

Recent political developments mean that Greece is no longer on the brink of economic collapse. But the European Commission, the ECB and the IMF will be keeping a close watch for some time to come.

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The recent crisis of the Greek economy, and the threat of its withdrawal from the Eurozone, was only averted by the rejection of a referendum on the EU bail-out and the resignation of the country's prime minister. [Kevin Featherstone](#) argues that, while the situation has now stabilised, instability and uncertainty still remain. European and global economic institutions will be keeping a close eye on the Greece's political developments.



For two years since the start of its debt crisis, Greece has both failed to achieve consensus and reform. The two are causally related, of course. Indeed, international indices of Greece's reform capacity – see that of the [Bertelsmann Stiftung on 'sustainable governance'](#), for example – have consistently rated her amongst the very lowest of the OECD area. Greece's party politics have regularly been marked by populism, its labour relations by severe conflict, and its public administration by gross inefficiency, low skill and not infrequent corruption. The cocktail sustained a public debt of around 100 per cent of GDP for the last decade and an economy lacking competitive strength. When the financial crisis spread across the West, investors judged Greece unlikely to be able to handle its debt in an era of low or negative growth.

The socialist government of George Papandreou, elected in September 2009, was blown off its expected course by Greece's sovereign debt crisis, was riven by internal dissent, and faced unprecedented street protests and strikes. The austerity measures imposed on Greece by its euro-zone partners and the IMF have caused great social pain. At the same time, the main opposition party, [New Democracy](#), angered its centre-right allies in Europe by opposing the bail-outs and suggesting the measures were not necessary. By this autumn, Greece looked a 'basket-case', unlikely to adjust, and talk of her exit from the Eurozone was no longer taboo amongst her EU partners.

The implications for the British economy have also been well-recognised. The UK relies on the rest of the EU for almost half of its trade: a further recession there would exacerbate our own growth prospects. Thus, Britain has an interest not only in effective leadership for the euro-zone but also for individual states in difficulty like Greece.

Political melodrama ensued when Papandreou made a surprise announcement of a referendum on the recent euro-package to rescue Greece. Her EU partners complained they'd not been forewarned about an initiative that immediately undermined a short-lived recovery of confidence in the markets. Papandreou was called for a meeting at the G20 summit in Cannes. The international media reported that he was humiliated by Sarkozy and Merkel.

But there was logic to Papandreou's move. At that time, Antonis Samaras (ND leader) was refusing to support the euro-package. A referendum would force him to choose. In the event, the fear that the referendum might lead to a rejection of the euro-rescue led Samaras to declare his support for it. The price, however, was the formation of a coalition government and Papandreou's resignation.

So, Greece now has Lucas Papademos, a former vice-president of the European Central Bank and an internationally-respected economist, as the Prime Minister of a coalition that embraces Papandreou's PASOK party, New Democracy, and the far-right LAOS party. All three parties are committed to the implementation of the measures required by the euro-rescue. The agreement is for the coalition to run for 100 days, with early elections in March.

This constitutes progress. There is cross-party agreement and once the coalition implements the measures the range of available options become greatly narrowed. A path will have been set. Greece will then be able to convince its creditors that it means business. Indeed, it might be better if the coalition was to survive for a longer period in order to achieve this credibility.

Foreign investors will continue to monitor Greece closely. Indeed, the 'Troika' representing the EU

Commission, the ECB, and the IMF already breathe down the necks of the government machine in Athens on a weekly basis very closely. But the monitoring needs to be looking at the right issues in the proper places and to set realistic schedules.

Crude comparative measures of Greece's international position can be misleading. Priority attention is often given to estimates of labour market costs, for example. These can give a false impression. Greece does not compete in manufactures on price with Germany, but in services with poorer neighbours. The developmental model will need to change, but this can only be in the very long-term. It is right that Greece must improve her competitiveness, but this requires more immediate reforms at home to enhance flexibility and open markets.

Greece may be turning a corner. Political posturing has abated and there's something of a common reform agenda. There's a new opportunity to show commitment and progress.

About the author

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