The Greek Debt Crisis (2010 - present)

It all started in November 2009 with a realisation that the fiscal situation in Greece was deteriorating, further throwing into doubt the country's ability to access international credit markets.

Then, on 23 April 2010, Greece's prime minister at the time, George Papandreou, officially called for the European Financial Stabilization Mechanism to be activated.

Announcement Papandreou Kastellorizo (in greek)
Source: https://youtu.be/KPXFeJ-59b0

As a result, Greece secured financial assistance through a loan from the European Commission (EC) and the European Central Bank (ECB). The loan was supplemented by additional funds from the International Monetary Fund (IMF). The three were known collectively as the Troika.

It is worth noting that the EC, ECB and the IMF are not development agencies. They were simply called in to help with an emergency situation, addressing what they considered at the time to be a liquidity crisis. They were wrong.

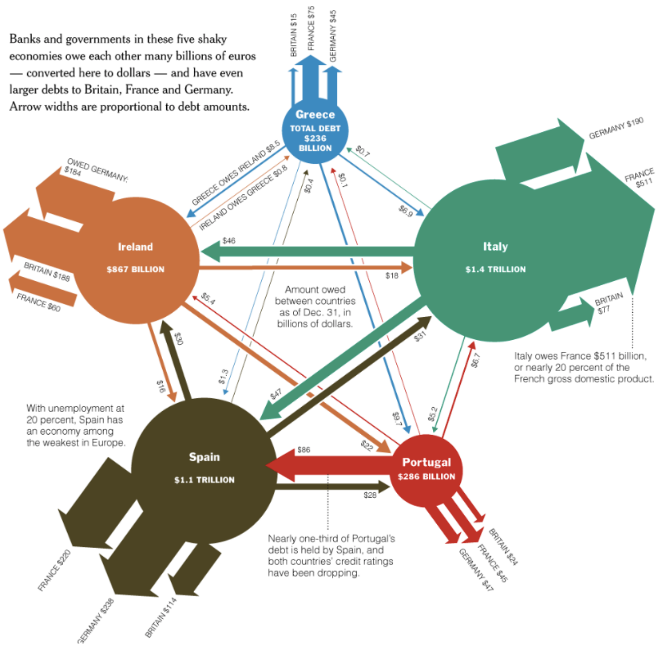
The Greek crisis was actually one of a sovereign default even though it emerged with a liquidity crunch. This crisis could not be solved by austerity measures alone. Deep structural changes and productivity growth were needed to kickstart the economy.

Regrettably, however, the path chosen for Greece was one of austerity. Greece started on this new chapter amidst drastic deflation and austerity policies (namely reductions in government spending, increases in tax revenues).

Greece became the first of the 18 eurozone member states to enter into an Adjustment Programme Loan. A Memorandum of Understanding (MoU) was forged between the lenders and the Greek government.

Under the terms outlined in the MoU, Greece was headed for front-loaded austerity. There were three such lending interventions: the first for EUR 110bn, the second for EUR 158bn, and the third for EUR 88bn. The average annual GDP was about EUR 178bn. All three were consecutive, ending in August of 2018, with a continuation of supervision regarding specific macro targets such as meeting an agreed primary surplus of 3% to 4% by 2060.

The MoU, widely called *Memorandum* by international media and *Mnimonio* by the Greek media, was widely used to describe the situation of deep and prolonged crisis and harsh austerity.



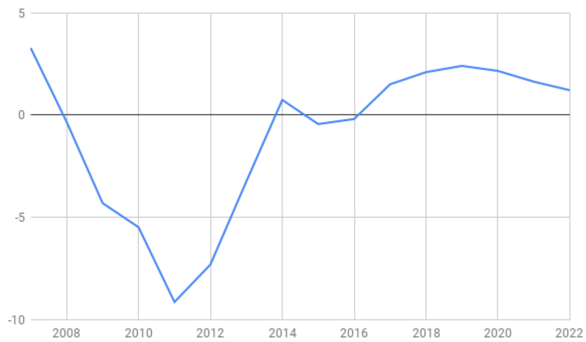
Thought for Action
info@t4action.org
www.t4action.org

