

**INVESTMENT NOTE**

**26 JANUARY 2015**

**HERMES: GREEK ELECTION 'AN UNTIMELY CURVE BALL'**

*By Neil Williams, Group Chief Economist:*

"Greece's election was an untimely curve ball, but reminds us that, while QE may address one of the *symptoms* of the euro-zone crisis - deflation – it's more reform that will be needed to solve the underlying *problem*. That problem is still a monetary union devoid of economic union, which will take years of hard work.

"The likely formation of a reform-reluctant coalition in Greece may slow this recovery. But, our base case remains that Greece stays in the euro - partly, but not wholly, because of the incentive of QE. And some of the risks may be overblown. Syriza seems pro-EMU, and pledges to honour Greece's *market* debt. But, it advocates rescheduling Greece's official liabilities to euro-zone governments and the ECB, which will keep some restructuring-risk on the radar.

"How willing will the ECB be to purchase 'Greece' under these conditions? To a large extent, this uncertainty was taken into account by the ECB's reluctance to 'blanket share' risk as it cranks up its QE machine in March. But, there could be political spill-over. With Spain and Portugal's own elections coming in 2015, the more euro-sceptic parties there will be watching Greece closely.

"The wider challenge is to make sure the euro-zone does not follow Japan and let deflation take root. There, QE has been running for 16 years with little inflation impulse. The ECB's 'tap' may be finally on, but, as Japan found out, QE acts like a drug: the more you use it; the more you need it. Euro-zone QE could thus be with us for many years to come – with or without Greece."

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**Notes to Editors:**

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