

## In and out of the crisis – Greece

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### SUMMARY

*Facing an unprecedented crisis, both Greece and the international actors have been struggling to facilitate a solution that assures sustainable growth through restructuring the economy and the national accounts. However, enduring solutions cannot be born but through a very thorough understanding of the root causes and the nature of the problem. A country far from fully exhausting her resources is also experiencing increasing tension in the society. Highlighting some key characteristics of the most relevant parties, the factors undermining the society and the real growth potential of the country will be addressed and challenged with key economic principles. This cross-sectional study aims to pave way to a more comprehensive approach to prevent any disagreements or delays that was experienced in late 2013. The findings refer to the assets of the country and identify some basic requirements to boosting the Greek economy. The lessons learned and the growth potential of the country is being discussed in the concluding remarks, pointing to some factors to be considered in the future.*

**Keywords:** crisis, growth, employment, natural resources, Troika

### ÖSSZEFOGLALÁS

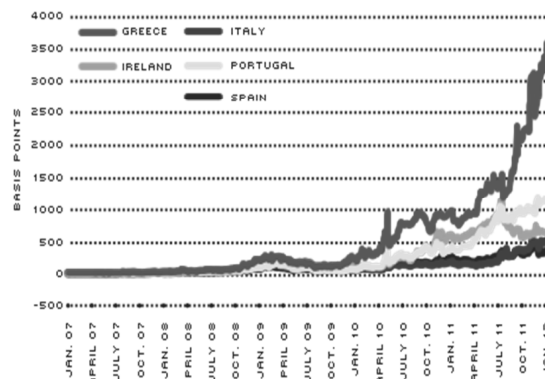
*A példa nélküli válsággal szembenézve Görögország és a nemzetközi szereplők egyaránt olyan megoldásra törekednek, mely a gazdaság és a nemzeti számlák átstrukturálásával biztosíthatja a fenntartható fejlődést. Maradandó megoldásokhoz azonban csak akkor juthatunk, ha ismerjük a probléma gyökér okait, és természetét. Az erőforrások kihasználásának alacsony szintje mellett egyre növekszik a feszültség a társadalomban. Megvilágításra kerülnek a legrelevánsabb szereplők valamint a társadalmat aláásó tényezők attribútumai, és az ország valóságos növekedési potenciálja, a legfontosabb gazdasági alapelvek fényében. E keresztmetszeti vizsgálat egy átfogóbb megközelítést törekszik elősegíteni, hogy elkerülhetőek legyenek a 2013-ban tapasztalt álláspontbeli különbségek, vagy késedelmek. A következtetésekhez hozzájárul az ország nemzeti vagyonának feltárása és a görög gazdaság fellendítéséhez szükséges feltételek azonosítása. A záró megjegyzésekben említésre kerülnek a korábbi tapasztalatok tanulságai, és az ország növekedési esélyei, és a jövőben figyelembe veendő tényezőkre történő utalások.*

**Kulcsszavak:** válság, növekedés, foglalkoztatás, természeti erőforrások, Trojka

### INTRODUCTION

The most developed economy with the most developed infrastructure on the crossroads of Africa, Asia and Europe and the strategic location has been of paramount importance in the economic, foreign and security policy of the country. Greece is a member of the European Union since 1981<sup>1</sup> and regained membership in NATO in 1980. In the beginning of the recession triggered by the subprime crisis in the US and Iceland (2008) the Greek government suffered a serious loss of investor confidence when the truth was revealed about the statistic data provided regarding the debt of the country. The fear of Greece not being able to meet her financial obligations when they mature and the speculations about a sovereign default and mainly, a 'Grexit'<sup>2</sup> resulted in the widening of bond yield spreads and the cost of risk insurance on credit default swaps compared to the other countries in the Eurozone, most importantly Germany. By April 2010 the Greek bonds were rated junk, and the crisis began, though the OECD and the CIA still rated Greece a developed country in 2010, just like the IMF in 2011, while the World Bank ranked Greece amongst the high income countries in 2010 (Figure 1).