The Greek Debt Crisis (2010 - present)

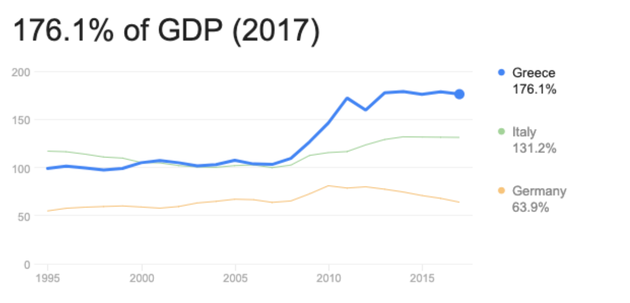
As such, the story of Greece's Mnimonio starts in 2009. At the time, Greece's government had just moved into office, after winning the elections in October 2009. By mid-November 2009, the government was shaken by the reality that Greece was on the verge of defaulting. The government struggled to manage the situation the best they could.

There was no stopping the country's downfall. In fact, the situation in Greece became even more dire.

GDP from 2007 to 2022



Debt to GDP from 2009 to 2018



This desperation explains Greece's decision to request a massive liquidity injection. It was unavoidable. Default was just days away.

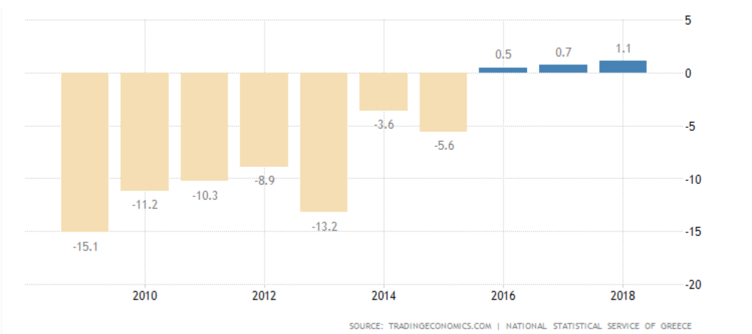
According to the European Union's statistics agency, Eurostat, Greece's deficit in 2009 were revised from 6.2% to 15.4% of GDP. And, the country's government debt for the same year reached 126.8% of GDP.

Greece turned for help to solve its debt problems. The country had lost access to international markets for low-interest borrowing to finance its public debt and debt rollover. The country's reputation was badly bruised.

Default, would have been a tragic turn of events that would have had alarming consequences for the country. It would have further floored Greece's credibility in the international markets.

To prevent disaster, the Greek government on 3 May 2010 requested a total EUR 110bn from its creditors (EUR 80bn from the other Eurozone members and EUR 30bn from the IMF). The infamous *Mnimonio's* harsh fiscal adjustment measures were a precondition for the disbursement of each loan instalment.

The consequences of harsh front-loaded austerity measures soon became visible in the Greek economy. In less than two years, the country's deficit fell by almost 50% (from 15.1% in 2010 to 8.9% in 2012).



The Greek Debt Crisis (2010 - present)

The situation for the Greeks was difficult. The rate of unemployment began to increase fast, and small and medium sized enterprises (the backbone of the Greek economy) were faced with a constant decrease in revenue. As a result, a growing number of SMEs (of which the vast majority (98%) have fewer than 20 employees) were forced out of business.

At the same time, Greece’s informal labour market started growing rapidly. The increase matched the rise in social security taxes increased along with the income taxes and several new one-off taxes and levies.

The contraction of the economy was about 25% of the GDP.

Debt restructuring of private debt the new "*bail out*" and the referendum

The Greek debt crisis was the main topic of discussion at the EU Summit on 21 June 2011. As a result, the second loan package worth EUR 158bn was agreed. Following the publication of the terms of this new loan agreement, there was immediate reaction from the international rating agencies. Fitch and Moody’s proceeded to downgrade Greece to “controlled default”.

