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A STUDY ON GREEK ECONOMIC CRISIS: AN ANALYTIC OVERVIEW

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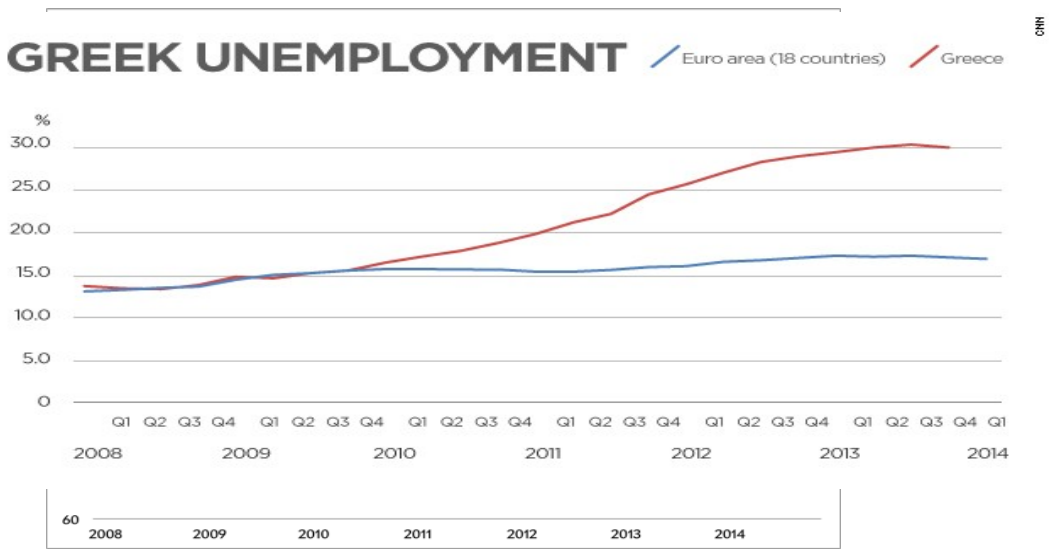
Abstract:

This paper presents and critically discusses the origins and causes of the Greek fiscal crisis and its implications for the euro currency. In the aftermath of the 2007-2009 financial crisis the enormous increase in sovereign debt has emerged as an important negative outcome, since public debt was dramatically increased in an effort by the US and the European governments to reduce the accumulated growth of private debt in the years preceding the recent financial turmoil.

The Eurozone is facing a serious sovereign debt crisis. Several Eurozone member countries have high, potentially unsustainable levels of public debt. Greece, Ireland, and Portugal—have borrowed money from other European countries and the International Monetary Fund (IMF) in order to avoid default. With the largest public debt and one of the largest budget deficits in the Eurozone, Greece is at the centre of the crisis. Further the aim of this paper is to analyse the reforms to overcome the Greek debt crisis and organizing the future of the European monetary union.

Introduction:

- Greece is a country located in Southern Europe with parliamentary republic government system having Population of **10,917,762.** Greece is the 15th largest economy in the 27 member EU.Greece is ranked 38th in the world at $21,648 nominal GDP and 44th in the world $25,954 for purchasing power parity (PPP).Greece had a current GDP of 176 (EUR bn). Since the beginning of 2008, Greece's gross domestic product has shrunk by more than a quarter. While other distressed euro-zone members are still recovering from the downturn, their economies didn't retract as severely.



Greece is facing an extremely severe economic crisis whose magnitude is comparable, if not worse, to the Great Depression. Between 2008 and 2013 real GDP fell by 23% and the unemployment rate reached 27.5% in 2013, almost four times the 2008 level. The roots of this economic disaster can be found in the excesses that accumulated in the years leading to the global financial crisis of 2007-08. It is therefore important to examine the events of these years both to understand the crisis's causes and to evaluate the policies that might help exit the crisis.
This perspective has three important implications:
First, the Greek government is uniquely responsible for the hardship that has be fallen the country because it could have behaved sensibly but chose not to;
Second, for Greece to exit the crisis it suffices to reduce public deficits and debts;
Third, the current crisis of the Eurozone could have been avoided had Greece not been allowed in the euro.

