Greece's debt crisis explained

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GREECE, the weak link in the eurozone, is inching closer to defaulting on its debt. The country has been in a long standoff with its European creditors on the terms of a multibillion-dollar bailout. If the country goes bankrupt or decides to leave the 19-nation eurozone, the situation could create instability in the region and reverberate around the globe.

What's the latest?

The country missed a Tuesday deadline to repay roughly 1.6 billion euros, or $1.8 billion, to the International Monetary Fund.

Hours before the deadline for the payment, Prime Minister Alexis Tsipras asked the other nations that use the euro to provide another bailout, which would buy time for Athens to renegotiate its crippling debt load.

Chancellor Angela Merkel of Germany said earlier in the day that no deal with Tsipras's government could be negotiated until after a Greek referendum scheduled for Sunday. Greek voters will be asked to accept or reject an offer made last week by the country's creditors.

Did Greece default on its debt?

The International Monetary Fund did not use the term default after Greece missed its payment deadline. The fund instead placed the country in so-called arrears.

Credit-rating agencies will not consider Greece to be in default based on missing the IMF payment, for the technical reason that the IMF is not considered a commercial borrower. But the ratings agency Standard & Poor's did say Tuesday that it would designate Greece as being in default if the country cannot make payments to private creditors, like €2 billion in Greek Treasury bills that are due on July 10.

Regardless of the country's technical status, missing the payment will most likely prove to be a warning that Greece will probably be unable to meet its other obligations in coming weeks to its bond holders and to the European Central Bank. That might make the central bank less willing to continue emergency loans that have been propping up the Greek banking system for the past several weeks.

What happens next?

That's the billion-euro question.

Sunday's referendum will test whether Greek citizens want to stay in the eurozone. New elections could also be held if Greece's financial situation worsens. Or Greece could test the willingness of Russia or China to help should talks with Europe falter.

Some people are now saying that the real deadline is late July, after all the warnings that Tuesday was the make-or-break day. July is when Greece owes the European Central Bank a 3.5 billion euro payment. If there is no international bailout programme in place by that time, and little chance of such a programme being in the works, the central bank at that point would probably have to finally take Greek banks off life support.

AFP

The manager of a National Bank branch delivers priority numbers to pensioners, as banks only opened for the retired to allow them to cash up to 120 euros in Athens yesterday.

How does the crisis affect the global financial system?

Since Greece's debt crisis began in 2010, most international banks and foreign investors have sold their Greek bonds and other holdings, so they are no longer vulnerable to what happens in Greece. (Some private investors who subsequently plowed back into Greek bonds, betting on a comeback, regret that decision.)

And in the meantime, the other crisis countries in the eurozone, like Portugal, Ireland and Spain, have taken steps to overhaul their economies and are much less vulnerable to market contagion than they were a few years ago.

Debt in the European Union

What's more, the European Central Bank has erected powerful firewalls, by buying huge amounts of eurozone government bonds and by promising to purchase more if needed, making governments less subject to market whims.

Still, Greece may be linked to the world financial system in ways that may not be evident until it defaults on its debts or its banks collapse. So there is still potential for serious, unpredictable consequences.

What will a referendum do?

Prime Minister Alexis Tsipras of Greece surprised the rest of Europe over the weekend by calling for a referendum that will ask voters whether to accept terms put forth last week by eurozone creditors — terms he says are unacceptable.

So far, the creditors have refused to grant an extension of the current bailout program beyond Tuesday. Without that extension, Greece has no chance to receive the €7.2 billion remaining in the current program. (The conditions under which Greece might get that money are what the months of fighting have been about.)

Any arrangement with Greece after the referendum would, as a legal matter, require new negotiations and a new programme.

On Monday, Jean-Claude Juncker, the president of the European Commission, who has acted as a broker in the negotiations, called for Greek voters to accept the terms of the deal. That suggested Juncker would lay the groundwork for a resumption of talks on aid to Greece, which might eventually include discussions to meet Greek demands to lower the country's debt.

What's happening at Greece's banks?

Greek banks are solvent on paper, but lending is practically at a standstill and they are not able to play the role they should in financing the economy.

On Sunday, the European Central Bank capped its emergency credit line for Greek banks at €89 billion. Most if not all of that money has already been used to cover withdrawals by customers, and there is virtually no money available for new loans.