Three months later, the next European Union Summit agreed on a voluntary 50% haircut for private Greek bond holders.

The haircut would affect private bond holders. In Greece, this also included the pension funds. When Greece’s prime minister returned from the European Union Summit – after lengthy week-long negotiations on the new package and restructuring, he was greeted by protest. Rallies were organised in all major cities.

The reaction from the opposition was intense. It was under this pressure that Papandreou announced his decision to hold a national referendum on the second "*bailout*". This, however, only resulted in even more intense reactions from outside the country. Foreign leaders reacted very strongly against holding a referendum. World markets plunged (about three times the total sovereign debt of Greece) in the first two days following the announcement for the referendum.

There was an effort, by the European creditors and the IMF, to force Papandreou to backpedal. They also threatened not to disburse the next instalment of the loan until after the referendum.

Speaking on local and international media, European leaders, especially German Chancellor Angela Merkel and French President Nicolas Sarkozi, made it clear that Greece’s referendum should not ask Greeks whether the country should accept the new loan. The two leaders said Greeks should be asked whether the country should stay in the European Union or not. This objective behind this ultimatum – an intrusion from Brussels – was obvious. It was to spark fears over a possible Grexit that could create a serious domino effect, derailing the entire Euro zone.

The Greek Debt Crisis (2010 - present)

In the end, the referendum was not held. Papandreou retreated, taking back his request three days after he announced it. The ruling party's vice-president and Finance Minister, Evangelos Venizelos, issued a public statement in which he proclaimed Greece is and will be part of the Eurozone and the European Union. He said: "Greece's position within the Euro Area is a historic conquest of the country that cannot be put in doubt. This acquis by the Greek people cannot depend on a Referendum."

After the decision to scrap the referendum, intense political developments unfolded. Papandreou met with main opposition New Democracy leader Antonis Samaras. They were joined by Greece's President Karolos Papoulias. The three men decided to create a unity government made up of the ruling Pasok party (socialist) and the main opposition New Democracy party (centre right), as well as LAOS, a small right-wing party that at the time held 5.6% of the electorate.

Following intense deliberations, a new interim prime minister was named – Loukas Papademos (former ECB Vice President, and former President of the Hellenic Central Bank).

This interim government initiated key terms of the MoU, in particular the relevant part of bank recapitalisation and privately-assisted sovereign bond haircut with a Greek Bond Swap (PSI). This was completed on 9 March 2012 with the participation of the private sector reaching 95.7%.
With a decision by the Cabinet to activate the Collective Action Clauses (CACs), debt restructuring was deemed credible by the International Swaps and Derivatives Association (ISDA). As a result, the holders of risk premiums on the Greek debt (Credit Default Swaps) were paid. The total value of CDs reached $3.2bn.

There was however, a significant negative impact particularly for the Greek banks, as well as, the state pension/health funds who had heavily invested in Greek notes, but also to the economy of Cyprus. As Cyprus had two systemic banks with a strong presence in Greece (and which lost about EUR 4.5bn), 25% of Cyprus GDP, contributing to the start of another crisis in the eurozone. The crisis thus become boundless and infectious.

By this time, Greece's economy was heading towards an even worse growth rate. One characteristic example was the rate of unemployment in November 2012, which reached 20.9%, a rate that was double that of two years previous when it was at 10.4%. The poverty rate increased alarmingly from 12,7% in 2005 to 21% in 2016 with almost two in five Greek children at risk of poverty (EUROSTAT 2016).

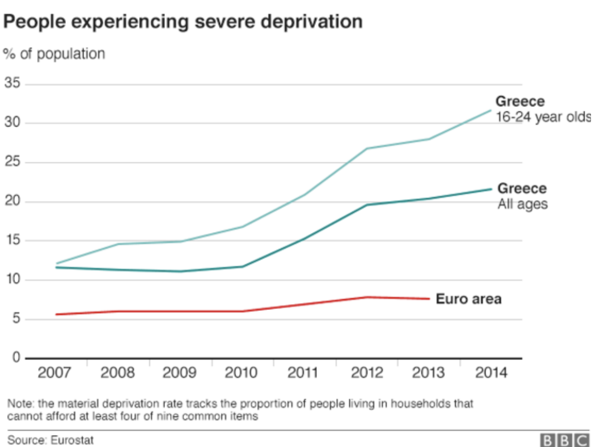
With unemployment rising and Greek households struggling to make ends meet, the situation gave rise to a growing number of malnourished children. To address this problem, the education minister announced a meals programme for public school students in January 2012.

