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Partial break up of Euro inevitable in 2012

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A partial break up of the Euro is inevitable, with Greece the most likely to default and leave the single currency
2012, according to fund manager Managing Partners Limited (MPL). The Euro was always going to be tested in an economic downturn, for the same reasons the European Currency Unit was tested in the early 1990s, says Jeremy Leach, Managing Director of MPL…

How can the same fiscal policy decisions work for tier one countries such as Germany versus tier two countries such as Greece? The debts were always going to be too much for Greece to pay.

Having had foreign governments tell them how much they can write off it has occurred to the Greek governmen that if they default on 50% then they might as well default on all of it. The credit rating will still be poor. If anything, Greeks will be able to issue a lot more debt and be more successful if they defaulted and cleared all o their debt rather than half of it. There is no logic for Greece to stay in the single currency or aim to repay any of the debt.

We shall see some exits from the Euro and it would make sense for them to adopt their own currency. The highest risk countries are Spain, Portugal, Ireland and Greece. We shall see at least one exit in 2012.

I do not believe the Euro will need to break up completely: the benefits for tier one countries sharing currency is by no means at an end, although too many countries have completely different economic cycles for a single currency to suit all of them.

It is going to take a long time for markets to recover because more economies around the world have been impacted by this crisis than ever before and it will take longer for a real recovery to establish itself.