German Vice-Chancellor and Economics Minister Philipp Rösler broke a long period of silence about a possible Greek default by saying that all options are to be considered.

Several finance ministries in the eurozone started to assess its implications. The 'troika' -- the delegation composed of the IMF, European Commission and European Central Bank officials -- has recently left Athens without an agreement.

Credit default swaps -- a type of insurance policy -- on Greek sovereign debt imply a 98% probability of a Greek default during the next five years. Will this really happen? And if so, what would be the consequences? And should Greece leave the eurozone?

An immediate default is very unlikely. The commitment to the Greek adjustment program and continued European financing of Greece was reiterated by the teleconference between German Chancellor Angela Merkel, French President Nicolas Sarkozy and Greek Prime Minister George Papandreou.

But this may not be the ultimate word and the reason is simple. Even the July 21 agreement of eurozone leaders (when they agreed to a second financing program for Greece and a very limited private sector involvement) does little to change debt dynamics -- Greek public debt is simply too high.

And this is not really because of the underperformance of the current Greek government. They do not meet the targets but this is not surprising. Greece is a difficult country to handle and economic outcome became worse than expected.

The country is in a downward spiral of economic contraction, less budget revenues, more fiscal consolidation, lower confidence, and further economic contraction. The government's heroic effort is underlined by the recent decision to introduce a property tax, which is to be collected through the electricity bill to limit tax evasion.

They should do more, of course, but this will not solve the problem of debt that is too high. Even if the approval and the implementation of the second Greek program runs smoothly, market access after its expiry in 2014 is unlikely to be restored. Then the two remedies remain the same -- continued official lending probably for decades or a sizeable debt reduction.

The ultimate choice will be political. Given the difficulties in the largely inter-governmental process of eurozone sovereign debt crisis management, it is not very likely that the first option will be chosen. But even if it is, a sudden collision could occur -- a change in course by any future Greek government or a bilateral lender may unilaterally decide to stop disbursing further loans to Greece which would put official lending at jeopardy.

Projecting the timing of such a collision is not my business, yet the consequences should be assessed. Greek banks would face a major threat: losses due to their Greek government bond holdings and bank runs by depositors, since the deposit guarantee of the Greek government would not be worth much.
In order to prepare, a first priority should be the strengthening of Greek banks. The recent agreement reached with the Qatar Investment Authority to invest in Greek banks is a welcome development. Bringing further foreign ownership to the Greek banking system should also be sought because it would bring more confidence.

Liquidity provision measures could and should be designed. And a Eurozone-wide deposit insurance scheme -- to replace national deposit insurances -- would also be a strong stabilizing factor.

The direct impact on the rest of the euro area would be limited. Greece is not a highly-interconnected systemically-important financial institution like Lehman Brothers was before its bankruptcy. Even the recently-downgraded French banks could easily survive the direct consequences of a Greek default.

But eventual contagious effects pose a real threat. If Greece defaulted, markets could panic, denying funding for weaker countries and pushing them into default and leading to a renewed banking crisis in core euro-area countries such as Germany and France as well. Europeans can do a lot to limit the potential for this, such as following the IMF Managing Director Christine Lagarde's advice and recapitalize Eurozone banks and progress with fiscal and structural adjustment.

But if all else fails and the single most important country, Italy, gets into real trouble then options remain limited. External help from countries such as China and the U.S., massive monetization of public debts or a kind of common Eurobond -- all has various pros and cons.

And would a Greek sovereign default be followed by an exit from the eurozone? Clearly not. A unilateral exit by Greece would bring the mother of all financial crises since all financial assets would leave the country.

An exit would render bankrupt most of the private sector which has debt. Analysts from UBS have recently concluded that a weak country leaving the Eurozone would lose about one half of its GDP in the first year -- I think they are right. And there would be longer term consequences as well, since the low credibility of the newly stand-alone Greek central bank would likely lead to much higher real interest rates as well as to a period of high inflation.

All of these would be drags on economic growth and the relief that the most likely collapse of a new drachma would mean to competitiveness would not be substantial.

There is no real choice: with our without sovereign default Greece has to put its house in order inside the eurozone.