Figure 1: Yield Spreads over German 10-year Bonds



Source: Reuters/Haver Analytics

The Troika brought decision on two bail out loans since the beginning of the sovereign debt crisis assuring first 110 billion € in May 2010 then 130 billion € in March 2012. The assistance programmes<sup>3</sup> financed in part institutionally, in part on a bilateral basis, aimed to restore fiscal balance, improve the competitiveness of the country and to keep Greece inside the eurozone. The objectives and the conditions of the Troika were:

<sup>1</sup>Greece first applied for membership in 1958 which resulted in an Association Agreement in 1961. This was suspended during the Turkish invasion of Cyprus. Greece gained full membership in 1981.

<sup>2</sup>Greek Exit

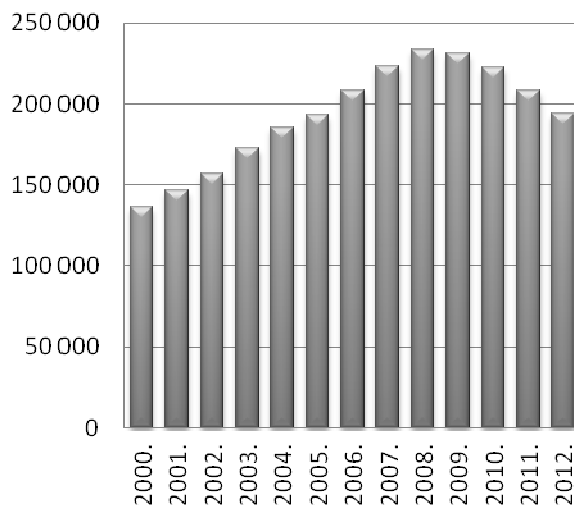
<sup>3</sup>1.) May 2010 – June 2013, 2.) March 2012 – December 2014

OBJECTIVES	CONDITIONS
To resume growth in 2012	Implementation of austerity measures
Unemployment would peak at 14.8% in 2012	Privatisation of government assets worth €50 billion by the end of 2015
No debt restructuring shall be needed	Implementation of outlined structural reforms, to improve competitiveness and growth prospects
The debt ratio would peak in 2013 at 149% of the GDP	
The government would recover full market access in 2013	

### ECONOMIC DOWNFALL

Greece was the first country in need of financial assistance inside a monetary union that was totally unprepared for a crisis (Merler et al., 2013), which probably added to difficulties of the institutional strategy. Although it is not rare that IMF programmes disappoint the initial objectives, but the orders of magnitude are usually much more modest. On the basis of an assessment of 159 programmes, the IMF Independent Evaluation Office found that growth disappointed in about 60% of programmes (IMF, 2013). However, an output shortfall as large as Greece's could only be found in 1% of the programs. Due to the panic caused by the austerity measures demanded by the Troika, demand dropped drastically and unemployment soared out of control (Figure 2–3). The structure of unemployment is rather alarming, as the highest unemployment rates are witnessed among the youth, with over 60% in the age group 18–25, over 40% in the age group 26–34 and almost 30% in the age group 35–44.

Figure 2: GDP of Greece (current prices, million €)

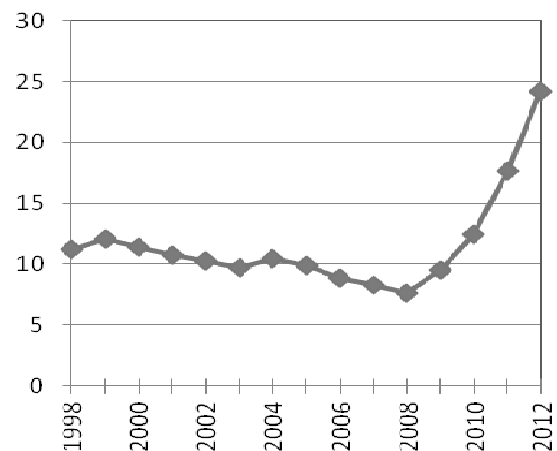


Source: EL.STAT.

The major downsizing of the public sector combined with lower production rates<sup>4</sup>, the extraordinary taxes and the decreasing salaries and pensions led to a level of impoverishment of the middle to lower class population.

The society, already distressed by the robust immigration along with the deteriorating public safety in turn protested against the measures, as the Greeks do react. While the extraordinary taxes built into the electricity bills were easily collectable, some other measures of the government truly disappointed the nation. The fundamental problem of the financial assistance packages is that they lack provisions applicable to balance out the austerity measures, i.e. supplement the rationalization of government expenditure with actions enhancing market activity and perhaps the long term liquidity of the country since sufficient demand is a key element in addressing unemployment (Williams, 2013).

