Southern Europe Hegemonies
Summer School organised by el Instituto 25 de Mayo

Living with the Euro
The Greek experience

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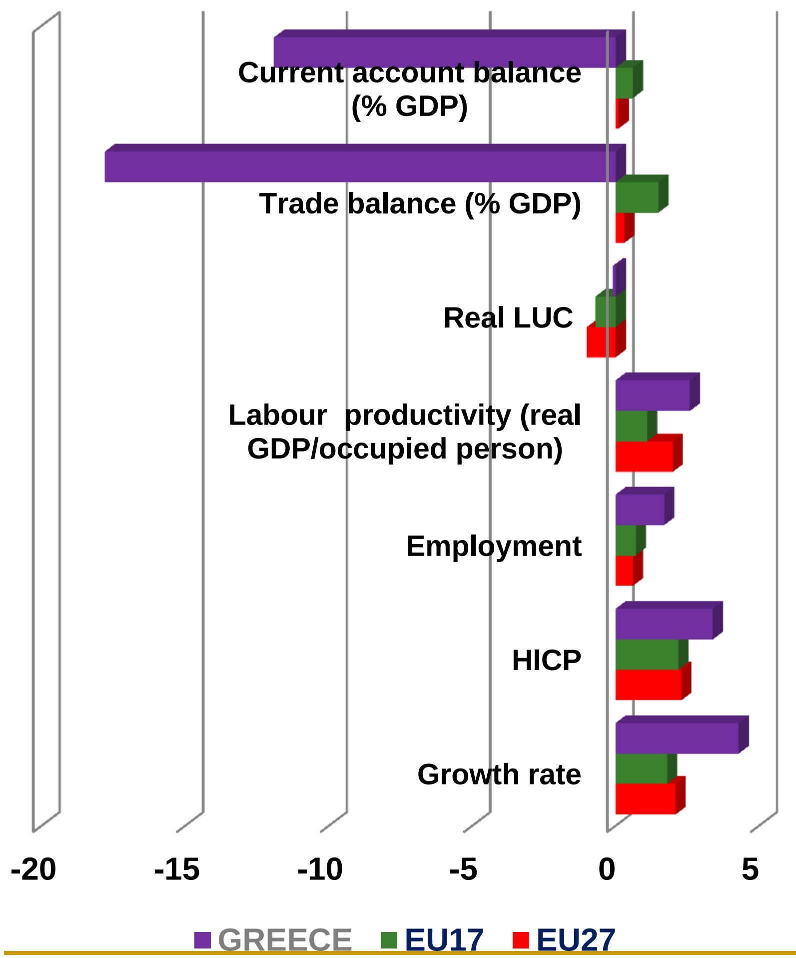
Outline

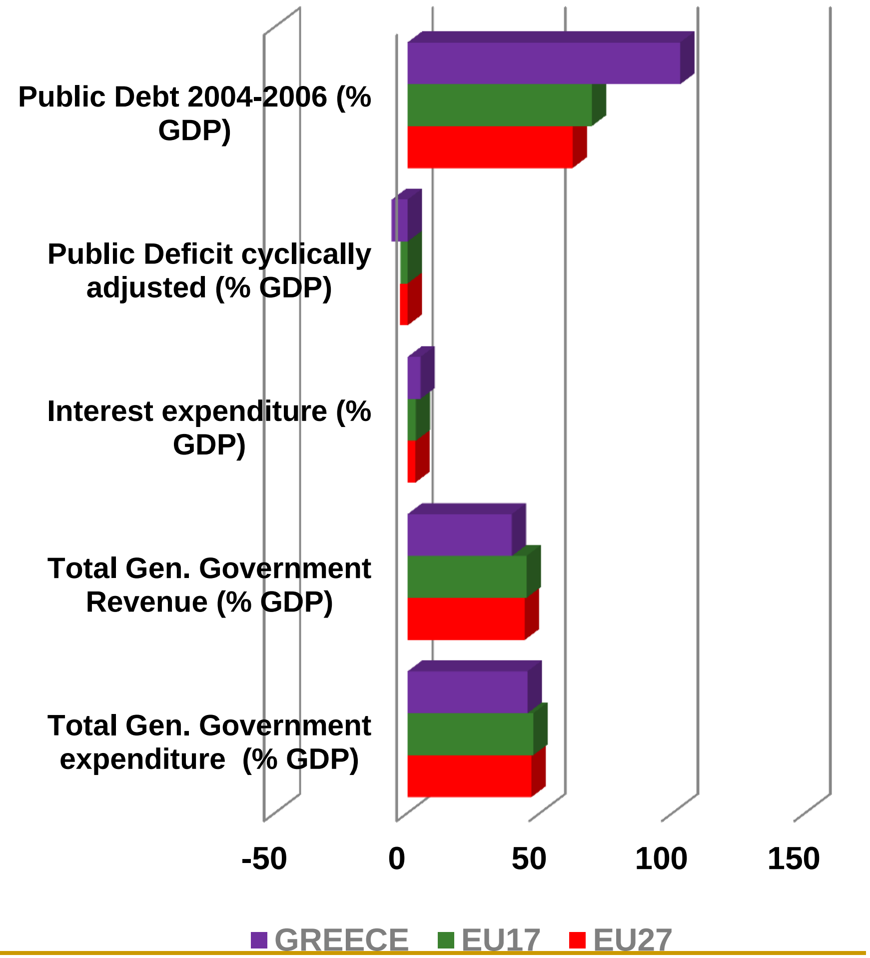
- Brief historical background
- The state of the Greek economy prior to the crisis
- Come the crisis – the role of finance; fear of contagion
- The bail-outs save finance
- The troika prescription
- Social, economic, political implications
- The bras de fer of the negotiations: the suspicion of Germany is back
- The role of the ECB: guardian of stability or thuggery?
- The new programme: financing envelope & conditions
- Debt sustainability: the need for debt restructuring
- About the deal - Quoting Tsipras
- Future prospects – Greece deserves better, as do Germany & Europe

Brief historical background

- 20th century – 75 years of wars (Balkan, European, civil) and dictatorships + 25 years of ‘normalcy’
- 1950-1973 - ‘growth at any cost’, based on ‘social compromise’, tolerating various tax digressions
- 1980s - beginnings of the welfare state; former national champions nationalised, with the state taking over their liabilities; sluggish growth, high inflation, worsening of public finances.
- 1990s - 2000s - Joining the eurozone, strategic goal of the ruling political class; manufacturing and agriculture – fell further behind; privatization & market liberalisation deepened financialisation of the economy
- Public finances ‘massaged’ through derivatives with the help of Goldman Sachs

The Greek economy prior to the crisis - Basic Indicators 2002-2006 (% annual change; % GDP)