Banks may open their doors next week, but it is very unlikely they will be operating normally for some time to come.

After Cyprus's banking system collapsed in 2013, it took two years for the Cypriot government to completely remove restrictions on bank transfers. And Cyprus had a eurozone bailout program in place — which Greece, after Tuesday, probably will not.

And if a Greek bank goes bust, it could create havoc in the financial markets, because Greece has not yet put in place European rules for the orderly shutdown of failed banks.

How likely is there to be a 'Grexit'?

At the height of the debt crisis a few years ago, many experts worried that Greece's problems would spill over to the rest of the world. If Greece defaulted on its debt and exited the eurozone, they argued, it might create global financial shocks bigger than the collapse of Lehman Brothers did.

Now, however, some people believe that if Greece were to leave the currency union, known as a "Grexit," it wouldn't be such a catastrophe. Europe has put up safeguards to limit the so-called financial contagion, in an effort to keep the problems from spreading to other countries. Greece, just a tiny part of the eurozone economy, could regain financial autonomy by leaving, these people contend — and the eurozone would actually be better off without a country that seems to constantly need its neighbours' support.

Others say that's too simplistic a view. Despite the frustration of endless negotiations, European political leaders see a united Europe as an imperative. At the same time, they still haven't fixed some of the biggest shortcomings of the eurozone's structure by creating a more federal-style system of transferring money as needed among members — the way the United States does among its various states.

Exiting the euro currency union and the European Union would also involve a legal minefield that no country has yet ventured to cross. There are also no provisions for departure, voluntary or forced, from the euro currency union.

Investors may also still be betting that Greece will reach a deal with creditors before or after the referendum, particularly because polls indicate the majority of Greeks favour sticking with the euro.

How did Greece get to this point?

Greece became the epicentre of Europe's debt crisis after Wall Street imploded in 2008. With global financial markets still reeling, Greece announced in October 2009 that it had been understating its deficit figures for years, raising alarms about the soundness of Greek finances.

Suddenly, Greece was shut out from borrowing in the financial markets. By the spring of 2010, it was veering toward bankruptcy, which threatened to set off a new financial crisis.

To avert calamity, the so-called troika — the International Monetary Fund, the European Central Bank and the European Commission — issued the first of two international bailouts for Greece, which would eventually total more than 240 billion euros, or about $264 billion at today's exchange rates.

The bailouts came with conditions. Lenders imposed harsh austerity terms, requiring deep budget cuts and steep tax increases. They also required Greece to overhaul its economy by streamlining the government, ending tax evasion and making Greece an easier place to do business.

If Greece has received billions in bailouts, why is there still a crisis?

The money was supposed to buy Greece time to stabilise its finances and quell market fears that the euro union itself could break up. While it has helped, Greece's economic problems haven't gone away. The economy has shrunk by a quarter in five years, and unemployment is above 25 percent.

The bailout money mainly goes toward paying off Greece's international loans, rather than making its way into the economy. And the government still has a staggering debt load that it cannot begin to pay down unless a recovery takes hold.

Many economists, and many Greeks, blame the austerity measures for much of the country's continuing problems. The leftist Syriza party rode to power this year promising to renegotiate the bailout; Tsipras said that austerity had created a "humanitarian crisis" in Greece.

But the country's exasperated creditors, especially Germany, blame Athens for failing to conduct the economic overhauls required under its bailout agreement. They don't want to change the rules for Greece.

As the debate rages, the only thing everyone agrees on is that Greece is yet again running out of money — and fast.

REUTERS

Hugo Barra, vice president for international operations at Xiaomi, poses at a news conference in Sao Paulo, Brazil on Tuesday.

Xiaomi takes first big step outside Asia with Brazil smartphone

REUTERS, *Sao Paulo*

Chinese smartphone maker Xiaomi has started making devices in Brazil for sale locally, promising to dramatically undercut rivals on price in the first big step beyond Asia for the world's most valuable technology start-up.

Xiaomi's global vice-president, Hugo Barra, said in an interview on Tuesday that Brazil was "stage one of our Latin America launch," pointing to Mexico and Colombia as logical next steps in the region, although he declined to say when.

Without traditional advertising or stores, China's top-selling smartphone company is betting that a tempting price tag will capture the attention of Brazilians who have become increasingly cost sensitive as their economy sours.

