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**MISMANAGEMENT OF FISCAL POLICY: GREECE’S ACHILLES’ HEEL**[[1]](#endnote-1)

Tulsi Jayakumar wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In December 2016, the debt-stricken Greek government, led by Alexis Tsipras—the leader of the tiny, radical left party, Syriza—announced the distribution of a sizeable “Christmas gift” for its low-income pensioners, a one-time bonus that would cost the government €617 million.[[2]](#endnote-2) The Eurozone nations supporting Greece in its period of economic ruin disapproved of this largesse, which was in addition to Greece’s decision to keep a lower value-added tax (VAT) on some of the country’s islands, both implemented without consulting the creditor nations.[[3]](#endnote-3) Greece had already received two bailouts from the so-called “troika”—the International Monetary Fund (IMF), the European Central Bank (ECB), and the European Commission—one bailout in 2010 and the other in 2012. In return, Greece committed to reduce its debt-to-gross-domestic-product (GDP) ratio from 160 per cent in 2012 to 124 per cent by 2020.

In 2015, the creditor nations of the Eurozone had linked a third bailout to Greece’s implementation of strong austerity measures and achievement of specific fiscal targets. The bailout was to be paid in tranches from 2015 to 2018, but the Eurozone had halted payments.[[4]](#endnote-4) Greece, whose debt-to-GDP ratio had shot up to 181 per cent in December 2016,[[5]](#endnote-5) seemed to have reached another impasse.

The IMF took a contrary position to the Eurozone nations on resolving Greece’s debt crisis.[[6]](#endnote-6) The IMF had already refused to participate in the 2015 bailout and commit further funds. Rather than impose austerity measures and stringent fiscal targets, the IMF wanted the Eurozone to restructure Greece’s debt,[[7]](#endnote-7) and wanted Greece to implement structural reforms as a means of increasing the competitiveness of the Greek economy. With little access to international capital markets, and with 10-year Greek government bond yields soaring to 6.94 per cent in December 2016 (as opposed to the 0.25 per cent on German bonds of comparable maturities),[[8]](#endnote-8) Greece faced the spectre of a default and the prospect of an exit from the euro.

What explained the escalation in Greece’s debt-to-GDP ratio to its current high three-digit figure and Greece’s economic troubles? Why were investors unwilling to bet on Greek bonds? Faced with an imminent exit from the euro, how could Greece overcome its troubles?

**BACKGROUND**[[9]](#endnote-9)

Greece, officially the Hellenic Republic, had been subjugated to the Ottoman Empire from 1453 BCE until 1829, when it achieved independence—eight years after the Greek War of Independence started.[[10]](#endnote-10) Greece’s subsequent history was “a narrative of debt, default, and external dependence.”[[11]](#endnote-11) Greece remained in a state of external default for at least half of the years since its independence, and experienced at least three major episodes of debt defaults in the period spanning from independence to the sovereign debt crisis in 2010 (see Exhibit 1). The sovereign debt crisis was rooted in Greek policy decisions stretching back more than three decades to 1973. The crisis unrolled in four stages.

Stage I: Preparing for Entry into the European Economic Community (1974–1980)

Greece was fiscally prudent and sustained its macroeconomic performance from 1974 to 1980 (see Exhibit 2). The government adhered to the “golden rule” of fiscal policy (keeping revenue deficits zero while allowing capital deficits) by allowing deficits only in the public investment program,[[12]](#endnote-12) and keeping the fiscal deficit below 3 per cent of GDP. Thus, on the eve of entry into the European Economic Community (EEC) in 1980, Greece recorded a fiscal deficit of 2.6 per cent and a debt-to-GDP ratio of 21.4 per cent.[[13]](#endnote-13)

However, notwithstanding favourable macro-indicators, Greece suffered from structural weaknesses, both in demand and supply. Growth was basically driven by domestic consumption. Greeks tended to save and did not invest much of their incomes, especially in machinery, equipment, or plants. Public sector outlays were also skewed towards current expenditure rather than towards investment. Thus, despite economic growth, the Greek industrial base remained narrow; agriculture was large and inefficient, and services occupied the dominant share of the country’s GDP.[[14]](#endnote-14) The Bank of Greece followed an accommodative monetary policy to finance the fiscal deficits, which led to strong inflationary pressures, squeezed business profits, and negatively affected business investments.

