Greece Crisis

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1 Background

- Greece became the epicenter of Europe’s debt crisis after Wall Street imploded in 2008. With global financial markets still reeling, Greece announced in October 2009 that it had been understating its deficit figures for years, raising alarms about the soundness of Greek finances.
- Suddenly, Greece was shut out from borrowing in the financial markets. By the spring of 2010, it was veering toward bankruptcy, which threatened to set off a new financial crisis.
- To avert calamity, the troika — the International Monetary Fund, the European Central Bank and the European Commission — issued the first of two international bailouts for Greece, which would eventually total more than 240 billion euros, or about $264 billion.
- The bailouts came with conditions. Lenders imposed harsh austerity terms, requiring deep budget cuts and steep tax increases. They also required Greece to overhaul its economy by streamlining the government, ending tax evasion and making Greece an easier place to do business.

2 Current Crisis

- European politics plunged into a volatile new era following a historic victory in Greece’s general election by the far-left radical party Syriza in Jan 2015 committed to ending years of austerity.
- Greece government announced a referendum in June 2015 on the terms of austerity and bailout package from EU and IMF. Greece rejected an austerity package that European leaders insisted that

Timeline for Greece Crisis:

**2001: Greece joins Eurozone**: To qualify, Greece had to demonstrate signs of a healthy economy, including meeting targets for price stability and public finances. The country had not qualified to join bloc when it was established in 1999.

**2004: Greece confesses to exaggerating figures**: To enter the eurozone, certain economic conditions must be met. In late 2004, however, Greece’s government admits that it has under-reported the country’s budget deficit figures between 2000 and 2003.

**2009: Greece Downgraded**: Fitch downgrades Greece’s credit rating to "BBB+" from "A-" marking the first time in a decade that the country has fallen below "A" status.

**2010: Greece approves harsh austerity package**: The Greek government approves a tough austerity package, including public sector pay cuts, pension freezes, and tax rises on cigarettes, alcohol and fuel.

**2010: Greece: The economic rescue begins**: The International Monetary Fund and Eurozone members agree on a financial aid package for Greece worth 110 billion euros ($146 billion), amid fears that the country’s fragile economy could put the whole region in jeopardy. Greece accepts more cuts as part of the deal, but violent demonstrations erupt as protesters demand an end to austerity.

**2014: Greece returns to bond markets**: Investors celebrate as Greece makes its official return to the bond markets, after a four-year break. High demand for its five-year bonds led some to dub this the "beginning of the end" for Greece's bailout—although this now looks a little premature.

**2015: Syriza elected**: Led by Alexis Tsipras, anti-bailout party Syriza sweeps to victory and forms an unexpected coalition with right-wing Independent Greeks party.

**2015: Referendum goes Tsipras' way**: In a shock move, Greek Prime Minister holds a public vote on whether to accept the austerity-heavy creditor proposed bailout deal and wins.

**2015: New Deal Negotiated**: Third Bailout deal was agreed by Greece and EU in principle, opening ways for future negotiations and halting of Greece’s exit from Eurozone temporarily.
the country implement in exchange for continued financial assistance.

- The referendum had asked whether Greece should do austerity on Europe’s terms — or its own. In other words, does it have to cut social spending significantly more, as the Europeans want, or can it reduce deficits by raising taxes, as the Greeks wanted?
- Greece delivered a landslide no vote to the Eurozone’s terms for the country remaining in the single currency on Sunday night, unleashing a seismic political shift that could have derailed the European project.
- Greece had missed a deadline earlier, to repay roughly 1.6 billion euros to the IMF putting Greece in tight fix.
- Greece’s rejection of bailout terms and default of payment to IMF led to fear of Greece exiting the already stressed Eurozone. It triggered fears that the country’s troubles could spill into Europe’s turbulent military and security landscape, causing waves from the Balkans to Turkey.

3 Negotiations and Stand Off

- Why Europe Need Greece-
  - Greek geography puts it on any number of fault lines. It abuts the Balkans, a volatile region with several countries struggling to shed a corrupt past and align with the EU.
  - Greece “is on the fracture line of Europe—if another country that goes down the chutes there can create an enormous amount of geo-political and strategic problems for rest of Europe.”
  - Such risks are one reason EU leaders strongly wanted Greece to remain within the bloc, despite the risk of it becoming obstructionist. Having Greece in the EU would make it far easier for other European countries to keep working closely with Athens on economic and diplomatic issues and it would maintain Europe’s united front.
- Negotiations after No in the Referendum:
  - Greece has been asking for another bailout package along with lesser austerity measure.
  - They wanted to re-negotiate the terms of earlier and upcoming deals.
  - Syriza party led by Prime Minister Alexis Tsipras had promised to end the austerity program. For months, the new government engaged in acrimonious negotiations with the troika for a bailout without the harsh austerity program.
  - However, the creditors not only wanted a tough adjustment program but also conditions to ensure Greek compliance since many components of the earlier adjustment programs had not been implemented.
  - A sub-group of countries, led by Germany but also including the Netherlands, Belgium, Finland and Slovakia among others, took a particularly hard line. They were against any debt restructuring and also demanded that and any fresh loan should be given exclusively for repayment of debt.