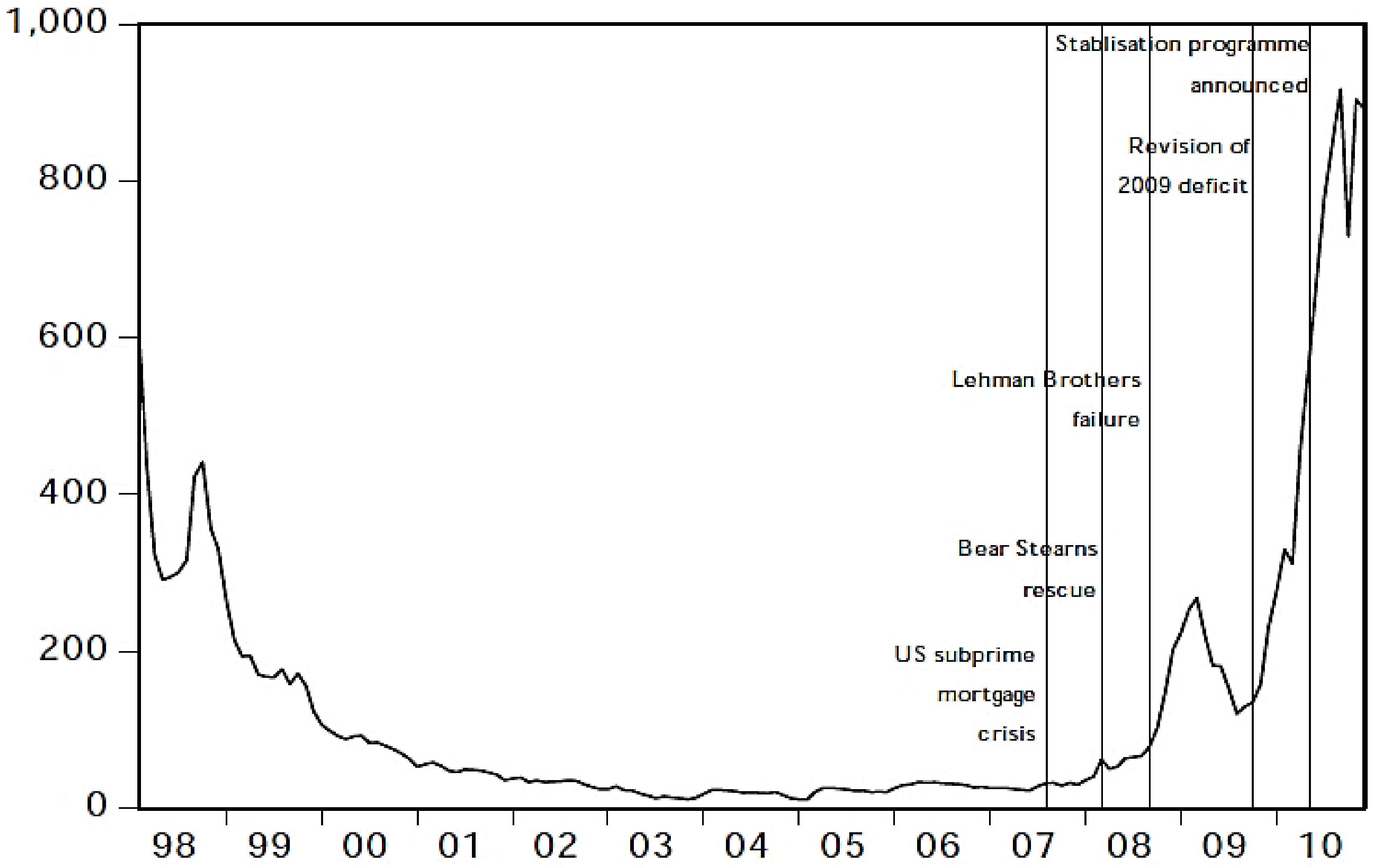


Ranking of the Greek economy in EU27; EU17 (2002-2006)

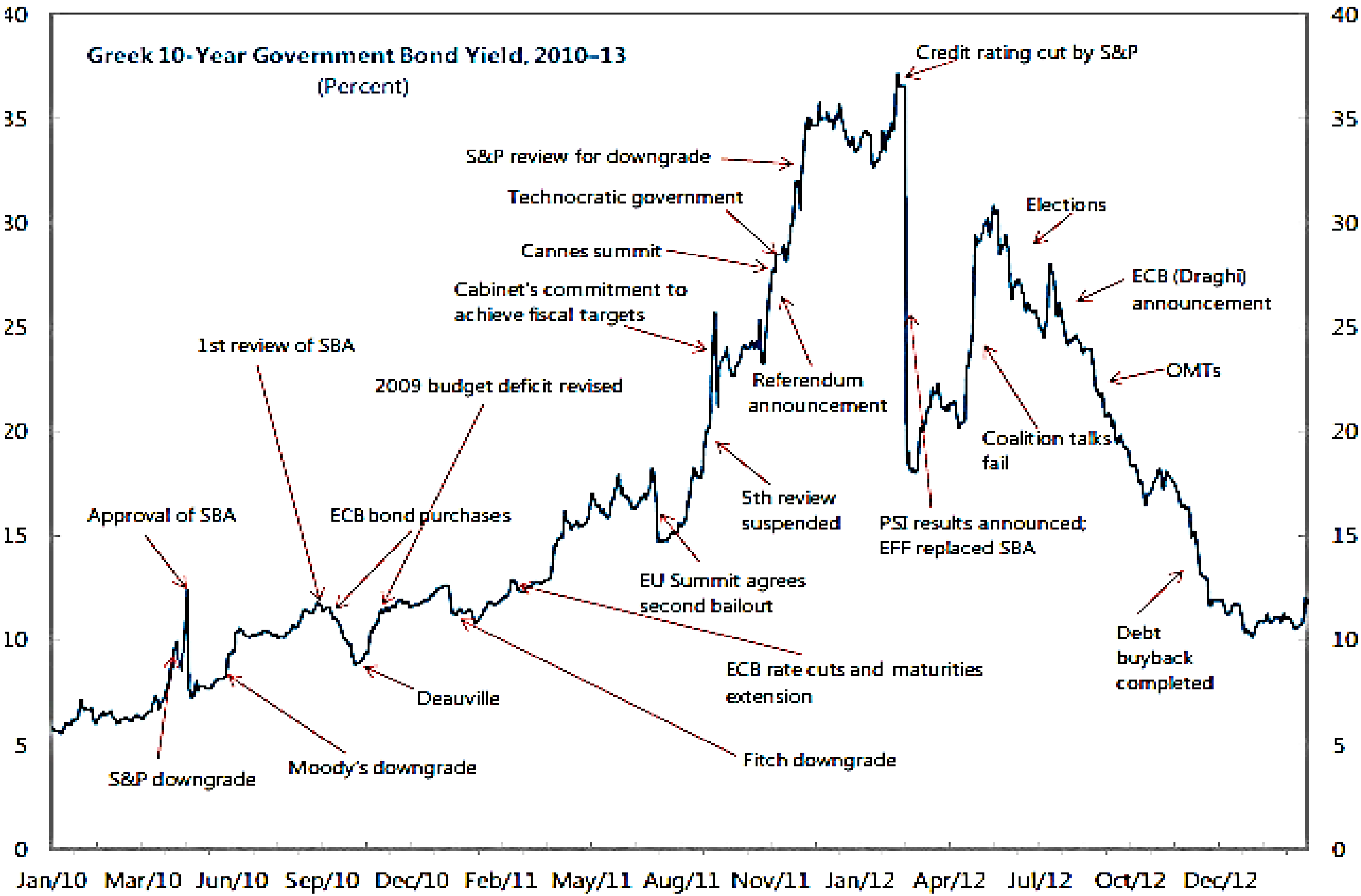
Growth rate	9th; 4th
Growth rate/capita	11th; 4th
Domestic demand growth	8th; 5th
HICP	6th; 3rd
Employment	8th; 6th
Unemployment (% of labour force)	6th; 3rd
Labour productivity	11th; 4th
Real LUC	9th; 5th
Gen. Government expenditure (% GDP)	12th; 9th
Gen. Government Revenue (% GDP)	16th; 12th
Interest expenditure (% GDP)	2nd; 2nd
Public Deficit (% GDP)	2nd; 1st
Public Debt 2004-2006 (% GDP)	2nd; 2nd
Trade balance (% GDP)	3rd; 2nd
Current account balance (% GDP)	3rd; 2nd