The Greek Debt Crisis (2010 - present)

Despite the recession of the Greek economy becoming deeper and remaining for much longer than expected (no economic prediction from the Troika was realistic (i.e. they would predict exiting the economic crisis with a positive growth rate in 2011 and readjusting it six months later), little was done to solve the problem. There was no recalibration of the austerity package towards a systematic sequenced structured reform on productivity adjustment.

Instead the Troika insisted in public expenditure cuts with little oversight on the actual structural deficiencies of the public sector and the public services provision and there was no national plan of restructuring the economy. The focus was on more fiscal adjustment. The government had to pass additional harsh ad hoc fiscal measures, such as a 25% increase in public transport fares, extra taxes on utilities, additional cuts in pensions, as well as healthcare and defence spending. Other measures included the shedding of 150,000 jobs in the public sector by 2015, of which 15,000 needed to go in 2012.

It is worth nothing that the shrinking of public sector resulted in the shedding of some of the most highly skilled public sector employees who were able to find jobs abroad (given the country's high rate of unemployment). This is a serious impact of this rather ad hoc "public sector reform" motivated only by fiscal targets and not by efficiency and productivity targets. Thus the state today is handicapped further than in 2009 as its core public sector has lost many of its best and brightest.



2012 elections with a difficult change of Government

On the political front, the developments unfolded quickly. New elections were held on 6 May 2012. This did not result in a clear majority so no government was formed.

It is worth noting that the main opposition New Democracy electorate platform was based on eliminating the memorandum (and the austerity that came with it). The social democrats (Pasok) were on the defence as regards how they steered Greece through the crisis. There was also the radical left Syriza party, whose share of the votes increased tremendously. Syriza gained close to 20% of the electorate vote. This is a major boost from its previous range of 3-4%.

Greece's political uncertainty was immediately felt in the markets. After all, Greece's exit from the eurozone was once again on the cards.
New elections held on 17 June 2012 resulted in a victory by New Democracy, but again without an overall majority. Nevertheless, New Democracy managed to form a government in coalition with two parties, Pasok and Dimar (a centre-left party). New Democracy leader Antonis Samaras became prime minister and Yiannis Stournaras (currently the president of Hellenic Central Bank) was appointed finance minister. Evangelos Venizelos remained the vice president.

Following continuous and drawn-out negotiations between the Greek government and the Troika, the anti-memorandum and austerity narrative was muted. An agreement was finally reached and presented to the parliament. It was the "Medium-Term Fiscal Strategy 2013-2016" and was passed by parliament with further fiscal adjustments – further austerity (further reduction of pensions and salaries where all included in the strategy).

The Greek Debt Crisis (2010 - present)

One decision that marred the current government's reputation was the unexpected move by the prime minister to shut down the Hellenic Broadcasting Corporation (ERT) in 2013. Both radio and television were shut down with no alternatives. It was a move that was met by fierce opposition which led to Dimar quitting the coalition government.

The fate of this government was short lived. The new loan agreement (Mnimonio) was officially due to end in December 2014. However, 19 disbursement reviews of the 23 were not completed representing about EUR 20bn of un-disbursed funds. These 19 reviews were summed up in one final review called 5th Review that become rather infamous again in the political debate. The primary surplus of 2014 was due to be 3%, by the Troika and Mnimonio projections. As the disbursements had stalled for about a year, the government was trying to reach the primary surplus target with excessive taxation. The final result was only 0.3% of a surplus but with a rather dried up budget and liquidity.