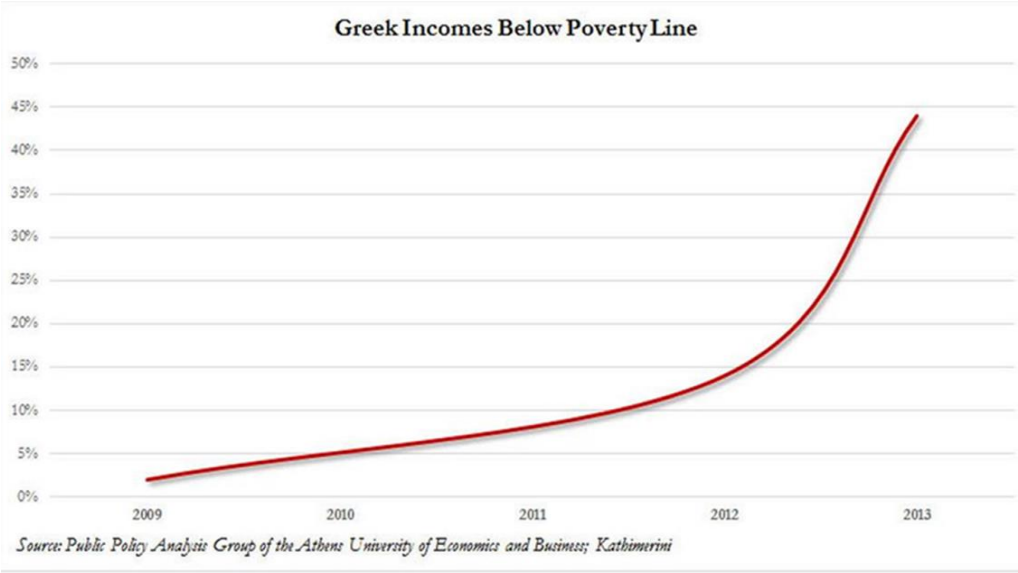
The roots of the crisis run deep with many contributing factors, including the highest pension spending in the European Union. But there are also political and cultural factors.

The Impact of Greek Economic Crisis

"The crisis afflicting some years now our place was marked by a highly tragic dimension. The increase in suicides. Those that are least known, since experts believe that their number always is considerably higher" Kathimerini

1. The unemployment rate had fluctuated around the 10% mark in the first half of the previous decade. Unemployment figures reached their lowest level for over a decade which has been 6.6% of the labor force only. Long-term unemployment increased even faster to 889,000 workers or 18% of the labor force in the first quarter of 2013.

2. Relative poverty in Greece rose from 20.0% in 2009 to 21.3% in 2012. National incomes in Greece have also fallen from €570 per month in 2009 to €622 per month in 2012. Anchored poverty has risen from 20.0% in 2009 to 37.0% in 2012.



- European authorities have authorized handing 7.5 billion euros, or $8.4 billion, in bailout aid to Greece, which will allow the country to keep paying its bills in the coming months. It has also won additional pledges of debt relief, helping to ease concerns about another crisis in Greece at a time when Europe is dealing with an influx of migrants and a continuing terrorist threat.

- Debt relief has been a contentious issue for creditors, with the International Monetary Fund and Germany lining up on opposite sides. The I.M.F. has insisted that Greece cannot meet its budget goals without easing its debts, while Germany remains sceptical of cutting Athens slacker.

The crisis has reduced confidence in other European economies. Financing needs for the euro zone in 2010 come to a total of €1.6 trillion .Ireland, with a government deficit in 2010 of 32.4% of GDP, Spain with 9.2%, and Portugal 9.1% are most at risk.
Greece became the centre 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 so-called 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.

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.

Overcoming the Greek debt crisis and organizing the future of the European monetary union

Austerity packages and reforms

First Austerity Package announced on 9th Feb 2010. The Greek Parliament votes 155-138 in favour of $40 billion in painful budget cuts and tax increases over the next few years. Greece and its international lenders have agreed to revise the country's five-year austerity plan to include more tax increases and less spending cuts.

The revised 2011-2015 fiscal plan is the key to unlocking further EU-IMF loans for the debt-laden country.

It includes a total €28.4bn (£25.3bn) of fiscal measures, €155m more than in an initial version of the plan.

The revised plan foresees a total €14.32bn of spending cuts, about €490m less than in the previous version. It also calls for €14.09bn of tax measures, €649m more than in the initial version.

Tax evasion and tax collection improvements

The reform of the taxation system should lead to the introduction of green taxes, like e.g. taxes on non-sustainable tourism, pollution and kerosene, as well as a raise of the top tax rates. Greece should consider a levy on wealth in order to insure the contribution of profits from widespread corruption and tax fraud.Furthermore, to overcome the crisis, Greece has to lower its current account deficit. As it is a member state of the EMU the devaluation is not possible and therefore has to lower its costs, including excessive consumption and high wages. It is crucial to spare the low incomes – a reduction of those incomes would be anti-social and hamper the domestic demand.