Come the crisis – the role of finance

10-Year government bond spreads between Greece and Germany

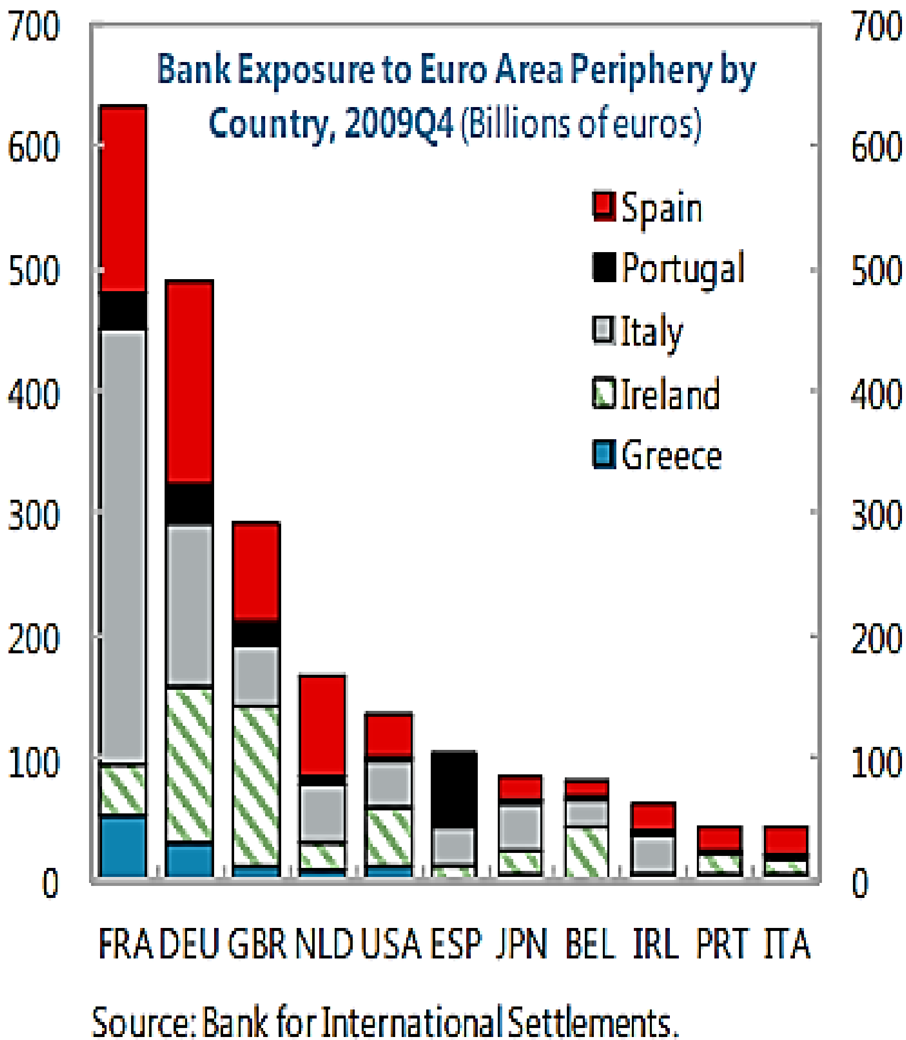


10-year GGB yields



Sources: Bloomberg; and IMF staff calculations.

The European lenders – fear of contagion

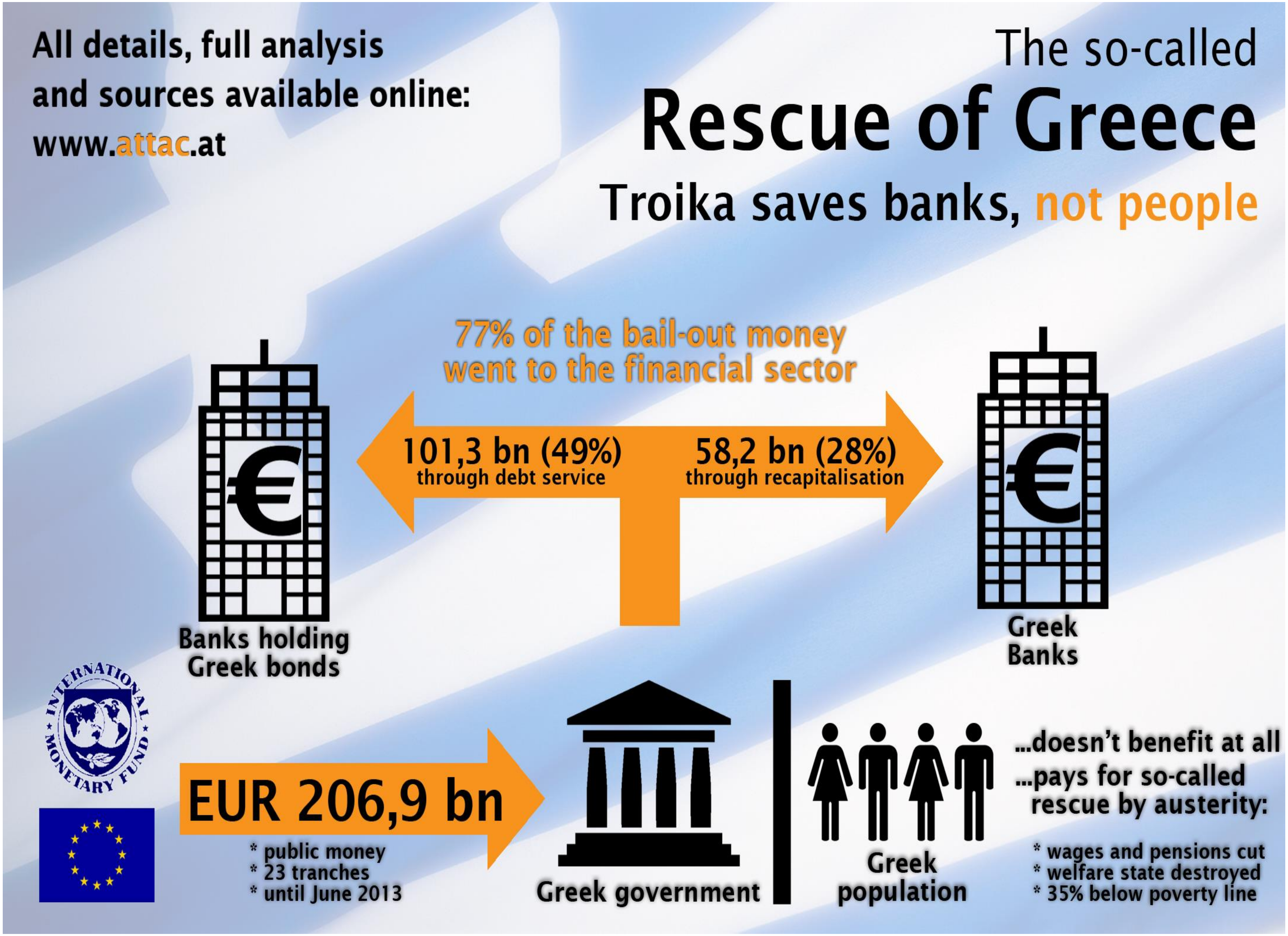


<u>IMF</u>: ‘Contagion from Greece was a major concern for euro area members given the considerable exposure of their banks to the sovereign debt of the euro area periphery’ (IMF,2013:8)