More political changes, explosive climate, new government, and one more "*bail out*"

The stage was set for even more political changes. Early elections were on the horizon but were not announced directly.

The New Democracy-led government used the appointment of the country's new President of the Republic (a vote held in the parliament) as an excuse for the elections. Two years ahead of the end of his term, Prime Minister Antonis Samaras called for national elections on 25 January 2015. This was prescribed by the Greek Constitution since the parliament had not managed to elect a new President of the Hellenic Republic.

The result of these elections came as a surprise. Winning a 36.4% majority vote, the radical left-wing Syriza party celebrate victory. The party was strongly opposed to the Mnimonio. It's main election campaign platform called for an end to austerity measures and a restitution of the country's wounded pride and dignity.

Up until these elections, Syriza and other left wing parties gained a small percentage of the vote, between 3 and 4.5%. So this was a major shift in modern Greek politics.

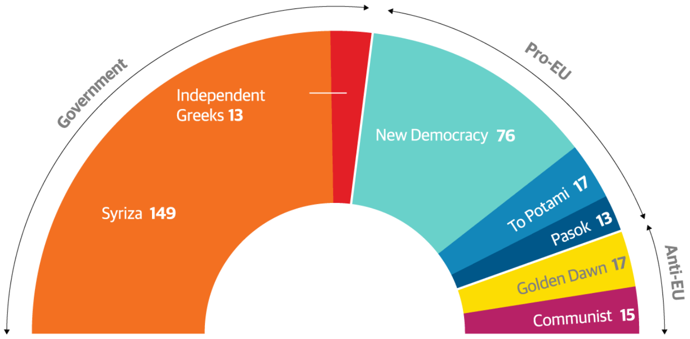
Syriza's electoral gains were largely due to its stated understanding of the citizens' woes. The party emerged as a party of the people. It understood that the Greeks had reached and exceeded their limits in terms of their living conditions which had been worsening daily.

Syriza promised to end the six years of hardship. The party tapped into the Greeks' desperation and feeling of betrayal. Greeks felt that all past governments, as well as the Troika, had made many promises but did not deliver any.

Greeks had been promised the austerity measures would bear fruit and spur economic growth from 2011. This was not the case.

Greeks had also lost faith in their political system, watching parties left and right continue with the same austerity-driven and Troika-led reforms. They felt there would be no end to the economic policies of hyper taxation, privatization of public assets with the proceeds paying the enormous sovereign debt. Syriza was able to make gains in this atmosphere of uncertainty. However, it only managed to secure 149 of the 300 seats in parliament.

The Greek Debt Crisis (2010 - present)



As such, the party needed to form a coalition government. It turned to another anti- *Mnimonio* party, the Independent Greeks (ANEL), a right wing party, that won 3.5% of the vote.

Syriza's agreement was that ANEL would not be involved in the structuring of economic policy but would be more responsible for the country's defence issues. Like this, Alexis Tsipras, Syriza's leader, was sworn in as the country's new prime minister. In turn, he appointed Yanis Varoufakis as finance minister.

But the challenges were not over. Syriza's stated intention and promise to the people of Greece was to resolve the crisis and proceed with the necessary structural reforms. However, budget liquidity was extremely limited. Also, the country's lenders had very set positions.

Greece faced a real internal default risk. After months of continuous negotiations between the new Greek government and the Troika (some started calling it a Quarter since it had increased by one more institution: European Stability Mechanism). And while Greece's liquidity was dwindling and the obligations both at home and abroad continued to swell, Tsipras soon realised he had very few options.

He was stuck between his pre-election promises, the country's depleting liquidity and the toughening stance of the creditors (with their demands for yet new austerity measures) for any liquidity they would disburse.

Pressure for a solution was mounting from within the country. Pressure was also growing from within the Syriza party, and from the leadership of other political parties. There was an urgent need to reach an agreement. The climate was explosive.

On 27 June 2015 Tsipras announced he would hold a referendum on 7 July 2015. He said the Greeks would decide (Yes or No) if the government should agree to the lenders' new proposal that was tabled at the 25 June Eurogroup meeting. This new proposal was an ultimatum of disbursing money only if the government completed the austerity measures of the 5th Review.

