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### **Greek tragedy leaves market gloom at centre stage**

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In a Greek tragedy, the sad outcome is generally an inevitable result of the main character's personal flaws or shortcomings. He or she is doomed to disaster from the outset.

In the case of the real life Greek tragedy that the whole world is currently experiencing, it is too harsh to say that Greece was doomed to disaster, but its entry to the European Union just might have been.

The pessimism of financial markets over the past three months can largely be explained by European events.

This week, all eyes have been focused on the Greek government's ability to pass a €78 billion austerity package through parliament in the face of strong opposition from politicians and the public alike. Regardless of the outcome, the medium term future for Greek citizens is tragic, and other members of the European Union have been trying to help their fellow cast member while avoiding a similar fate themselves.

It says something about the interconnectedness of the world that a country representing just 0.5% of global GDP should have the economic leaders of the largest nations quivering in anticipation.

The consequence of Greece not accepting the austerity package is not that significant in the scheme of things. Greece would default on its loans, which some argue is an inevitable outcome anyway given that the country is weighed down with €350 billion of debt. A default would mean that Greece will suffer a prolonged recession, feeble economic prospects, joblessness, and a lower standard of living.

But actually, Greece has been suffering this fate already, despite the bailout it received a year ago.

Financial markets and Greece's European siblings could cope with a Greek default. What they can't cope with is a contagion effect where other smaller, debt-laded members of the European Union suffer the same fate.

If Spain or Italy were to default, and this could happen following a Greek default because nobody would want to continue funding these indebted nations in case it was their turn next, the whole European Union would be shaken to its core and may need to be dismantled.

Not only that, but a lot of countries own Greek debt and they don't want to take a bath. Germany has lent €26.3 billion to Greece, France has lent just under €20 billion, other Eurozone countries have lent €16 billion and the US, Italy and the UK each have around €2.5 billion exposure to Greece.

The Greek situation has highlighted the fragility of the European Union – Greece continues to be naughty but nobody wants to kick her out because that would undermine all those who are left. It has also provided a glimpse of what most of the developed world might expect to experience at some stage in future decades if they don't get their debt under control.

Perhaps that is why markets have given so much credence to what is a relatively minor player. In this instance, the rest of the world is happy to stay backstage and let the main character face the music.

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