<u>Varoufakis:</u> “None of the bailouts had the purpose of solving Greece’s problems. The original bailout was a cynical ploy for transferring losses from the books of the German and French banks onto the shoulders of the Greek, German and French taxpayers. The second bailout was merely an acknowledgment that the first bailout had imposed upon Greece conditions that it could never meet. Similarly with the one being prepared now.” (http://yanisvaroufakis.eu/2013/09/02/was-chancellor-merkel-about-greece/#more-4174

Focus on the 'rescue' of the public debt

Agreed/paid out funds (€ billion)			
Eurozone		IMF	Total
Bail out I			
Agreed sum*	77	30	107
Paid out	53	20	73
*€34 bn transferred to Bail out II			
Bail out II			
Agreed sum	145	19	164
Paid out	133	8	141
Total payments (6/2015)	186	28	214


All details, full analysis
and sources available online:
www.attac.at
The so-called
Rescue of Greece
Troika saves banks, not people
77% of the bail-out money
went to the financial sector
101,3 bn (49%)
through debt service
58,2 bn (28%)
through recapitalisation
Banks holding
Greek bonds
Greek
Banks
INTERNATIONAL MONETARY FUND
EUR 206,9 bn
* public money
* 23 tranches
* until June 2013
Greek government
Greek
population
...doesn't benefit at all
...pays for so-called
rescue by austerity:
* wages and pensions cut
* welfare state destroyed
* 35% below poverty line

Troika lends at market rates

- *Bail-out I (2010)* – Bilateral loans with eurozone countries (except for Slovakia, Ireland, Portugal), to be repaid within 3 years, at 5% interest rate; E.g., Germany earned income from interest over 2010-2012 equal to €320 million
- *Bail out II (2012)* – EFSF loans to be repaid within 3 years at 2%; Bail-out II conditional on debt restructuring – bond exchange and bond buyback
- *November 2012* – Easing of terms: BI to be repaid in 15 years at 1% (floating rate); BII interest to be paid after 10 years
- *Segregated account* for the repayment of creditors (out of bail-out funds and primary surplus)

Debt restructuring – Bond exchange 2012

- Bonds made up 57% of public debt (27% domestic & 30% foreign); Nominal value of bonds: €199,2 bn exchanged for new long sovereign bonds €62,4bn + short-term EFSF bonds worth €29,7bn + 'sweeteners' €5.5 bn
- Also, €23 bn for the recapitalization of Greek banks + €35 billion as 'credit enhancement' to underpin the quality of the bonds so as to allow their continued use as collateral for access to Eurosystem liquidity operations by Greek banks
- Hold-outs €6.4; repaid in full
- Bonds held by ECB and NCBs (16%) NOT exchanged; ECB to return 'profit' made on GGB on maturity as of Nov. 2012
- CDS settlement amounted to €2.5 bn: markets 'relieved'

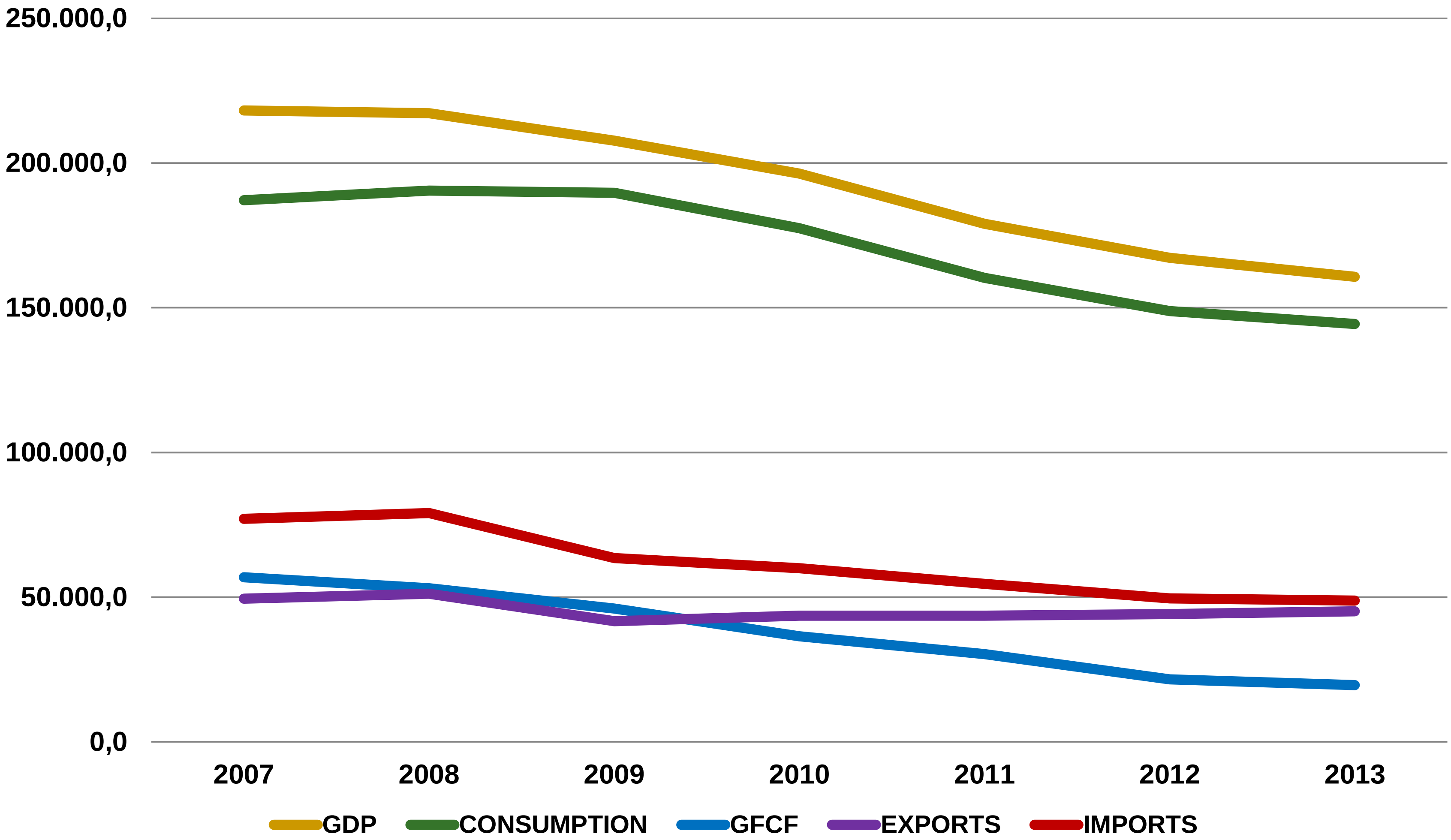
Debt restructuring – Bond buyback 2012

- The amount of €11,3 bn from Bail-out II used up for the buyback of new bonds worth €31,9 bn
- Buyback price not announced. Estimated rise of at least 20% after announcement benefiting bond holders
- Greek banks participated with €17 bn (53%)
- In total, €104 bn (71%) from Bail-out II used for debt exchange and buyback
- 'Carrot and the stick' method of the troika : BI paid out in 6 disbursements, BII in 7 - Short-term borrowing necessary to close gaps (up to 6 months) at 4%
- *Debt restructuring has not made public debt sustainable: (i) too late; (ii) ECB and NCB bonds not included; (iii) funded through borrowing; (iv) terms not negotiated (role of IIF and club of creditors); (v) expensive short-term borrowing*

