when they could die down: as a rule of thumb, we would expect a sell-off to be ongoing until the next "node", unless the tension is released by some form of agreement, which we still believe will come at some point in the coming months. In the absence of any deal, market stress is likely to steadily increase ahead of large Greek bond redemptions, in particular those in late July, with a calendar pretty similar to that of 2015. But while we expected at the time that a solution would have come very late in the game (in July, precisely), this time the base case scenario is for a quicker resolution.

Here are the five possible scenarios from the Swiss bank:

- **Scenario 1:Quick resolution (in the coming days)**

The Greek government is reportedly trying to find an agreement, providing a series of measures that should be largely compliant with the creditors' requests and are crafted in a way that should be sufficient to convince the IMF to agree to continued participation in the programme. There is a key IMF meeting on 6 February: if the measures are accepted then it should open the way for a successful completion of the review on 20 February by the Eurogroup. This, in our view, would also set in motion a clarification of the medium-term relief measures (after 2018) to be granted, conditionally, to Greece. And from there the Debt Sustainability Analysis of both the IMF and the ECB should reinforce Greece's position and allow the European Central Bank to include GGBs in its

QE program.

That is clearly the positive scenario – and the most optimistic in the timing (e.g., it might still happen as above, broadly speaking, but delayed by a few days or weeks, clearly) – but we still think it can happen, with a decent probability. This would lead in all likelihood to a prompt reversal of the spread widening seen in recent weeks, and to further convergence ahead – especially if and when the participation of GGBs in ECB's QE is announced.

The other four (less positive to outright negative) scenarios are discussed overleaf.

- **Scenario 2: "We need more time" (March-April)**

There is a fundamental "irreconcilable trinity" between the views of the IMF, that of European creditors and those of the Greek government: at the cost of oversimplifying, Greeks want less reform, more debt relief, and would prefer a lower primary surplus target; the IMF would like more structural reforms, more debt relief from European creditors, and lower primary surpluses – expecting Greece to deliver primary surpluses at 3.5% of GDP for the foreseeable future is seen as unrealistic; finally, European creditors are relatively agnostic on reforms, want ideally as little debt relief as possible, and prefer higher primary surpluses to fill the debt sustainability gap. It is not clear that these differences can be resolved, effortlessly, in a short period of time – it might still require a further layer of negotiations and developments. Still, there is some kind of "political imperative", we believe, with indeed the preference by all to close the negotiations ahead of at least the French elections, in order not to poison further the European political debate. As such, a decision might eventually be pushed through next month or in April, at the latest, if disagreements are not too extreme.

- **Scenario 3: brinkmanship (July)**

This scenario would mimic the events of 2015, when the confrontation was pushed to the limit of default from the Greek side, in the hope of getting the best possible deal. In our view, that strategy didn't work for Greece and created uncertainty and another recession in that year. As such, we struggle to see this strategy as intentional this time – but it could end up being the default option in the absence of an agreement under scenarios 1 and 2 and in the context of elections and events in the rest of Europe diverting the focus on Greek matters.

- **Scenario 4: Early elections (before the summer)**

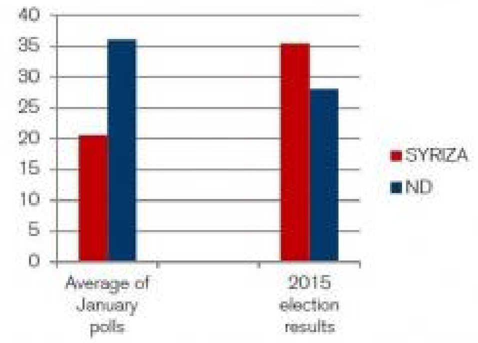
Early elections cannot be discarded, if a satisfactory agreement is not found in the coming two to three months. It is likely that most MPs dislike this option, as early elections would likely see several in the majority losing their seats: current polls suggest a very strong preference for the center-right opposition (New Democracy), as we show in Figure 6. However, it would be a way to preserve an "anti-system" role to the ruling party, Syriza, with the aim and hope to return in government at a (not too) later stage, in a new election round. From a market perspective, early elections would clearly be a negative, short term, but we also stress that the likely victory of the centre-right would be probably seen as a positive medium-term outcome.

- **Scenario 5: Grexit? Oh pleeease!**

SYRIZA parliamentary spokesman Nikos Xydakis said earlier this week that a debate about Greece's membership of the euro should not be taboo, seemingly reopening the discussion on Greece's EU membership. We have debated this issue at length in the past, and believe it wouldn't make sense for Greece to leave – and actually it is already damaging for the country to even discuss it. The opposition was quick in criticising Mr Xydakis and there is clearly no support in the parliament for it and even less so in the country (Figure 7).

Figure 6: Political polls

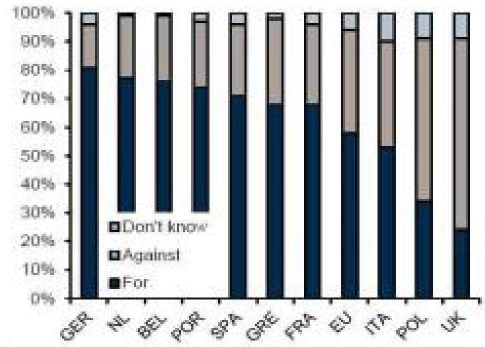
Main parties, Syriza (left) and New Democracy (ND, center-right)



Source: Several national pollsters, Credit Suisse

Figure 7: Greek support for the euro at 68%

Eurobarometer survey



Source: Eurobarometer (November 2016), Credit Suisse

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Finally, here is a timeline of next events:

Below, we provide a timeline of key relevant dates and events in the coming months. There is an immediate set of events (in February) that could resolve the issues and make the programme progress swiftly. If not in February, there are several intermediate dates that could still deliver an agreement, although at a later stage, most likely around the scheduled Eurogroup meetings – although an extraordinary gathering to approve the bailout happened in the past and cannot be discarded**. July 17 – or 20 – would be the "hard" deadline, as Greece would be, same as in July 2015, unable to repay those amounts without additional support under the EU/IMF programme**. There are earlier relatively large redemptions, notably in late February and in April – but we believe there is probably room in Greece's public finances to fulfill those commitments.

Figure 1: Timeline of key events

6 Feb	IMF executive to be presented with evidence on Greece, in order to decide to join the rescue programme
20 Feb	Eurogroup
20 Mar	Eurogroup
7 Apr	Eurogroup
22 May	Eurogroup
15 Jun	Eurogroup
17 Jul	€2bn redemption of bonds issued by Greece to private investors
20 Jul	€4bn redemption of bonds held by ECB/Eurosystem exempted from the 2012 default

Source: Credit Suisse