Greece Bailout: An Assessment

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Introduction

20 August, 2018, marks a landmark day for Greece as it puts an end to a decade of international financial assistance. The financial crisis, bailout, and the attendant austerity measures plagued four successive leaders in Greece. The end to financial assistance could not have come at a better time for Prime Minister Alexis Tsipras, who came to power riding on the promise of putting an end to austerity measures, and who faces elections in the autumn of 2019.

This paper traces the emergence of Greece from the bailout package received from the troika of European Central Bank (ECB), International Monetary Fund (IMF) and European Union (EU) in three successive packages of 2010, 2012 and 2015[1], and analyses its impact on the economy and polity of Greece.[2]

The Bailout Timeline

Greece joined euro zone in 2001 and to join, it concealed the scale of its debt. The 2004 Olympics hosted by Greece added to its woes and the country was placed under the fiscal monitoring of the European Commission in 2005.[3] The onset of global financial crisis and the liquidity crunch that ensued made it difficult for Greece to serve its debt. In 2009, the budget deficit stood at 15.6 per cent of GDP.[4] The first bailout package was provided to Greece in 2010 amounting to 110 billion euro, and it stretched over a period of three years. Austerity measures such as spending cuts and tax hikes followed to help the economy bounce back. The young were unemployed; those who retained employment saw a cut in their wages, and those who were retired witnessed pension cuts.[5]

Amid growing public anger over austerity measures, in 2011, the then Prime Minister, George A. Papandreou resigned. Economist Lucas Papademos was appointed to head the unity government to carry out structural reforms in the country. In 2012, Greece received a second bailout package of 130 billion euro. It also carried out massive restructuring, and 105 billion euro owed to private creditors was written off.

Leveraging the public anger against austerity, in 2015, the left leaning Syriza Party came to power with the promise of an anti austerity plan and a renegotiation of the bailout terms. Amid growing concerns that Greece may fallout of the euro, money flows and bank withdrawals were limited by the government. These measures were rejected by the common populace in a referendum in 2015, but the Greek government headed by Prime Minister Alexis Tsipras accepted the third bail out deal nonetheless.[6]

Impact of the Bailout

As the country is emerging from the bailout program, it remains indebted to its euro zone creditors. Loans from euro zone creditors account for bulk of the share of its towering public debt, which, at 180 per cent of GDP, is the highest in Europe.[7] The crisis has had severe impact on ownership of assets in Greece. 14 airports were sold to German airport operator Fraport for \$1.39 billion in 2017. The ownership stake of Germany's Deutsche Telekom in Greece's biggest telecom operator OTE has gone up from 40 per cent to 45 per cent. Piraeus, which figures amongst Europe's biggest port, has been privatized after Chinese company COSCO bought a significant stake in it.[8]

Unemployment has dropped from a record high of 28 per cent to 20 per cent, though it still remains EU's highest. Greece's 10-year market borrowing costs hover around 4.3 per cent now. This signifies a recovery from the 35 per cent in 2012 when Athens could not access the private debt markets. GDP has also risen in recent quarters, expanding by 1.3 per cent in 2017, and the IMF forecasts growth picking up to 2 per cent in 2018.

Athens has reiterated its commitment to running a budget surplus through 2060, has accepted financial supervision from EU, and has imposed additional austerity measures. It has been argued by many that running a budget surplus for another 40 years is a recipe to foster discontent.[9] [10] Recovery is also rendered difficult due to US-China trade war and growing protectionist policies. The International Monetary Fund in its report has warned that "the re-emergence of unilateral trade restrictions may escalate tensions and fuel global protectionism, disrupting worldwide supply chains and affecting long-term productivity."[11]

Future Directions

The days of difficulty are not over for Greece, not yet. Greece has to establish its reputation as a viable economy and gain investor confidence. The debt still looms in the long term even though interest payments have been lowered and deferred on the loan amount. The Greek Prime

Minister in his address on 9 September 2018 has remarked that Athens will not cut pensions or raise taxes in an attempt to meet budget goals as agreed with the lenders, hardly surprising for a Prime Minister due to face elections.

The road ahead is still a tight rope walk for Greece; to assuage the public which has reeled under severe austerity measures, and also ensure that the country does not default on credit payments. Greece has been granted a breather for now but it will remain under close watch of its creditors. The end to the bailout is but only a temporary relief for the next decade.

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Disclaimer: The views expressed are that of the Researcher and not of the Council.

Endnotes

[1] Greece now owes EU and IMF 320 billion euro.

[2] Eurostat (2018), "Eurostat News Release", Accessed on 7 September 2018, URL :https://ec.europa.eu/eurostat/documents/2995521/9087362/2-20072018-AP-EN.pdf/d9ca7f92-ea01-4a6d-a6d1-f64445be272a

[3] Council on Foreign Relations (2018), Accessed on 5 September 2018, URL: https://www.cfr.org/timeline/greeces-debt-crisis-timeline

[4] The Greek Reporter, "8 Years of Bailouts: A Timeline of the Greek Crisis", Accessed on 2 September 2018, URL: https://greece.greekreporter.com/2018/08/20/8-years-of-bailouts-a-timeline-of-the-greek-crisis/

[5] The Economist (2018), "Is the Greek Financial Crisis Over at Last", URL: https://www.economist.com/the-economist-explains/2018/08/21/is-the-greek-financial-crisis-over-at-last

[6] ibid

[7] Greece is followed by Italy at 133 per cent and Portugal at 126 per cent.

[8] Business Insider (2018), 4 September 2018, URL: https://www.businessinsider.in/Greece-is-finally-set-to-exit-bailouts-this-month-but-a-local-told-me-the-recovery-hides-a-brutal-reality-for-most-Greeks/articleshow/65297481.cms

[9] Wallace Paul (2018), "Don't Cheer Greece Bailout Exit Just Yet", Accessed on 6 September 2018, URL: https://in.reuters.com/article/us-wallace-greece-commentary/commentary-dont-cheer-greeces-bailout-exit-just-yet-idUSKCN1L503M

[10] Bloomberg (2018), "Greece's Ordeal is Far from Over", Accessed on 9 September 2018, URL: https://www.bloomberg.com/view/articles/2018-08-20/greece-bailout-exit-debt-ordeal-is-far-from-over

[11] IMF(2018), "Global Prospects and Policy Challenges", Accessed on 9 September 2018,

URL: https://www.imf.org/external/np/g20/pdf/2018/031518.pdf