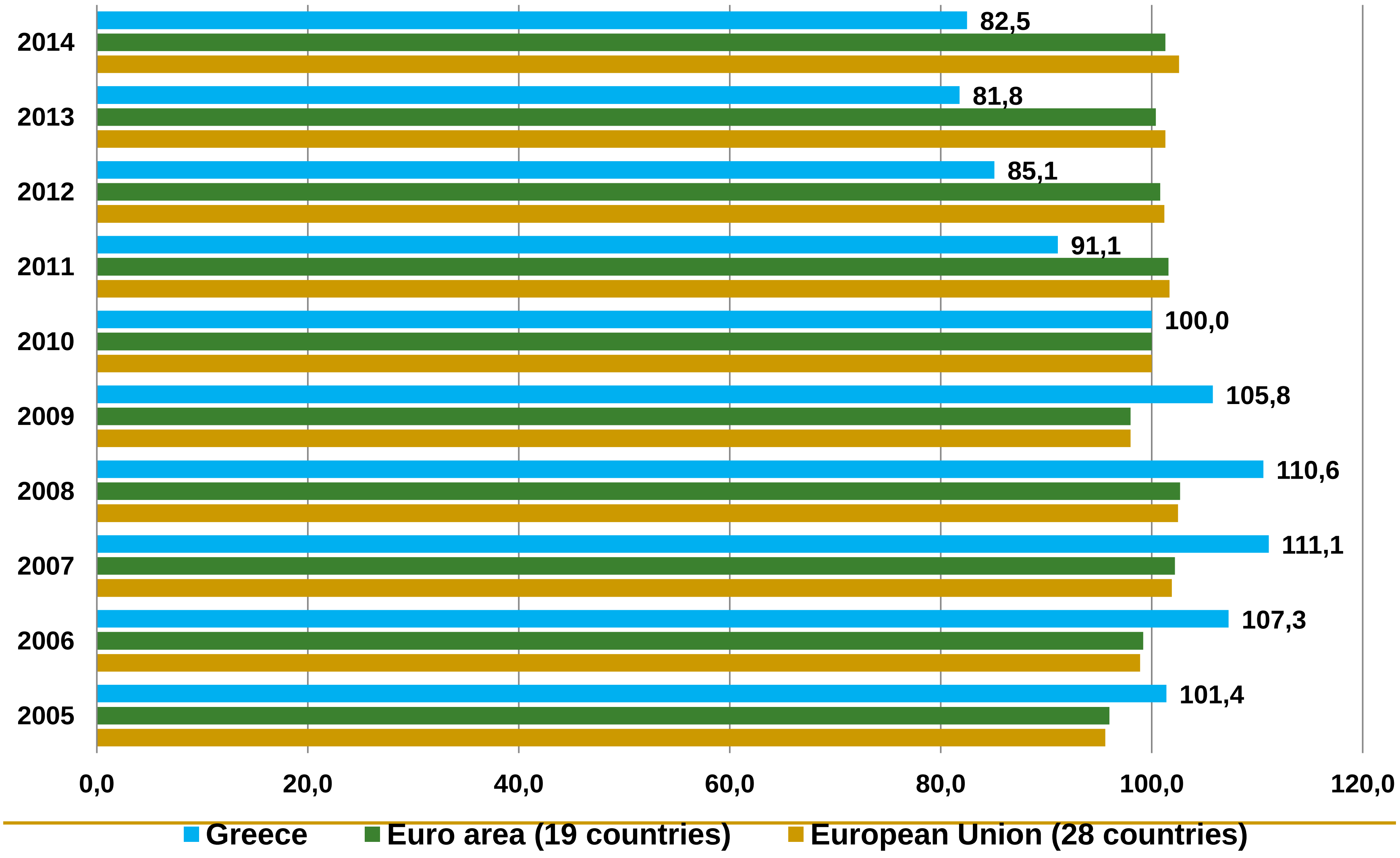
The troika prescription: austerity & deregulation

- Fiscal consolidation – Over the period 2010-2014, fiscal austerity measures amounting to over 30% of GDP; 54% of which is going to come from expenditure cuts and 46% from increases in revenue (tax evasion not dealt with).
- Labour market reforms – Employment protection and worker rights under attack (min. wage, collective agreements, etc.)
- Structural changes – Privatization programme expected to raise €35 billion by end-2014 and €50 billion by end-2017; market deregulation (energy, road transport, regulated professions); reform of pension system

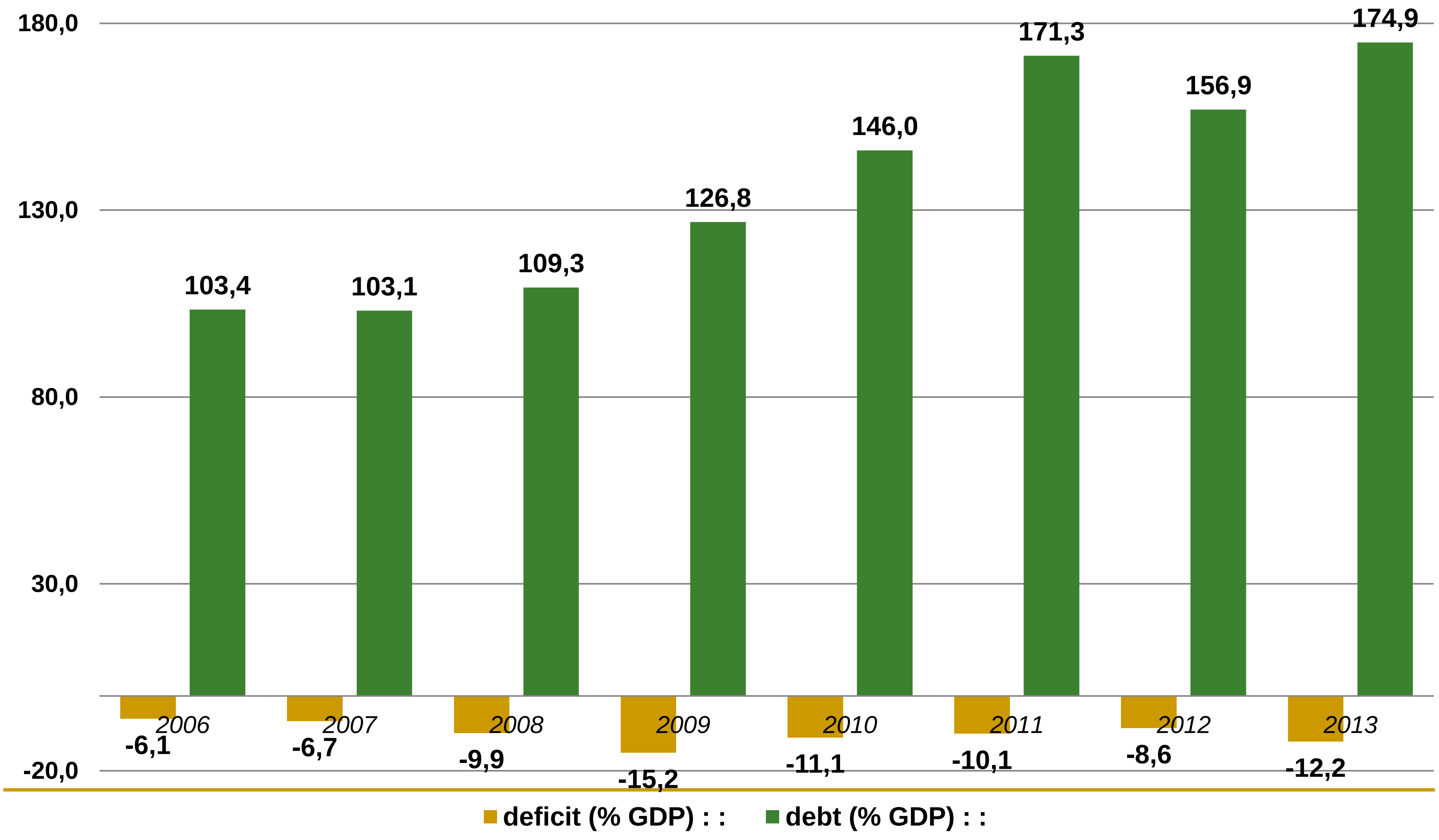
The Greek economy - GDP and its components (mio euro; 2005 prices)