4 The New Deal Reached

- The European Council reached an agreement in principle on a third bailout for Greece in five years. The agreement was hammered out over 30 hours of back-to-back meetings, first of finance ministers of the Eurogroup and then the 19 European Union (EU) heads of state. Much work remains to be done over the next few weeks, especially by way of prior actions by the Greek government, pending finalization of a memorandum of understanding.
- Greece could receive financial assistance of up to €86 billion from the European Stability Mechanism (ESM) over the next three years.
The agreement also enables the European Central Bank to resume emergency lending to Greek banks that have more or less shut down operations for the last two weeks due to shortage of funds. So the immediate crisis has been resolved.

Greece has agreed to wide-ranging reforms in order to secure a third bailout from the eurogroup, it is facing a strict timetable to approve and implement those changes. The conditions it has agreed to will require a restructuring of its economy and, in many respects, its society.

4.1 Salient Features of Deal

- **Pensions:** The eurogroup has asked for "upfront measures to improve the long-term sustainability of the pension system" to be adopted by July 15. That doesn't mean the retirement age will go up overnight, but it is meant to signal a commitment to "comprehensive pension reform"

- **Taxes:** The deal demands that legislation streamlining the value added tax (VAT) system and broadening the tax base be passed by July 15. Reform will likely involve simplifying tax rates and expanding the VAT to more products and eliminating some of the exemptions that currently exist.

- **Judiciary and Administration:** The deal demands adoption of a Code of Civil Procedure by July 22 as a means of speeding up the judicial process and reducing costs. It foresees the introduction of mediation and other non-judicial methods as a way of freeing up a deadlocked system overburdened with cases. Along with the "de-politicizing of the Greek administration" the deal calls for as part of a broader attempt to tackle the cronyism and corruption that has plagued Greek society — and blocked reform — for decades.

- **Banks, budget and accounting:** The troika has also asked Greece to align its banking regulations with the EU's bank recovery and resolution directive, which provides an EU-wide framework for dealing with failing banks, by July 22 and Eliminate political interference in the Hellenic Financial Stability Fund. It asks to take "decisive action" on non-performing loans.

- **Market reforms:** The deal also calls for the privatization of the electrical utility and the selling off of €50 billion worth of state assets through an independent fund supervised by the troika. Twenty-five billion euros of the profits would be used to recapitalize banks, €12.5 billion to reduce the debt to GDP ratio and the rest for investment.

- **Labor Reforms:** The new deal is short on specifics when it comes to labour reforms, other than calling for "modernization" and the implementation of "international and European best practices" when it comes to collective bargaining, industrial action and layoffs. But it's expected that Greece will have to loosen the rules around collective bargaining and the limits on the number of people that can be laid off and scale back the size of its notoriously bloated public service.

5 Future of Greece and Eurozone

- The Greek parliament passed sweeping austerity measures demanded by lenders to open talks on a new multibillion-euro bailout package to keep Greece in the euro.

- If it meets the creditors' requirements, Greece will get a three-year rescue program and a commitment to restructure its debt, which is unsustainably high at around 320 billion euros ($453.7 billion Cdn), or around 180 per cent of annual GDP.

- Reforms could work to the ruling Syriza Party's advantage, since its support is strongest among youth and the unemployed — i.e., those currently shut out of the labor market (unemployment for those under age 29 is over 60 per cent).

- Of course none of this means the euro mess won't continue. On the contrary, with a historic window for a fundamental recalibration of the euro system missed we are in for more of the same, and the next act of the drama is already beginning.
• The problem with the euro is not a lack of “European spirit” on the part of the Greeks. It is that the monetary union is a fundamentally misconceived institution, as it denies weaker countries the possibility of devaluing their currency in support of economic adjustment while otherwise preserving member states’ sovereignty.

• All the new agreement can achieve is again to buy time, though not a lot. The Greek “reforms” must be implemented, and their implementation supervised; inevitably lagging implementation will provoke calls for delayed disbursement of funds while debt restructuring will return to the agenda. Constant conflicts, with Germany at the centre, are preset.