Figure 3: Unemployment Rate (1998–2012, %)



Source: EL.STAT.

### ECONOMY OF GREECE

#### Structure of the economy

The economy of Greece is determined by her location and natural characteristics. Its 13 676 km long coast line ranks 11th in the world facilitating access to the Ionian Sea, the Aegean Sea, the Mediterranean Sea and the Lybian Sea. Due to its strategic location, shipping and commerce play an eminent role in the economy of the country since ancient times. The composition of the GDP is ruled by the massive 85% contribution of the tertiary sector of the economy against the 12% of the secondary and as low as 3% of the primary sector.

<sup>4</sup>Several Western European manufacturers closed their subsidiaries in Greece in order to protect their employees jobs and salaries in their homeland units. In addition, tens of thousands of local businesses closed down or decreased their output due to the decreasing demand.

Having successfully reorganized her fleets, today Greece has the largest merchant marine (16.1% of the world's total dwt) in the world (UNWTO, 2012). The contribution of the shipping companies to the GDP is considerable as this service is being exported consumedly. The Greek shipping companies (750 companies in total) possess 22.5% of the tankers (+20.05% on stand by), and 16.8% of the bulk cargo capacity (+12.01% on stand by; gross dwt) of the world. In these categories Greece ranks absolutely first in the EU disposing 39.5% of the overall capacity. The shipping industry accounts for 6% of the GDP providing the income of 4% of the population. Between 2000–2013, the revenues of the country from the shipping industry quadrupled that of the cumulated amount of the EU funds transferred to the country.

Hosting 16–20 million tourists per year, the revenues of tourism constitute approximately 17% of the GDP. Greece was the 7<sup>th</sup> most visited country in the EU and ranked 16<sup>th</sup> in the world in 2009. 2010 witnessed a notable drawback in tourism due to the widespread fear of not being able to obtain cash from the ATMs or fuel, and by 2011 Greece ranked only 21<sup>st</sup> in the EU and 29<sup>th</sup> of the world. However, it started to recover rapidly in the same year also in terms of hotel occupancy, number of foreign visitors and per capita expenditure and the global market share of the country decreased by only 0.4%. The Greek hotel industry and catering services can rather easily overcome market shocks (Kapiki, 2012) by adapting to the changed business environment. Offering a more attractive selection of services is an efficient tool to restore the revenue of the industry.

Greece became one of the most prominent investors in the Balkans since the 1990's. The strategic investments of the Greek multinational companies comprise telecommunications, manufacturing as well as financial services in Serbia, Bulgaria and Macedonia. However, the negative balance of trade dropped from 43.3 billion € to 21.5 billion € between 2008–2012 as a result of the crisis. In spite production decreased by 13.4% in 2009–2010, at 6% the Greek industry achieved the largest growth in the EU during the period of 2005–2011. The most important industries are cement and concrete manufacturing, the pharmaceutical industry, the manufacturing of alcoholfree beverages, cigarettes and dairy products, while the share of the mining industry and the constructions is volatile.

### Natural Resources

Greece is incredibly wealthy in both biotic and abiotic natural resources. Despite of having the largest gold reserves in Europe, extraction didn't really take place till after the Millennium. Greece has the potential to become Europe's largest gold producer by 2015–2016. The country is rich in rare minerals, such as osmium and nickel, which is found solely here in Europe. The geography of the country permits extensive networks of renewable energy, thus restructuring the