Protesters during a rally against austerity measures and corruption in Athens' Syntagma Square. REUTERS

The Greek Debt Crisis (2010 - present)

European leaders and creditors reacted to Tsipras' decision to hold a referendum in a similar way they had reacted to George Papandreou's announcement for a referendum in 2011. They believed a referendum was about whether Greece should remain in the eurozone.

Despite opposition, Tsipras went ahead with the referendum. The result of the vote was a resounding **"No" (62%).**

The referendum, however, made no difference. In the end, the Syriza government ignored it. The government proceeded with the Third *Mnimonio*. That did include more austerity.

The new *Mnimonio* which was introduced by the country's most anti-Mnimonio party was a disappointment for many Greeks. There was widespread public outcry. Tsipras was criticised for disregarding the people's choice.

In response to the criticism, the Syriza government claimed it would ensure austerity measures would be implemented with a social character. This meant that the higher income level would shoulder a higher share of the burden.

The unfortunate result of this effort, to square the circle, led to the introduction of capital controls. Probably, the worst of all three options for Greece. The options were the following:

1. Agreement of productivity/structural reforms (best option).
2. Default in external payments due to lack of liquidity. This would have been very unwelcoming for the foreign private industries with exposure in Greece.
3. Capital controls. This was probably the best possible choice for the lenders as it would send a warning to other Eurozone countries not to follow in Greece's footsteps. It would also send a message to the local domestic Greek market, in addition to the safeguarding any remaining liquidity.

This new loan agreement worth EUR 80bn was passed by parliament with a vast majority (222 to 300) mainly due to a strong fear of Grexit. On 20 August, the Prime Minister called for early elections given the new economic reality.

For yet one more time, the Greek people put their trust in Syriza (and Alexis Tsipras) and voted them back in power with a 35.46% majority. This gave Syriza another chance to create a government again with the party of Independent Greeks (ANEL), which once again managed to win just enough votes to enter parliament.

The Greek Debt Crisis (2010 - present)

Expectations of growth were based again on Troika's projections. But these never matched reality as they were miscalculated and were constantly overshooting.

However, most surprising was the serious dedication of the radical left coalition government (formed by Syriza and ANEL) to implement the Third Mnimonio in full. The government did not create a National Plan as an alternative (in fact, no previous government did). Syriza pleased the lenders and ousted Yianis Varoufakis, creating a narrative that the anti- Mnimonio rhetoric was pretty much led by him and that he became toxic risking the country's membership in the eurozone. An overly powerful role was attributed to Varoufakis which he did not have, as all his actions were previously coordinated and cleared directly by Tsipras and his team.

In any case, the picture today is not as rosy as we wished it would be.

Good results or not?

Crisis has become the status quo. Growth has not been recovered and most of the good news on media is a result of over taxation and wage cuts. Nothing is conducted systematically. Greece continues to struggle with all the wage bill distortions it had before the crisis (subsidies, indirect taxes, and transfer payments and a high rate of informality).

The private sector, is not rebounding. As for the public sector, it remains under-skilled with a considerable lack of transparent management.

Also worth noting is the rapid increase of seasonal and temporary contracts. According to the labour law, after two or three renewals, employees have the right to full-time permanent employment.

As regards property rights, recent changes in the land registry can most certainly increase further insecurity and make the market more illiquid than before increasing possible court cases over conflicting claims. At the same time, it allows for possible expropriation claims as the procedure for registering property is through proof of reclaiming land that already belongs to the owner. Such reclaiming is conducted by notaries and surveying engineers, and the courts. As a result, the entire process is trapped in a bottleneck.

On the other hand, tourism has increased more than ever in terms of the number of foreigners visiting the country per year (over 30 million tourists arrived in Greece over the past two years). This, however, is not systematic nor is it organised with all the related sector functions. The turmoil and insecurity in the Middle East, Turkey, and Egypt has influenced the influx of tourists. What requires more attention is to disrupt Greek tourism in such a way so as to be a sustainable source of GDP income. So far, the type of tourism Greece receives is mostly all-inclusive holidays which do not benefit the economies of local community.

