

GREECE VOTES NO – LET THE CHAOS BEGIN

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The result of the referendum in Greece is a great victory for freedom, but it is also threatens to unleash unprecedented economic chaos all across Europe. With almost all of the votes counted, it is being reported that approximately 61 percent of Greeks have voted “no” and only about 39 percent of Greeks have voted “yes”. This is a much larger margin of victory for the “no” side than almost everyone was anticipating, and it represents a stunning rejection of European austerity. Massive celebrations have erupted on the streets of Athens and other major Greek cities, but the euphoria may not last long. Greek Prime Minister Alexis Tsipras is promising that Greece will be able to stay in the euro, but that gives EU bureaucrats and the IMF a tremendous amount of power, because at this point the Greek government is flat broke. Without more money from the EU and the IMF, the Greek government will not be able to pay its bills and virtually all Greek banks will inevitably collapse. Meanwhile, the rest of Europe is about to experience a tremendous amount of pain as financial markets respond to the results of this referendum. The euro is already plummeting, and most analysts expect European bond yields to soar and European stocks to drop substantially when trading opens on Monday morning.

Personally, I love the fact that the Greek people decided not to buckle under the pressure being imposed on them by the EU and the IMF. But amidst all of the celebration, the cold, hard reality of the matter is that your options are extremely limited when you are out of money.

How is the Greek government going to pay its bills without any money?

How are the insolvent Greek banks going to operate without any money?

How is the Greek economy going to function without any money?

Now that the Greek people have overwhelmingly rejected the demands of the creditors, it will be very interesting to see what the EU and the IMF do. Prior to the referendum, European leaders were insisting that a “no” vote would put an end to negotiations and would force Greece to leave the euro.

Now that the results are in, are they going to change their tune? Because the ball is definitely in their court.

“This does two things: it legitimises the stance of the Greek government and it leaves the ball in Europe’s court,” ANZ Bank analysts said in a note.

“Europe either folds or Greece goes bankrupt; over to you Merkel.”

So would they actually let Greece go bankrupt?

It is going to be fascinating to watch what happens over the next few days. Right now, Greek banks are on

life support. If the European Central Bank decides to pull the plug, they would essentially destroy the entire Greek banking system. The only thing that can keep Greek banks alive and kicking is more intervention from the ECB. The following comes from the New York Times.

Now that Greek voters have said no to the economic demands of its international creditors, the fate of the country’s struggling banks is in the hands of the European Central Bank.

Greece’s banks, closed since last Monday because they are perilously low on cash, have been kept alive in recent weeks by emergency loans from the European Central Bank. **On Monday, the central bank’s policy makers plan to convene to determine how much longer they are willing to prop up the Greek banks, now that the country has essentially said no to the unpopular dictates of the other eurozone countries.**

Of much greater concern to the rest of the world is how financial markets are going to respond to all of this. As I write this article, things already appear to be unraveling. The following comes from CNBC.

Germany’s Dax is indicated sharply lower from Friday’s close at around 4 percent, while the euro was down 2 percent against the yen as the news emerged. U.S. stocks are expected to open around 1 percent lower Monday, according to recent stock futures data.

What could be most important for those worried about contagion from the Greek crisis is how Portuguese, Spanish and Italian government bonds perform in Monday morning trade.

If these peripheral euro zone countries, often lumped in with Greece, suffer a sharp spike in yields, this could cause alarm about whether Greece leaving the currency might cause further contagion to other weaker euro zone economies.

This could potentially become a “trigger event” that unleashes a wave of financial panic all over Europe. And once financial panic begins, it is very difficult to end.

If the EU and the IMF want to avoid a crisis, they could just give in to the new Greek government. But that would be politically risky for certain high profile European leaders. For instance, Angela Merkel would face a huge backlash back home if she conceded to the new Greek government now. And other German leaders are already calling the referendum result a “disaster”.

German politicians branded the result a ‘disaster’, with the country’s economy minister Sigmar Gabriel Sigmar accusing Tsipras of ‘tearing down the last bridges on which Greece and Europe could have moved towards a compromise’.

He added: 'Tsipras and his government are leading the Greek people on a path of bitter abandonment and hopelessness.'

And the president of the European Parliament, a German, told a German radio station over the weekend that a "no" vote would almost certainly mean that the Greeks will be forced out of the euro.

"If after the referendum, the majority is a 'no,' they will have to introduce another currency because the euro will no longer be available for a means of payment," Martin Schulz, European Parliament president, said on German radio.

That is pretty strong language, eh?

Here is yet another quote from Schulz.

"Without new money, salaries won't be paid, the health system will stop functioning, the power network and public transport will break down, and they won't be able to import vital goods because nobody can pay," he said.

So at this point it is all up to the EU and the IMF, and in particular the focus will be on the Germans.

What will they decide to do?

Will they give in, or will they force the Greeks to leave the euro?

If the Greeks do transition from the euro to a new currency, it will be a process that takes months (if not longer). You just can't change ATMs, computer systems, cash registers, etc. overnight. So a move to the drachma would not be as simple as many are suggesting.

British firms like De La Rue, which prints 150 currencies worldwide, are believed to have been contacted with a view to providing such services.

It's done in great secrecy to prevent currency speculation. **The other big problem is the logistical challenges of switching a currency. All ATMs,**

computers and other machinery of commerce that bears the euro symbol will have to be adjusted. It could, and would, take months.

And if Greece does leave, it will be a massive shock for global financial markets. Faith in the European project will be shattered, the euro will drop like a rock, bond yields all over the continent will rise to unsustainable levels and major banks all over Europe will fail.

I think that the following quote from Romano Prodi sums things up quite well.

Romano Prodi, former chief of the European Commission and Italy's ex-premier, said it is the EU's own survival that is now at stake as the botched handling of the Greek crisis escalates into a catastrophe. **"If the EU cannot resolve a small problem the size of Greece, what is the point of Europe?"**

Meanwhile, we should all keep in mind that a financial crisis has already erupted over in Asia as well. Chinese stocks have lost 30 percent of their value in just the last three weeks. In fact, the amount of "paper wealth" wiped out in China over the past three weeks is approximately equivalent to "10 times Greece's gross domestic product".

A dizzying three-week plunge in Chinese equities has wiped out \$2.36 trillion in market value — equivalent to about 10 times Greece's gross domestic product last year.

The great financial collapse of 2015 is well underway, and it should be a very interesting week for global markets.

But no matter what happens this week, we all need to keep in mind that this is just the tip of the iceberg.

A "perfect storm" is on the way, and we all need to get prepared for it while we still can.