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## FROM #GREXIT TO #AGREEMENT: scenarios in the Greek crisis

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The ups and downs of the Greek crisis have led to the discussions on the country coinciding with the “Five Presidents’ Report” on how to complete the Economic and Monetary Union. This pits negotiations that change by the minute against a report focussed on the long term, though the destinies of both are strongly linked. On the one hand, the latest meetings of the Eurogroup have revealed that political agreement could be a matter of hours away, provided that the Greek government’s proposals are refined at a technical level and the current levels of distrust do not undermine the need for agreement.

On the other hand, the report published on June 22nd by the presidents of the European Commission, Council, Central Bank and Parliament put a set of measures for confronting the eurozone’s deficiencies on the table. But they will be impossible without a short-term solution to the Greek crisis. The proposals to move forwards with economic union, fiscal union or even the future naming of a “minister of the eurozone” would fall on stony ground if the feared *Grexit* materialises. The survival of Greece in the eurozone and the necessary reforms to the EMU depend on the developments prior to June 30th, when the second bailout payment is due to be repaid and Greece must return a total of €1.6bn to the IMF. From more to less probable, the following are the possible scenarios in a crisis in need of an immediate outcome:

### 1. “aGrecement”

Unless European leaders’ mutual resentment prevents it, the agreement in Greece would open the door to the stabilisation of the Greek economy, bringing a greater degree of control to the European institutions and creditor countries but also the security provided by an extension of the credit schemes. If an “aGrecement” is reached, Tsipras will need a positive vote in the Greek parliament either through the approval of his current majority or thanks to the vote in favour of the country’s more pro-European parties. In the end, for the agreement to be seen as a good one by public opinions in both the creditor countries and Greece will depend on nobody feeling that they have given too much ground in the negotiations.

In the best of all cases, the achievement of the *aGrecement* would allow the EU to begin negotiations on an in-depth reform of the eurozone including a large

number of the five presidents' proposals. In a climate of political understanding, the eurozone countries would be in a better position to discuss the basic pillars of the report, which include: advances on economic integration (in terms of competitiveness, employment and the coordination of economic policies), on the financial union (the single supervisory mechanism and deposit insurance) and on the fiscal union (creation of a strategic investment fund). In addition, this nucleus of the integration project would be better placed to advance in other areas of the political union, such as questions of legitimacy, institutional strengthening of the eurozone and democratic accountability (such as, for example, the creation of a eurozone parliament or a common treasury). The nucleus formed around the eurozone could also strengthen its political understanding in order to face up to other challenges of European disintegration, such as the "*Brexit*".

## **2. "Muddling through"**

This expression is often used to express the political ups and downs of the Greek crisis. In this scenario the actors involved could opt to postpone the definitive solution to the Greek crisis until at least June 30th. Beyond that, in the period from June 30th to July 20th (the date payment of European Central Bank bonds of more than €3.5bn is due), Greece may need to declare a default on a good part of the ECB loans. This would leave the bank with the difficult decision of whether to maintain its credibility by imposing conditions on its loans or to turn a blind eye in order to keep Greece afloat. This third scenario would increase the unease of those who support the independence of the ECB and would postpone the political agreement necessary to undertake further-reaching reforms. The discussions on the five presidents' report would then fall by the wayside until at least the next "deadline" in the Greek crisis.

## **3. "Grexit"**

This is the most unlikely scenario but also the most feared, given the resentment that prevails in the negotiations and the difficulty of anticipating the financial, economic and political consequences of Greece leaving the eurozone. Following the reforms made by other countries and the mechanisms set up to contain the crisis (among them the Stability Mechanism), some financial analysts consider that the risk of contagion from the Greek crisis to other economies has notably fallen. The domino effect might be more limited today than in previous years, but the political consequences of the *Grexit* would be considerable.

At a political level, Greece leaving the eurozone would be a significant blow to the idea that there is no turning back in the integration process. It would mean that membership of the eurozone is no guarantee of forming part of the hard core of the European integration process. Furthermore, a Greek exit would encourage the debates on how irrevocable Greece's membership is of the European Union as a whole, as the treaties are unclear on the mechanism for leaving the eurozone without also leaving the EU (while article 50 of the EU Treaty stipulates the conditions for a state leaving the EU, no similar article exists in the chapter devoted to the eurozone). If Greece leaves the euro but remains part of the EU they would become a difficult partner with whom to negotiate any other aspect of European policy. But if in the end the *Grexit* is accompanied by Greece leaving the EU, the consequences would go far beyond the loss of credibility to the European integration project, and would include Greece's possible geopolitical rapprochement with other global powers such as Russia, who would use this to put one foot in the south of Europe and in the Mediterranean.