GDP at market prices Greece, EU28, EU19
(2010=100)

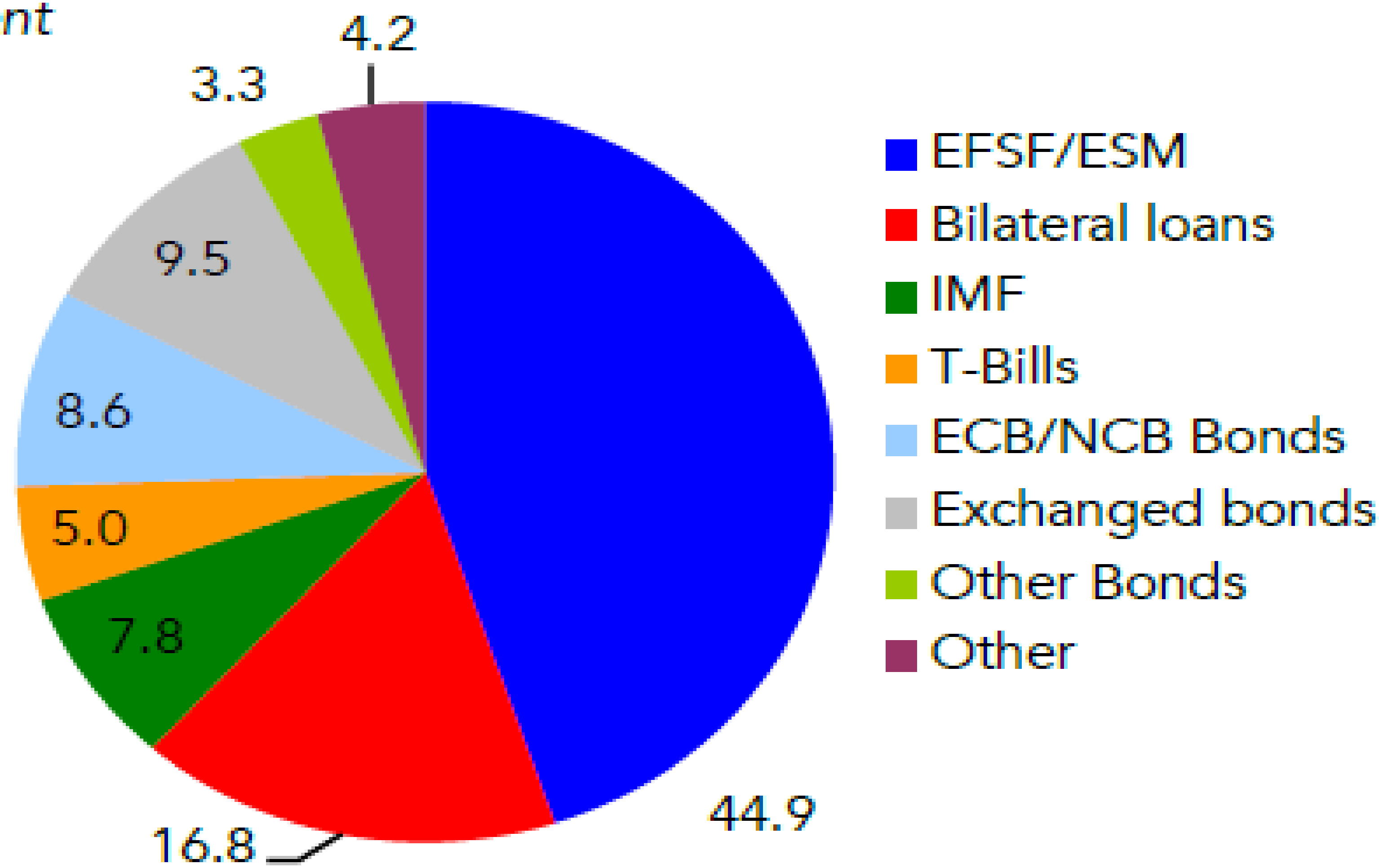


A futile exercise – Greece public deficit and debt as % of GDP



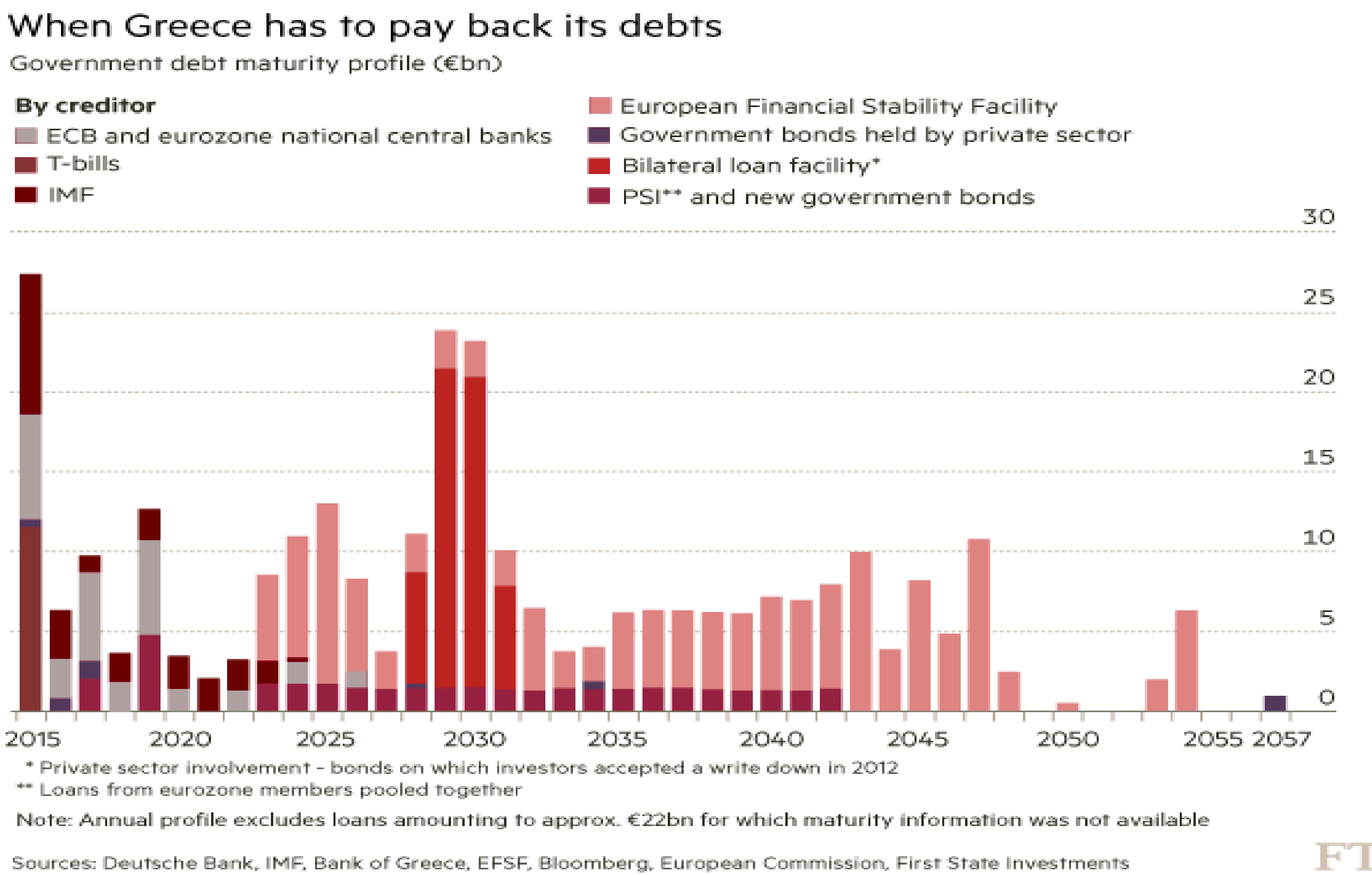
Greece: Debt by Holders

percent



Source: European Commission, IMF, Bloomberg, IIF. NCB=national central banks

Debt maturity



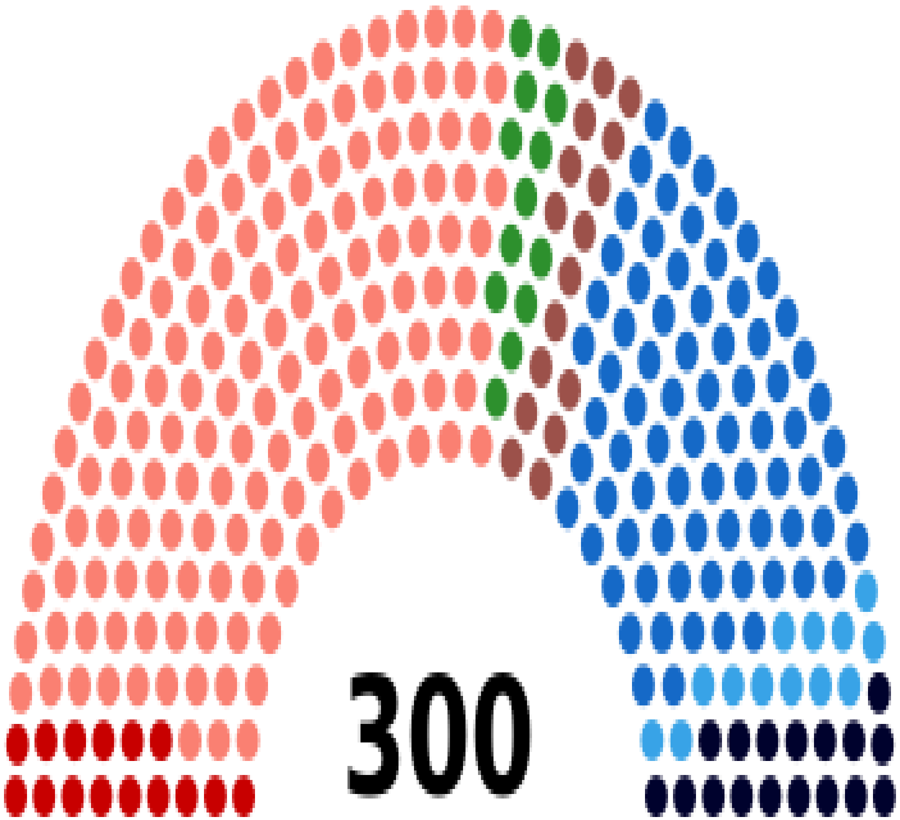
… unprecedented social hardship

- Unemployment up from 8% of the labour force in 2007 to 18% in 2011 and 27% in 2014; two-thirds of the unemployed have been without a job for over one year
- Certain groups hit hardest - In 2014, the unemployment rate for *women* was greater than 30% and 52% for the *under 25s,* from 16% and 23% respectively in 2007
- The increased flexibility of the labour market has resulted in a steep increase in individual and firm-level work contracts and in a decline in private sector wages by more than 30%.
- Pensions reduced by more than 30%; Cuts in public health and education expenditure;
- More than one-third (36%, 2013) of the population below the poverty line &/or severely materially deprived

Political realignments – Electoral results 2009-2015

Per cent Share of votes	2009	June 2012	May 2014	January 2015
New Democracy	33.5	29.6	22.7	27.8
SYRIZA (Radical Left Alliance)	4.6	26.9	26.6	36.3
PASOK (Panhellenic socialist movement)	43.9	12.3	8.0 (ELIA)	4.7
Independent Greeks (split from ND)	--	7.5	3.5	4.8
Golden Dawn (fascists)	--	6.9	9.4	6.3
DIMAR (Democratic Left; split from SYRIZA)	--	6.3	1.2	0.5
KKE (Communist Party)	7.5	4.5	6.1	5.5
LAOS (extreme right)	5.6	--	--	--
RIVER (centrist)	--	--	6.6	6.1

25 January 2015 Hellenic Parliament election results – Seats/party



- SYRIZA 149} coalition
- ANEL 14} government
- New Dem 76
- Golden Dawn 17
- River 17
- KKE 15
- PASOK 13

The negotiations: a bras de fer contest

