



**Infomail**

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## Achilles Heel

*"The problem with socialism is that you eventually run out of other people's money"*

Margaret Thatcher

As told in Homer's Iliad, Greece was once known for its fierce determination in war. In current history, Greece is fighting a battle which it will lose, regardless of the outcome.

The country has used every trick possible to avoid facing the inevitable from delays, renegotiations, elections and even demanding reparations for Nazi atrocities; having openly said they refuse to be a colony to the Euro continent and Germany. The reality is Greece allowed itself to become a vassal state a long, long time ago.

Greece has proven Margaret Thatcher right and now that they have run out of money (and other people's money!), the question is, what comes next?

The numbers are astounding.

Greece has a population of approximately 11 million people. The Greek government has more than 315 Billion Euros in general debt, which is 174% of 2014 GDP, and approximately \$40,000 Euros per citizen (source: Bloomberg.com).

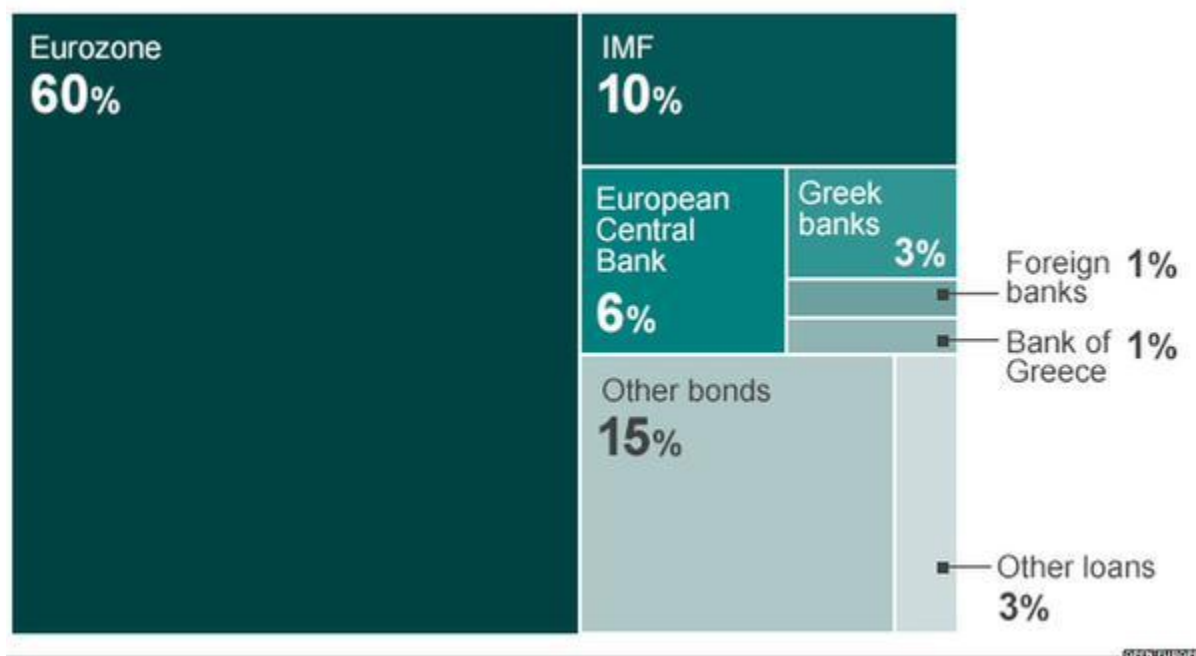
With respect to the Greek banking system, the ECB reports that at the end of April, total deposits at Greek banks stood at approximately \$139 billion, down from \$162 billion at the end of Q3 2014. Worse still, back in 2009 the Greek banks held a bit more than \$245 billion in deposits. It will get worse.

The country has already taken some serious hits via austerity measures needed for the last series of bailouts, but now the Greeks are saying, "no

mas.” Furthermore, their recently elected government has talked tough, when in reality they do not have any leverage.

The thing is, a lot of countries, including Ireland, Spain and Portugal, had to swallow their pride and make sacrifices for bailouts, which may explain why those nations (and Germany) continue to play hardball in negotiations with the Greeks. Those other nations have so far lived up to their obligations and now unemployment is turning lower, and in the case of Ireland, even issued a tax cut in its 2015 budget.

The question often arises, who exactly does Greece owe?



The chart above makes it clear that Greece is indebted to almost everyone, but especially to Europe in its various forms.

The next several days and maybe weeks will continue to be a dance between the Greeks and those to whom the money is owed. The sums involved are a considerable sum, but I would suspect the markets are ready for a Greek default. The real risk is if contagion sets in and spreads to the other Euro economies which are still stretched and which may follow suit.

In fact, Greece is far less relevant than seven years ago, underscored by the vast gap between their bond yields and the other potential “risks” in recent yields:

### Ten Year Yields

Greece	10.36
Portugal	2.38
Spain	1.41
Ireland	1.20
United States	2.14

As much as Germany, being a huge exporting nation, would like for Greece to remain in the EU to keep the Euro at depressed levels, I would suspect that it is inevitable that Greece has to go on its own as they are simply in too deep.

Whether they stay in the EU or not, it will most likely be a very painful period for many years to come. Not even a hero from Greek mythology can get them out of this mess.

Stay tuned,

Vito Finucci  
Vice President and Director  
Investment Advisor

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