

Paul Krugman's Blog

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What's the Greek for Corralito?

It's now three years since I suggested a possible route to Greek exit from the euro: a banking crisis, followed by sharp limits on bank withdrawals similar to Argentina's 2001 corralito, and then — with the panic argument against exit removed — reintroduction of a domestic currency.

Obviously, that hasn't happened. Despite intense suffering, the Greek political elite's commitment to the euro has proved incredibly strong. My analysis of the economics wasn't wrong, but my political guesstimates were off.

Still, Cyprus is now following the first part of the script. And let me ask again: what, exactly, is the point of remaining on the euro? The convenience and efficiency of a single currency is gone; meanwhile, the future for Cyprus on the euro is one of years of grinding deflation and catastrophic austerity. Is the hope of someday, somehow restoring the status quo ante enough to justify all of this?