Greece must leave the eurozone to save itself, according to this special feature from OANDA currency and market analyst, Scott Boyd.

Earlier this week, Standard & Poor's ratings services stated that, in its view, there was a one-in-three chance that Greece would leave the eurozone within "the coming months". S&P analysts based their view on the possible outcome of the upcoming June 17 "do-over" election and the growing opposition to further austerity measures imposed on Greece in exchange for continued emergency funding.

With this blunt assessment, S&P makes it clear that despite committing hundreds of billions of euros to a dedicated emergency fund, Greece's outlook is actually worse today than it was two years ago.

It is difficult to believe that in spite of the tremendous efforts to solve the crisis, the likelihood of Greece's continued participation in the eurozone still remains in such doubt. Looking a little deeper, however, it becomes clear why attempts have failed – actions so far have been directed at dealing with the symptoms and not the actual illness.

Doling out emergency funds in time to avert a default or to meet the month's payrolls may technically keep Greece afloat, but it is reactionary and does nothing to solve the underlying problem. The issue that urgently needs to be addressed is the country's chronic lack of competitiveness.

Greece exports produce and other goods primarily within the eurozone, but it has difficulty competing head-to-head with other eurozone producers. Typically, governments will attempt to devalue the currency in order to help make the country's exports more attractive to foreign consumers. However, responsibility for the shared euro lies with the European Central Bank leaving Greece not only without its own currency, but also without the means to implement economic policy.

Until the Greek economy rebounds and revenues rise, no progress can possibly be made in dealing with revenue shortfalls; and lacking the ability to affect economic policy, there is little hope for an increase in growth. This means that Greece is doomed to an existence of begging for handouts from the rest of the region.

It is also likely that future funding relief will continue to be tied to a forced “austerity” programme of massive spending cuts. While responsible government spending is a laudable goal, the spending cuts now being imposed on Greece are actually hindering growth as pensions and salaries are slashed and more people are forced out of work.

Given these realities, the only option available for Greece to emerge from the shadow of the eurozone is to exit the euro and retake control of its own economic destiny.

In the end, it comes down to a choice. Should Greece merely continue to stumble along the same path of an endless cycle of austerity cuts and emergency handouts; or would it be better to take the bold step of assuming control of the country’s economic levers with the potential of one day returning to self-sufficiency?

Eurozone breakup fears overblown

Justification for preserving the eurozone at any cost is usually framed around the flawed logic that should Greece leave, it will pave the way for a further exodus of other countries. The concern is that Portugal, Spain, and Ireland will follow suite in an “exit contagion” thereby spelling the end of the eurozone.

There is no reason to believe this to be the case.

These so-called “periphery” economies do not find themselves in their current situation because of Greece; and even if Greece does remain a part of the eurozone, the problems facing these countries will not suddenly be solved. Yes, they are all confronting a similar challenge, but no correlation exists making it inevitable that should Greece leave, so must others.

Even if several of the weaker countries were to leave, why should the eurozone automatically collapse? If anything a new slimmed-down eurozone comprised of the healthier economies could actually lead to a eurozone resurgence.

Naturally, some may dismiss this as baseless conjecture, but one thing is certain – the current approach is not working. Worse still, there is no exit plan that puts forward a timeline for when it will no longer be necessary to continue the emergency payments.
In fact, by continuing to prop up Greece in this manner, rather than an “exit contagion” the greater concern is a “support contagion”. Nearly 200 billion euros have already been committed to the fight to save Greece with little to show for the cost; now consider how much may be required for Spain with an economy nearly five times the size of Greece.

Certainly, redrawing the eurozone landscape would be fraught with challenges and the banking system would be especially at risk should multiple eurozone members default on their sovereign debt.

To safeguard the balance sheets of the region’s banks, money from the European Financial Stability Fund could be diverted to offset these losses. This may not be the most elegant solution, but it would be a one-time event and would ensure the banking system remains sufficiently supported following the exit of one or more countries.

Admittedly, the thought of a eurozone unencumbered by the weakest economies is intriguing. With the latest downgrade in unemployment and growth projections for the US, a rebounding euro may prove to have great appeal for investors looking for an alternative to the US dollar.

Still, it may be a case of being careful what you wish for, and Germany in particular may regret such a turn of events.

Germany's export sector continues to find support in foreign markets due partly at least, to the weaker euro and a rapid appreciation in the euro could prove harmful to the eurozone's most dominant economy.