energy market. Should it be solar, wind or water, the rates of irradiation, speed, and volumes allow for a sustainable and cheap source of energy. At present the utilization of these resources is lagging behind the EU average, while most of the renewable energy comes from biomass production and waste recycling. Extensive amounts of radon were explored in 1998<sup>5</sup>, leading to an in depth research<sup>6</sup> which estimated the value of the uranium reserves at 100 trillion Drachmas, which valued 300 billion € at the then exchange rate. The country is potentially rather wealthy in carbohydrates. The estimations on the exact quantities of natural gas and petroleum show a degree of deviation, however, the figures are more than impressive. According to the US Geological Survey (USGS) the Eastern Mediterranean (Aegean Sea, Levante Basin, Nile Basin) contains 3.4 billion barrels of petroleum and 9.77 trillion cubic meters of natural gas. The report has already created some geopolitical turbulence in and outside the region. However, the law of the sea is certainly the most complicated field of international law where even the UN is impuissant with its member states putting forward their own interest [Wald]. Nevertheless, Greece could dramatically decrease its energy import exploiting her own resources and in turn become an energy exporter. The oil production, which was around 30 000 barrels (Kavala) covering 12% of the total energy consumption in the 1980's is as low as 2 000 barrels per day at present covering but 0.5% of the current energy demand. In order to explore the potential under sea oil and gas resources, Athens started to issue concessions in 2011. The countries possessing extensive natural resources show great differences in economic performance and living standards from the wealthiest nations (e.g. Norway) to third world poverty (e.g. DRC). Thus, the impact of these resources of the country and the nation will heavily depend on the provisions regarding the exploration, the extraction as well as the distribution systems and whether Greece is willing to develop her mining and energy distribution networks. Should the Greek government fail to protect these natural resources and the foreseeable profit, the future of the country will be marked for several decades ahead despite the fact that Greece has a true potential to emerge from the sovereign debt crisis as one of the wealthiest states in Europe.

### CONCLUSIONS

The crisis and the failure of the programme designed by the Troika was due to several overarching factors calling for much more deliberate actions. First of all the government did basically nothing to calm the markets on the eve of the crisis although several reports were available to demonstrate the existence of the natural resources that can assure the longer term liquidity of the country. Selling islands can surely provide a temporary solution within the privatisation plan demanded mainly by Germany. However, it can as well generate further international conflicts should the appointed islands be

<sup>5</sup>The ore belt; Panagiao Mountains, Kavala, Chalkidiki.

<sup>6</sup>Radon is an indirect decay product of uranium.

within reach of the above mentioned natural resources and evidently decrease the revenues that would be otherwise available to enhance economic growth. Secondly, the programme designed by the Troika focused on solely the ultra short term liquidity of the country lacking any feasible plans on revitalising the economy. The Greek government spent 145 billion € to bail banks out unlike Iceland with its basically no-bail-out policy that led to the stabilization of the economy and the re-launch of expansion by the end of 2011. Thirdly, neither the Troika nor the Greek government seemed to pay adequate attention to insufficient demand as the main reason to high unemployment while it is one of the factors that could have been foreseen thus taken into consideration. It is also hard to understand because Germany choose a rather protectionist<sup>7</sup> yet liberal (e.g. Kurzarbeit) economic policy to fight recession saving the welfare of the German tax payers instead of letting unemployment and despair take control. Fourthly, the Greek government is often struggling to implement certain resolutions. It is the fourth prime minister in office since the beginning of the crisis as most of the actions meet heavy opposition from the society yet the implementation of such an ambitious plan requires both stability and a collaboration of the government and the society. Given that Greece had more leaders since the end of the Turkish occupation (1822) than France, Germany and the UK in the same period combined, the rejection of both the measures and the leadership imposing them were easily predictable. The most important lesson learned in this regard is that a much more holistic approach is to be applied in the planning phase of any programme of similar scope and size.

Another important lesson is that speculation is to be controlled in the future. The fear of the Grexit did not meet accurate governmental or institutional communication explaining Article 50 of the Lisbon Treaty. Exiting the EU itself<sup>8</sup>, as being the only way of exiting the eurozone would lead to catastrophic consequences regarding both the economy, the security and the prestige of the EU and its remaining member states. 60 years of institutional construction can easily be ruined once member states (a: Ireland, Italy, Spain, Portugal; b: UK) start to consider this option as to follow the Greek example. Should it occur, the EU will cease to exist as a global power. The events triggered by the Greek crisis motivated Mark Rutte (Dutch Prime Minister) to suggest a modification of the Treaty in early 2012 and pave way for exiting the eurozone without having to exit the EU, yet no modalities have been thoroughly discussed on the topic so far.

As a concluding remark it can be stated that building on the resources of the country, Greece has the potential to become one of the richest countries in Europe, and the prerequisites of achieving sustainable economic growth are 1) stability in the leadership, 2) a balanced collaboration of the leadership and the nation, 3) increasing transparency and accountability of the political leadership, 4) the restoration of domestic demand, 5) the protection of natural resources and 6) structural reforms to enhance a resource driven development.

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<sup>7</sup>Closing down subsidiaries in other countries (e.g. Greece) and moving production to Germany.

<sup>8</sup>A procedure which takes at least 2 years.