ECB, enforcer of the creditors: politics & monopoly of power to print money are irredeemably linked

- ECB created conditions of asphyxiation for the Greek banks and economy by (1) Feb: not accepting Greek government bonds and government-guaranteed debt as collateral; (2) thus shifting banks to a costlier source of borrowing (ELA) (3) April: setting an upper limit on the amount the Greek banks could lend to the state; (4) June: introducing a haircut on the GGBs as collateral; (5) June: freezing the ELA when the referendum was announced
- Flight of deposits (15% in Jan-Mar 2015); capital controls (banks closed for three weeks after 28th June); danger of collapse of banking system; bank market values skydiving
- “the dog that did not bark in the Greek night” – no panic, no riots, a lot of patience, understanding and support for a government fighting against a much stronger opponent. Armageddon/ political meltdown, common in such situations, did not take place: continued trust in the government

The role of the ECB: guardian of stability or act of thuggery?

- *Paul de Grawe:* “The correct announcement of the ECB should be that it will provide all the necessary liquidity to the Greek banks. Such an announcement will pacify depositors. The ECB has other objectives than stabilising the Greek banking system. *These objectives are political*. The ECB continues to put pressure on the Greek government to behave well.”
- *James K. Galbraith*: “I would say that the ECB’s decision to act essentially as an enforcer of the creditors – a decision that undermined the Greek economy, destabilised and eventually pulled the plug on the banking system – was an act of remarkable thuggery, which will raise the most profound questions about the integrity of the ECB going forward. The pressure exerted by the ECB on the Greek government was what ultimately forced Tsipras to accept the terms of the agreement.

