The Five Stages of Greece. We are putting the finishing touches on a piece on U.S. commercial real estate, which will come out next week. Heading into the weekend, a brief note on Europe. In almost every client meeting, I am asked "what's going to happen in Greece?". The best way to answer that question is by using the Kübler-Ross model, the *Five Stages of Grief*, adapted for Greece. This model defines the process as **Denial, Anger, Bargaining, Depression and Acceptance**. Manifestations of this process appear below, personified by representatives of European governments, central banks and regulatory bodies. Axel Weber's journey from the top to the bottom of the table is illustrative of the epiphanies people (and markets) have had to face.

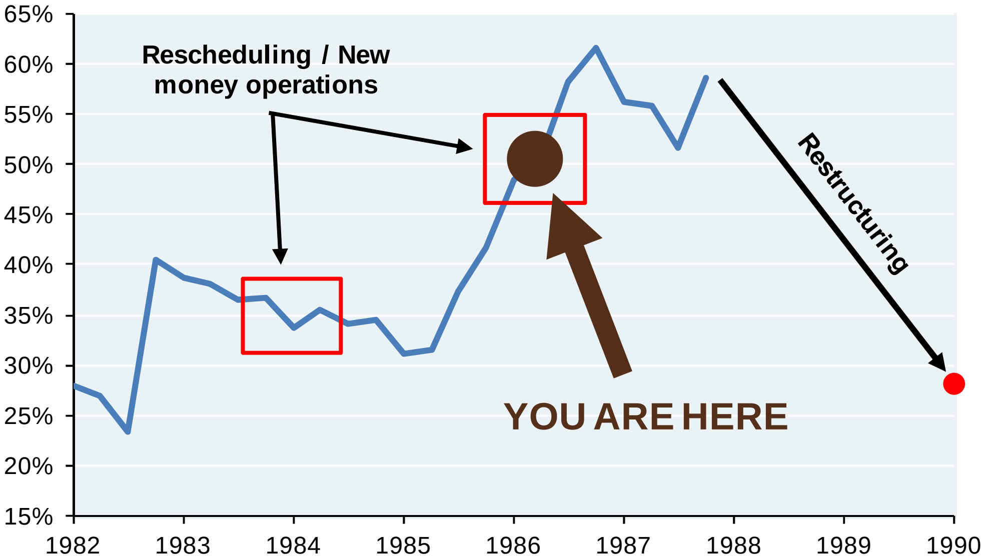
The Five Stages of Greece

Stage	Date	Manifestation	Articulated by
DENIAL	12/28/2009	"We don't need the IMF; it is illegal in Europe to finance budget deficits using the kind of central bank funds which are at the IMF's disposal"	Bundesbank President Axel Weber
	01/29/2010	"Greece will not default. In the euro area, default does not exist."	EU Monetary Affairs Commissioner Joaquin Almunia
ANGER	02/26/2010	"Its an attack on the euro zone by certain other interests, political or financial. We are being targeted, particularly with an ulterior motive or agenda. "	Greece Prime Minister Papandreou
	02/26/2010	"Attacks by investors and the hostility shown by some sectors of the British and U.S. press amount to collusion. None of what is happening, including editorials in some foreign media with their apocalyptic commentaries, is happening by chance or innocently"	Spanish Transport Minister José Blanco
	03/01/2010	"We have to strengthen the primacy of politics. We have to be able to stop financial markets. We have instruments of torture in the basement. We will display them if it becomes necessary"	Jean Claude Juncker, Eurogroup head
BARGAINING	06/21/2011	"We believe that the private sector could play a role in helping Greece, provided that it doesn't result in a credit event or default. Of course, it should be done in agreement with the European Central Bank."	European Commission president Jose Manuel Barroso
DEPRESSION	06/20/2011	"Times are difficult, the reform fatigue is visible in the streets of Athens, Madrid and elsewhere, and so is the support fatigue in some of our member states"	Olli Rehn, EC Commissioner for Economic/Financial Affairs
	06/23/2011	"The most serious threat to financial stability in the EU stems from the interplay between the vulnerabilities of public finances in certain EU member states and the banking system. There are potential contagion effects across the union and beyond" …Risk signals for financial stability in the euro area are flashing "red" as the debt crisis threatens to infect banks.	Jean Claude Trichet, ECB President
ACCEPTANCE	05/08/2011	"Ireland will never repay the €250bn it has borrowed from the EU and IMF, senior government insiders have admitted – but we will not default until our -EU partners agree we have no choice. A senior minister last night told the Irish Mail on Sunday that the Cabinet expects our crippling debts to be restructured within three years. However, Fine Gael is pinning its hopes on the EU being forced by outside events, such as the collapse of the Greek economy, into a realisation that Ireland cannot hope to pay off the debt mountain accumulated by our rogue banks."	Unnamed Irish Fine Gael Minister, to the Irish Mail
	06/27/2011	"There are, unfortunately, only very limited options: Either a default or partial haircuts or a guarantee for the outstanding amount of Greek debt…. At some point you've got to cut your losses and restart the system".	Former Bundesbank President Axel Weber

The latest deal for Greece, based on a French proposal, is another chapter in the "Bargaining" stage: it maintains the fiction that Greece's debts will be repaid at Par, and does little to address the crumbling economic and social situation in Greece, rising deposit outflows out of Greek banks and the possible exhaustion of their eligible collateral to post at the ECB, and collapsing Greek imports and exports. The plan is mostly designed to continue transfers from the EU taxpayers and the IMF to French and German banks, and buy some time (perhaps a year or so).

Here's another timeline of where I think we are in Greece: at the latter stages of the "let's keep lending more money and rolling existing exposures and hope it gets better" phase of the Mexican sovereign debt crisis in the 1980's. I expect the latest deal to be the last one before the eventual (and inevitable) restructuring of Greek debt.

Mexico's lost decade: kicking the can down the road makes it bigger
Public sector external debt/GDP



Source: Mexico Ministry of Finance and Public Credit.

Some good news: Japan is rebounding rapidly from the earthquake. Manufacturing surveys have recovered 93% of the decline in March, and there has been a significant easing of supply-chain disruptions. Industrial production rose 5.7% (month over month) in May, with similar gains expected for June and July in production and exports. Retail sales are less than 2% below pre-quake levels. In our March 15, 2011 Eye on the Market ("*Matter over Mind*"), we reviewed the history of the 1995 Kobe earthquake, and topics like the recovery in Confederate farm output after the Civil War, and the recovery in Japanese industrial production and German exports from 1946 to 1954. Our conclusion: **countries with higher income, higher educational attainment, greater openness, more complete financial systems, better developed supply chains and decentralized governments can recover quickly from natural and man-made disasters**. The theory is working out in practice in Japan. In the rest of non-Japan Asia, industrial production continues to climb, with Malaysia as the only country whose production is still below pre-crisis (2007) levels.

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