Stage II: Creating a Culture of Macroeconomic Populism (the 1980s)

In the 1980s, successive governments enshrined the culture of macroeconomic populism, which saw higher wages, as well as government spending, among the Greek masses. The ruling New Democracy (ND) party, a centre-right party, had already initiated a “spending spree and deferral of taxes” in 1981.[[15]](#endnote-15) In October 1981, the socialist party, the Panhellenic Socialist Movement (PASOK), headed by Andreas Papandreou, won the election, formed the government, and continued with the culture of excessive spending.[[16]](#endnote-16) Greek governments had been disregarding the golden rule of fiscal policy since 1978. This disregard was accentuated with the socialist regime through the 1980s, which led to high fiscal deficits and public debt. The recession of the early 1980s led to accommodative macroeconomic policies (which allowed a loose money supply, cheap interest rates, and/or high government spending) and, in 1981, public sector borrowing rose.

A key characteristic of the Greek economy was a bloated public sector, with the state controlling 75 per cent of the business assets in the country even until 1990.[[17]](#endnote-17) Greek politicians had traditionally viewed the public sector as a large base of electoral support that they could ill-afford to antagonize. As such, politicians provided public sector jobs and negotiated generous wage and pension agreements with politically influential public sector unions as a means of securing electoral support. Populist spending policies, including large pension expenditures, heavy subsidies to inefficient public sector enterprises, increases in wages, and government consumption led to large public sector deficits.[[18]](#endnote-18) This situation was compounded by government guarantees on loans taken by both private and public enterprises and agricultural cooperatives, amounting to 32 per cent of Greece’s GDP by 1989. When these enterprises failed, the government took up the loans, exacerbating the problem of deficits.[[19]](#endnote-19) A culture of “clientelism” became the norm: “proffering . . . material goods in return for electoral support, where the criterion of distribution that the patron [the political party] used was simply: did you (will you) support me?”[[20]](#endnote-20) The result was “pervasive tax evasion and a complex tax code that grant[ed] exemptions to numerous professions and tax brackets.”[[21]](#endnote-21)

The Bank of Greece accommodated the large government deficits through cheap monetary policies, comprising negative interest rates and high growth rates of money supply and credit in the first half of the 1980s. To further accommodate the government’s borrowing needs, the bank implemented a system of credit allocation, which restrained credit to the private sector, thereby crowding out private investment. Structural weaknesses in the economy, such as concentration of industrial activity in traditional (albeit declining) industries, rigidities and controls in the labour and product markets, negative movements in total factor productivity, and weak overall investment remained unaddressed, and further affected the competitiveness of the economy.[[22]](#endnote-22) These weaknesses became particularly glaring after Greece’s accession to the EEC in 1981, when it had to compete with other European countries that were far more cost effective, efficient, and advanced.

During the 1980s, public spending increased from 29.7 to 48 per cent of Greece’s GDP, and fiscal deficits averaged 10 per cent per annum.[[23]](#endnote-23) Public receipts during the period went up from 27 to 32.1 per cent of GDP.[[24]](#endnote-24) The initial source of fiscal destabilization was the rise in the primary deficits. With time, interest payments also rose and became an “additional destabilizing force.”[[25]](#endnote-25) The debt-to-GDP ratio increased to 68.21 per cent in 1990.[[26]](#endnote-26) Interest payments as a proportion of GDP on this high and rising debt kept increasing as well.

Following a recession in 1986–1987, Greece initiated an economic stabilization program with the goal of improving its balance-of-payments position and reducing the inflation differential relative to its trading partners. The program was comprised of an incomes policy aimed at reducing labour costs per unit of output, tight fiscal and monetary policies, and an exchange rate policy aimed at maintaining Greece’s international competitiveness. As a result of these stabilization efforts, real wages reduced and public sector borrowing to GDP declined in 1987.[[27]](#endnote-27) At the same time, interest rates, both real and nominal, increased and became positive. While the increases in the interest rate raised the deficit further, they also increased the attractiveness of Greek bonds, thereby easing the pressure on financing the deficits.[[28]](#endnote-28) However, macroeconomic and income policies were again relaxed in 1989, when the government shifted from its earlier stance of adjustment towards development, leading to a re-emergence of macroeconomic imbalances.[[29]](#endnote-29)

Stage III: Preparing for and Entering the European Union (1990–2008)