Greece Bailout Distribution (in bn Euros)

	2010	2010 (Actual)	2011	2011 (revised)	2012	2013	Total
IMF	10.4	10.4	13.3	10.8	8	5.8	30
EU	27.6	21.1	26.7	35.6	16	2.2	80
Total	38	31.5	40	46.4	24	8	110

FISCAL IMBALANCES:

The main cause of the Eurozone crisis is often described to be public sector profligacy. For this reason, three measures of fiscal imbalances are presented for every country under study: the average fiscal deficit during 1999-2008, the level of public debt in 2008 and the increase in public

debt between 1999 and 2008, all as a proportion of GDP. Figure 2.1 confirms the well-known fact that the Greek government ran very large deficits in the run up to the global financial crisis. The Portuguese government also ran high deficits, which were on average beyond the 3% limit set by the Stability and Growth Pact (SGP), though not quite at Greek levels.7 However, the other two peripheral countries had a considerably better performance than, say, Germany: Spain's average deficit was less than a quarter of a percent of GDP (0.24%) while Ireland enjoyed a budget surplus over that period.

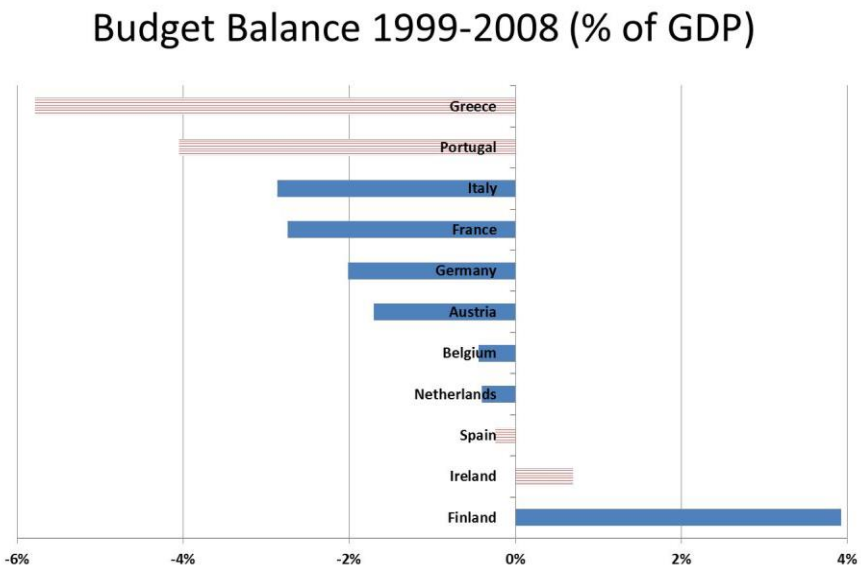


Figure 2.1 Source: Eurostat

Similarly, Figure 2.2 shows that in 2008 Greece had the highest public debt level among Eurozone countries and Portugal was the fourth most indebted, with only slightly more debt than Germany. However, Ireland and Spain had the second and third lowest levels of public debt, respectively.

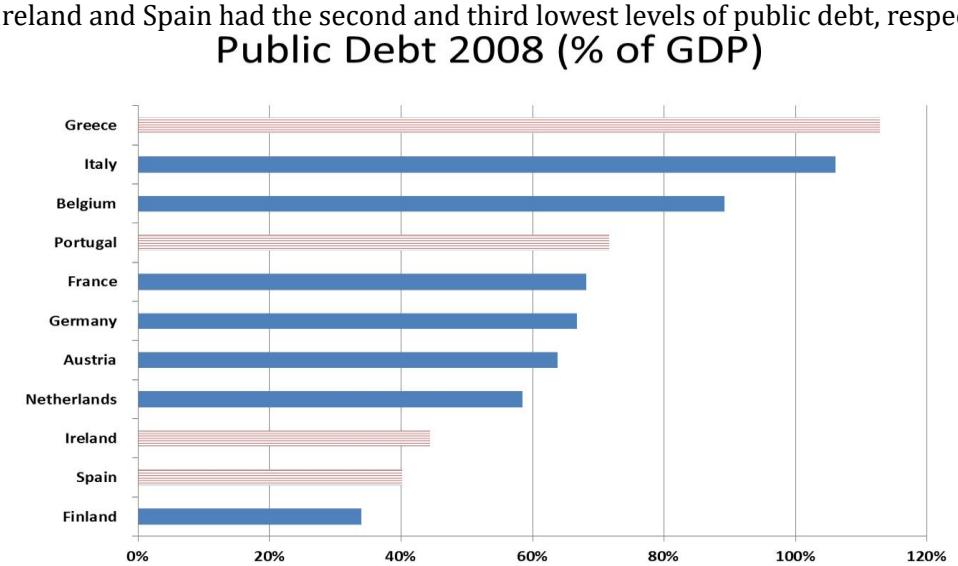


Figure 2.2 Source: Eurostat

Finally, Figure 2.3 shows that Portugal experienced the largest increase in public debt as a proportion of GDP between 1999 and 2008, followed by Greece, France and Germany. As before,

Ireland and Spain were paragons of fiscal virtue reducing their public debt over that period.