The Greek Debt Crisis (2010 - present)

On paper, the Greek government is meeting the Troika's primary surplus targets. This is 4% of economic output in 2018, 3.6% is expected for 2019, and 3.5% for the remaining years of post bail out targets. Major contributors have been taxation, the sale of residency visas to foreigners who make a release estate investment of more than EUR 250,000 – this has resulted in a flow of Chinese immigrants purchasing property. The improvement of Greece's Country Rating has also allowed the state to return to the markets twice and borrow at a super low interest rate. Most recently, the borrowing rate was lower than the equivalent T-bill of the United States. A fact that is a serious eyebrow-raiser.

Following negotiations with the lenders, part of the primary surplus has been used to provide ad hoc welfare subsidies to the poor (rent subsidies, income subsidies right before Christmas holidays, heating oil subsidies, etc.). It is worth noting here that the multiplicity of subsidies from the state and the EU, as well as overlapping regulations and legal requirements, too many regulations and bureaucracy, as well as misaligned property rights systems were the initial problems that had stagnated the productive capacity of the country in the first place.

Unfortunately, today the bureaucratic burden is higher than when the 2009 crisis (see some of the indicators of World Bank Doing Business). The ease of doing business has not significantly improved as security of investing and predictability is still precarious. The judiciary remains weak and slow, and investment procedures are not transparent due to over-bureaucratic requirements.

Unemployment seems to have been reduced by 9 percentage points mainly because of the increase in tourism, and short-term employment contracts. It is commendable that such a reduction has been achieved. In addition, the country has managed to lift itself out of default and junk rating to B+ with a steady outlook (Standard and Poor's).

On the other hand, the country has lost close to 500,000 young and mid-career professionals who left the country to find gainful employment abroad. And they are not likely to return. Youth Unemployment (ages 15-25) remains at very high levels (nearly 60%).

The poverty level reached an alarming 35%. There was an increase of 6.4% over the past 10 years. The increase reflects the risk of poverty and social exclusion. The breakdown is devastating.

The population living in extreme poverty was about 2.2% in 2009. In 2011, the number climbed to 8.9%. In 2015, extreme poverty levels stood at about 15%. Extreme poverty is based on the European measurement which is EUR 182 per month for a single person living in an urban or rural area or EUR 905 per month for a household of four (two parents with two children).

According to the data, one of five Greeks cannot afford to pay their monthly household bills.

The Greek Debt Crisis
(2010 - present)

Savings rates, on the other hand, have been reduced significantly placing the country at the bottom of all OECD countries in terms of savings rates. This is not at all promising regarding the prognosis of growth for the country.

Also important to mention is that the number of attempted suicides is still on the rise. Before the crisis, Greece had one of the lowest rates. But the numbers quickly increased. In 2009, the total number of suicides was 352 and attempts 223. In 2018, the total number of suicides was 530 and attempts 745 with an increasing trend. A survey of those who committed suicide in Greece show that the majority (76%) are over 41 years old (2018). This is nearly double than in 2009 (40%).

Overall, Greece experienced a 50.5% increase in suicide rate, and a 234% increase in the number of attempted suicides.

Shockingly, Greece has changed very rapidly over the past few years. Add to the current mix a very large number of refugees and it is clear how pressured the Greek government is to meet the needs of society. Greece is required to provide services to all – citizens, migrants and refugees.