Euro Summit Statement 12/7/2015

- *Measures (by 15 July):* streamlining of the VAT system & broadening of tax base to increase revenue; comprehensive pension reform programme; full legal independence of ELSTAT; introducing quasi-automatic spending cuts in case of deviations from ambitious primary surplus targets after seeking advice from the Fiscal Council and subject to prior approval of the Institutions
- *Measures (by 22 July):* major overhaul of procedures and arrangements for the civil justice system; transposition of the BRRD
- *In the long term*: full implementation of OECD recommendations, including Sunday trade, sales periods, pharmacy ownership, milk and bakeries, except over-the-counter pharmaceutical products, which will be implemented in a next step, as well as for the opening of macro-critical closed professions (e.g. ferry transportation); privatisation of the electricity transmission network operator; modernisation of collective bargaining, industrial action; develop a significantly scaled up privatisation programme; strengthen financial sector, eliminate any possibility for political interference

Financing envelope for the new programme

	New 3-year ESM programme from the beginning Aug 15-end Jul 18
Gross financing needs	***81,7***
Amortisation	**33,8**
Repayment IMF and BoG loans	**2,1**
Interest payments	**17,8**
Arrears clearance	**7,0**
Cash buffer for deposit build-up	**4,5**
Privatisation (-)	**-2,5**
Cash general government primary surplus (-)	**-6,0**
Bank recapitalisation	**25,0**
Potential Financing sources (-) **(SMP/ANFA)**	**-7,7**
Financing gap	***74,0***

Quoting Tsipras (14/7/2015)

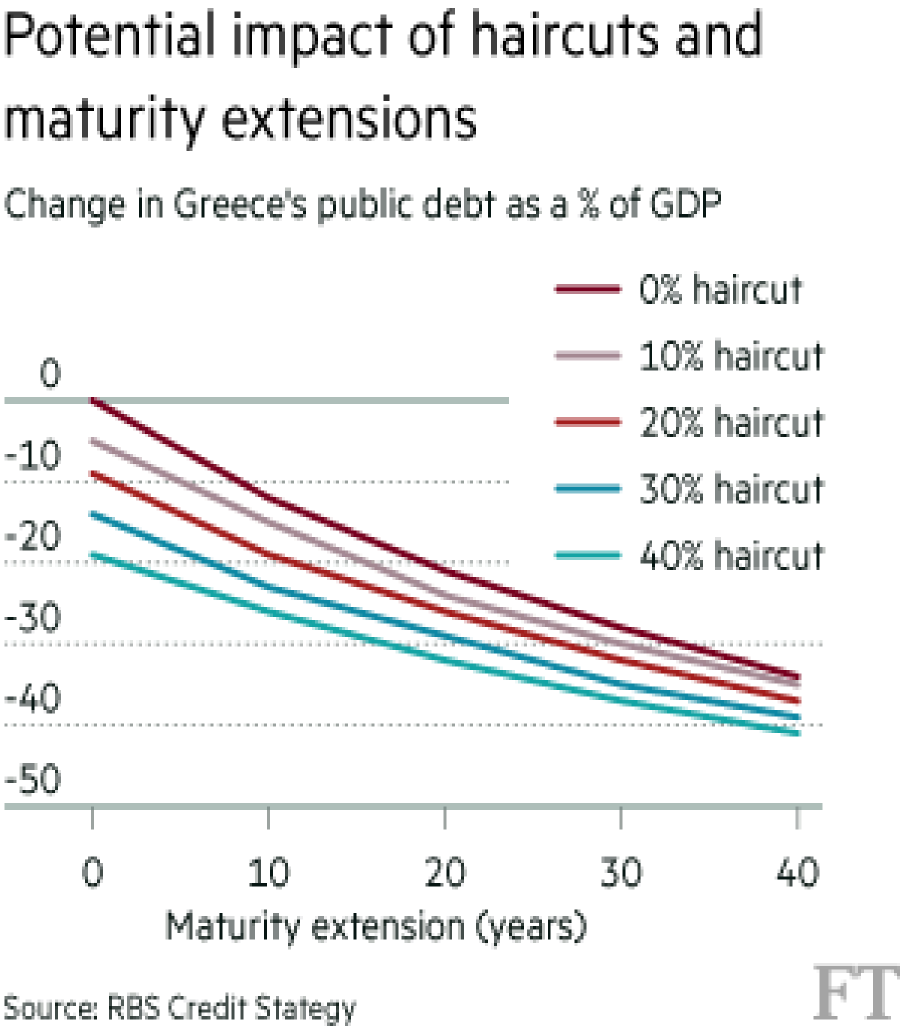
- The result of the Euro Summit and the Eurogroup was the result of a strong pressure on a country, which had democratically expressed itself, to satisfy the more financially powerful countries in Europe.
- It is a bad deal, but there is no better option. … I take on the responsibility for signing a document I don’t believe in.
- Three main benefits – (a) it will cover Greece’s short term needs, including the recapitalization of banks; (b) it will give Euro 35 bn for investment and © it includes a commitment for debt restructuring in the future.
- The safety of ideological pureness is not compatible with moments of crisis.

The suspicion of Germany is back

- *Henning Meyer* (editor-in-chief, Social Europe) – “The suspicion of Germany is back. … Merkel’s and Schäuble’s politics have been nothing short of a disaster for Germany too (in addition to Greece and Europe). For years, the population has been fed a wrong narrative of what the real problems are and the ruthlessness with which a purely national view was enforced has nothing to do with European partnership anymore.”
- *Paul Krugman* - “Who will ever trust Germany’s good intentions after this?”
- *Dom. Strauss-Kahn* – “A eurozone in which you, my German friends would lay down your law with a few Baltic and Nordic states in tow, is unacceptable for all the rest.

One more sore point - Debt sustainability

Debt sustainability



- *IMF (14/7/2015)* - Debt would peak at close to 200 percent of GDP in the next two years.By 2022, debt projected to be at 170 percent of GDP. Gross financing needs well above the 15 percent of GDP threshold deemed safe and continue rising in the long term.
- *EC (10/7/2015)* - Debt-to-GDP ratio expected to reach 165% in 2020, 150% in 2022 & 111% in 2030 in the baseline scenario. The respective debt/GDP ratios in the adverse scenario are: 187% in 2020, 176% in 2022 and 142% in 2030..

Future prospects – A deep crack in austerity politics

- For the first time since the onset of the crisis in 2007/2008, the hegemonic austerity project of the European elites has been formally challenged.
- The SYRIZA-led government provided the political link intermediating between the public discourse and the decision-making process.
- The shortcomings of the single currency regime and the inequities of the EU's crisis response have been much discussed.
- The democratic veil has been stripped back and the real workings of the system are there for all to see: the deflationary straightjacket of the eurozone dominated by creditors

Greece deserves better, Germany deserves better, Europe deserves better

- Difficult days lie ahead for the Greek economy and the majority of the Greek population
- The powerful have been challenged; this is only the end of the beginning; a new phase is about to start
- The shift in the balance of power is far more urgent than perceived until now: between classes, interest groups, finance and society on the national *and* on the European level
- *Greece deserves better* – The political stasis of the Greek people has given them back their dignity; it cannot be taken away from them
- *Germany deserves better* – The people of Germany deserve their fellow Europeans' friendship, not renewed resentment and suspicion
- *Europe deserves better* – The European project of shared ideas and culture should not be sacrificed

The European project like the Europa myth
False promises, deep disappointments, bleak prospects