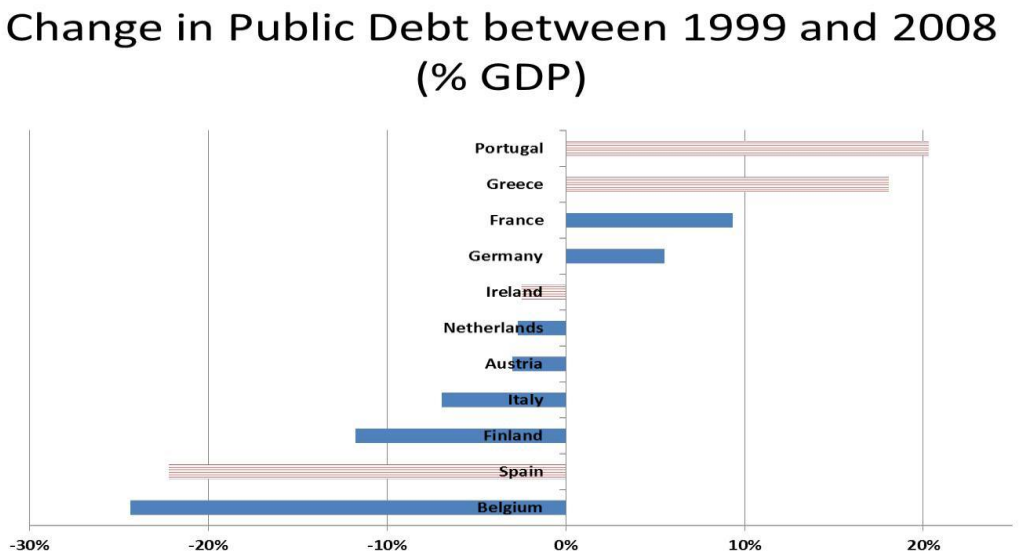


Figure 2.3 Source: Eurostat

To summarize, the conventional wisdom that fiscal profligacy was the cause of the crisis might fit the cases of Greece and Portugal but is completely incapable of interpreting why Ireland and Spain are in trouble. Indeed these two countries were much more fiscally responsible than Germany: they run very small budget deficits or even surpluses and experienced large reductions in public debt which left them with considerably less debt than Germany on the eve of the global financial crisis. Therefore, the reason why peripheral countries are in crisis and core countries are not cannot be found in their fiscal behaviour.

This is not to say that fiscal policy played no role. As will be argued below, irresponsible fiscal policies exacerbated vulnerabilities and reduced the room to manoeuver after the global crisis hit. It is therefore not a coincidence that Greece had both the largest deficits and has experienced the largest decline in output among the four peripheral countries. However, the fact that the roots of the crisis do not exclusively lie on fiscal imbalances means that reducing fiscal deficits is not enough to exit the crisis.

Conclusion:

In summary, it is difficult to imagine Greece either outside the euro zone or the EU. As was made clear in the above discussion, the best choice for Greece is to stay in the EU and the euro zone by satisfying its debt obligations; all the other alternatives are really inferior and dangerous, not only for Greece but for the EU itself. The Greek debt crisis is the result not only of economic deficits but also of political and institutional deficits, which have been developing over the last 35 years. The tight monetary policy of the ECB may have also been a contributing factor. Now it is the time of reckoning, where ordinary Greek citizens are called upon to pay for these deficits. This is unfair since not all of them participated in the excesses and abuses of the past. It is even worse for the present young and future generations of Greek citizens who will continue to pay off the national debt they will inherit without having contributed to its creation. Already the Facebook generation of young Greeks is making a loud demand for a more equitable income distribution and improved living standards. In the absence of a national consensus among the existing political parties to

tackle the economic, political and institutional deficits, a new political force should be formed to implement the necessary reforms in order to transform the country into a modern EU state and embrace the Facebook generation's demand for social change. In the meantime, the current crisis should be used as an opportunity and a beginning to create a better economy, a more just society and an improved national accounting system.

- Euro Zone crisis has been the combined result of US financial crisis and excessive debts with slow GDP growth rates.
- This crisis has badly affected the financial market, capital market and global economy.
- ECB, IMF, International creditors and stronger nations are considering various options to resolve the crisis.
- The situation is grim and there is no immediate solution to the problem and it has long term effects on global economy

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