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Biggest Greek bank warns of dire euro exit fallout

ATHENS | BY KAROLINA TAGARIS

May 29 If Greece left the euro, living standards would plummet, incomes would be slashed by more than half, and inflation and unemployment would skyrocket, the National Bank of Greece warned on Tuesday.

In a report released ahead of an election on June 17 that may determine whether the country stays in the single currency, the country's biggest bank said the risk of Athens exiting the euro was no longer just a theoretical possibility, warning that the fallout from such a move would be dramatic.

"An exit from the euro would lead to a significant decline in the living standards of Greek citizens," the NBG wrote ahead of a vote which parties opposed to austerity measures that have kept Greece in the euro so far have a chance of winning.

The bank said per capita income would collapse by at least 55 percent, the new national currency would depreciate by 65 percent against the euro and a recession, now in its fifth year, would deepen by 22 percent.

Painting a dire picture of post-euro Greece, it added that unemployment would jump to 34 percent of the work force from around 22 percent now and that inflation would rise to 30 percent from its current level of 2 percent.

The NBG is due to report its first quarter earnings on Wednesday and is expected to announce a loss. Greek banks, including NBG, have hemorrhaged deposits since the crisis began and are perceived to be in favour of retaining the euro because the alternative might trigger a run on their reserves.

The NBG said it wanted to contribute to dialogue about Greece's future with respect to the euro.

Greece had to call a repeat election for June 17 after an inconclusive vote on May 6 left the parliament divided between parties that support and oppose the austerity steps that were a precondition of a second 130-billion-euro bailout agreed with the European Union and International Monetary Fund in March.

Tax rises and spending cuts insisted upon by the EU and IMF in order to save the country

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from default have caused a wave of corporate closures and bankruptcies, sparking angry protests that have often turned violent. More than half of Greeks aged 15-24 are unemployed, according to the latest figures.

While most Greeks want to keep the euro, about two thirds are against the deep salary, pension and job cuts that come with continued membership of the single currency, according to the latest opinion polls.

Greece's conservatives have regained a tentative opinion poll lead that suggests they may be able to form a pro-bailout government committed to keeping the country in the euro. But the vote is still deemed too close to call.

EU leaders have warned Greece of the consequences of renouncing the bailout, saying they will pull the plug on funding, leading to rapid bankruptcy and an ignominious exit from the single currency.

Athens has agreed additional spending cuts of 5.5 percent of GDP, worth about 11 billion euros in 2013-2014, and has told its lenders it will raise another 3 billion euros from better tax collection methods in order to continue receiving bailout money.

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