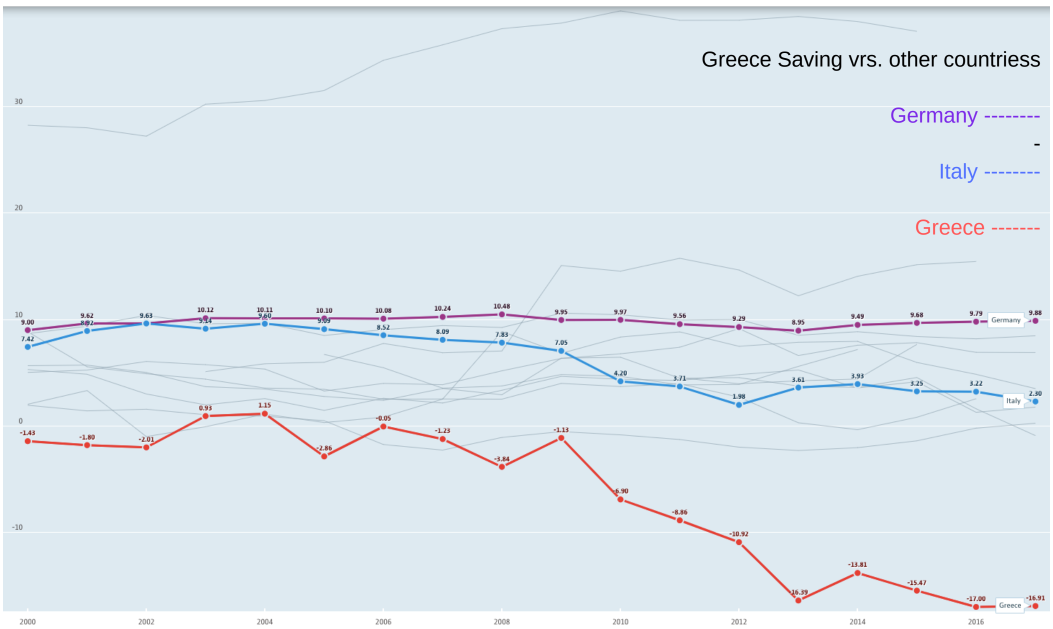
The official statistics reflect that 51,000 refugees arrived in Greece since 2015.

In brief

At T4A, we believe the best way forward for Greece is a deep transformation of productive capacity. It should promote and utilise the best skillsets of citizens. It should also embrace the best innovative ideas that can be used in the market, creating employment and growth.

A stubborn focus on fiscal issues is an outdated way to solve a problem and does not yield the desired results.

The country should invest in its strengths. One of its biggest strengths is its innovative high calibre of human resources. Such strengths should be used in economic policy, in technology and science, as well as politics.



The Greek Debt Crisis (2010 - present)

The Greeks are not suffering from brain drain or brain deficiency, at least not yet. This means that Greek youth are not leaving the country at an early teenage stage depleting the country from its brain capacity (Ioannidis, Stanford, 2015). However, Greece does suffer from a significant export of graduates – after secondary school completion and higher education such as BA and MA. Not ideal since the Greek tax payers pay for their education at Greek universities. A problem that becomes even more serious when coupled with the very low birth rate and weak demographics.

It is important to embrace the innovative Greek minds to spur productivity and the creation of new sectors of production. This will also open the door to the modernisation of the traditional productivity sectors. It is important to invest in the Greek innovative scientists that form part of the 1% of the World Leading Scientific Innovators, as well as to promote the development and research at educational centres. It is just as urgent to ensure the environment in Greece does not erode the education level and entrepreneurial environment, but instead it inspires and attracts more minds.

Greeks who innovate should be encouraged to remain in the country. A change that requires confidence and trust in the country.

Greek Innovation Facts

While Greeks make up less than 0.2 percent of the global population, they represent approximately 3 percent of the most influential (that is, most cited) scientists in the world.

Also, in the ranking of the 3,000,000 cutting edge scientists there are in the world 1% are greeks.

Greece has an astonishingly high 6.2 physicians per 1000 inhabitants, but thousands of Greek MDs have migrated to Germany and other countries lacking well-trained doctors.

The percentage of greek graduates that stay abroad went from 25% in the early 1990's to 80% in the past 5 years.

As a reference, Israel proportion of GDP for science and technology is around 4,1% while Greece's is 0,6%

Source: Iannidis, John. Standford, 2018.

Sources: ELSTAT, WEO Data, EUROSTAT

Authored by: Elena Panaritis
Date: May 23, 2019