"We offer high-quality products at incredibly aggressive prices, so we're starting with larger developing markets where people are very price-sensitive," Barra told Reuters.

At a launch event earlier in the day, he announced that the entry-level Redmi 2 smartphone would go on sale in Brazil next week for 499 reais ($160).

China parliament ratifies BRICS Bank agreement

REUTERS, *Beijing*

China's largely rubber-stamp parliament ratified an agreement with the world's largest emerging nations on Wednesday to create a new development bank, state news agency Xinhua reported.

The New Development Bank, also known as the BRICS Bank, is one of two international development banks that China is promoting as an alternative to western institutions such as the World Bank.

The Standing Committee of the National People's Congress, China's legislature, approved the agreement between Brazil, Russia, India, China and South Africa to create the bank, Xinhua said.

China has pledged to contribute a total of $41 billion to the bank, giving it the largest voting right at 39.5 percent.

India working on package to help ailing state-run banks

REUTERS, *New Delhi*

India is drawing up a comprehensive package to help state-run banks, Minister of State for Finance Jayant Sinha said on Wednesday, as part of efforts to nurse them back to health and improve the flow of credit to industry.

State lenders, which dominate India's banking system, were hit hard by a surge in bad loans after a slowdown in economic growth following the 2008 global financial crisis.

Stress tests carried out by the Reserve Bank of India (RBI) showed that gross non-performing assets (NPAs) as a ratio of total loans could rise to 4.8 percent by September from 4.6 percent in March, before dipping to 4.7 percent by March 2016.

The last week blamed rising bad loans for making lenders reluctant to pass on cuts in interest rates to borrowers and approve new loans.

"NPAs are simply a symptom of the underlying issues that need to be resolved," Sinha told a gathering of private equity investors. "We are preparing a comprehensive package which we will bring out shortly."

As part of the package, New Delhi is trying to improve corporate governance and strengthen management at state-run banks, Sinha said. It is also overhauling annual targets for public sector lenders to increase the focus on efficiency.

REUTERS/FILE

A cashier counts bank notes as customers wait inside a bank in India.

The government has also agreed to inject about $3 billion into the banks this fiscal year and could double that amount next year to shore up their capital.

But private analysts reckon the banks need much more. Ratings agency Fitch estimates Indian lenders need more than $200 billion to prepare for the full implementation of new international capital adequacy rules in the next four years.

Sinha said he would meet banks over the next two days in Bangalore to fine-tune their capital-raising plans.

"We are trying to understand exactly what's their capital requirement going to be in the next one to three years," he said. "We are there to support and provide them the capital."

Global pharma firms grilled about tax in Australia

AFP, *Sydney*

The world's top pharmaceutical companies Wednesday told an Australian parliamentary hearing they were compliant with local and international laws, despite claims they are charging higher prices to minimise tax.

Australia and other nations have been increasing their efforts to crackdown on profit-shifting by multinational firms that use complex structures to lower their tax bills in some jurisdictions.

The structures include "transfer pricing" where goods and services are sold within different entities in an international company.

Firms allegedly use high transfer prices, close to retail prices, in higher-tax jurisdictions to minimise the amount of profit generated. The lower profit reduces the amount of tax paid.

Hearing chair Senator Sam Dastyari said the nine firms fronting the committee collectively made Aus$8.0 billion (US$6.1 billion) annual revenue in Australia.

They also received more than Aus$3.5 billion from taxpayer-subsidies through the government's Pharmaceutical Benefits Scheme, which helps lower the cost of medicines for Australians, but only paid tax of US$85 million collectively last year.

Senior executives from the local subsidiaries of the firms -- including Pfizer, AstraZeneca, GlaxoSmithKline and Johnson & Johnson -- told the hearing in Sydney they were meeting their tax obligations and transfer-pricing agreements under domestic and international regulations.

But they could not say how much other countries were being charged for their drugs compared to Australia when questioned.

"You couldn't even tell us whether we are being ripped off, because you don't know what everyone else is paying for them," the hearing's chair Senator Sam Dastyari said.

GlaxoSmithKline's Australian general manager and vice-president Geoffrey McDonald said "Australians are paying very fair prices", but added, "I don't know" when questioned about how he could claim this without having knowledge of other prices.

The other drug companies fronting the hearing were Sanofi, Merck, Roche, Novartis and Eli