In 1990, the ND won a parliamentary majority by just two seats, and its leader, Konstantinos Mitsotakis, became prime minister. The PASOK was re-elected in 1993, and remained in power from 1993 to 2004.[[30]](#endnote-30) Upon signing the Maastricht Treaty on European Union (EU) in 1992, Greece undertook fiscal consolidation and structural reforms as a pre-condition to participating in the European Economic and Monetary Union (EMU). The treaty stipulated certain convergence criteria that had to be fulfilled before a country could join the Eurozone. Greece ran the risk of being excluded from the next phase of the EMU unless it resolved issues pertaining to a sharp divergence in its public finances and inflation scenarios from those of other EU members. Thus, Greece had to adopt austerity measures, including deep cuts in public spending, in order to qualify for Eurozone membership.[[31]](#endnote-31)

Greece drew up a new convergence program in 1994, with targets to reduce the general government deficit to 1 per cent, stabilize and then reduce the government’s debt-to-GDP ratio, reduce inflation to 3.3 per cent, reduce money supply growth to 7 to 9 per cent, and moderate wages by 1999. Intent on entering the EMU, Greece implemented economic policies to ensure the convergence criteria were achieved. These included a tight monetary policy focused on a targeted exchange rate (called the “hard drachma policy”), a restrictive budgetary policy that brought the fiscal deficit down from 13.5 per cent in 1993 to 1 per cent in 2000, and efforts to stabilize the debt-to-GDP ratio at 100 per cent. To drive down inflation, the country employed an incomes policy focused on moderating increases in wages and prices.[[32]](#endnote-32) Greece also reduced its current account deficit in 1994.

As a result of these policy measures, Greece was able to substantially converge its macro-indicators with EU levels. Greece also introduced structural reforms in financial and labour markets with a view to boost efficiency and increase potential output, and established independent regulatory authorities such as the Competition Commission.[[33]](#endnote-33) The success of the convergence program resulted in Greece becoming the 12thmember of the EMU in 2001.

The period of Eurozone participation before the 2001–2008 global financial crisis was a “golden period” for Greece. Growth rates at 4 per cent per annum were comparable to the Eurozone average. Inflation, although slightly higher than the Eurozone average, remained subdued at an average of 3.2 per cent per annum. Unemployment fell to 9.8 per cent of the labour force. The public debt-to-GDP ratio was stabilized at slightly above 100 per cent, which, although higher than the Eurozone average, did not pose a solvency problem. However, Greece was unable to solve the underlying fiscal mismatches. It was unable to effectively control its primary government expenditures, especially in areas such as local authorities, social security funds, and the health sector. At the same time, the country’s fiscal receipts were weak due to rampant tax evasion, which undermined the effectiveness of the tax system.[[34]](#endnote-34) Further, Greece’s decision to host the Summer Olympic Games in 2004 cost the state in excess of €9 billion (US$11.6 billion). This cost had to be financed through public borrowing, leading to an increasing deficit (6.1 per cent) and debt-to-GDP ratio (110.6 per cent) for 2004.[[35]](#endnote-35)

The problem of public finances was compounded by the lack of credible data pertaining to the finances. In 2004, Prime Minister Kostas Karamanlis of the ND, relying on audits of the deficit data provided by the predecessor government (PASOK), accused the latter of skewing the data.[[36]](#endnote-36) The Eurostat, while revising the Greek debt and deficit figures for the period 1999–2003, had also raised concerns about the reliability of the data (see Exhibit 3).[[37]](#endnote-37) It appeared that Greece had falsely represented its deficits to gain admission to the Eurozone.[[38]](#endnote-38) The European Commission placed Greece under fiscal monitoring in 2005 due to its unsustainable finances.[[39]](#endnote-39)

The governor of the Bank of Greece, chronicling the problems associated with this period, noted:

The Greek society showed a clear preference for consumption over saving and investment, while it strongly reacted to attempts to change established structures. The political system assigned a big weight to political costs and hesitated to undertake decisive reform initiatives. . . . In the economy in particular, growth was strong, but was led by domestic demand, which was fuelled by borrowing, both public and private. The production base did not adjust accordingly and competitiveness declined rapidly, resulting in a deterioration of the external deficit. Public spending kept increasing, while revenue lagged behind, leading to large deficits and historically high levels of public debt.[[40]](#endnote-40)

Stage IV: The Global Financial Crisis (2008–2009) and Its Aftermath

The global financial crisis, which originated in the United States in 2008, had ramifications for the world’s financial systems. More importantly, the crisis brought to the fore the limitations of macroeconomic policy in averting recessionary conditions. It demonstrated that automatic stabilizers[[41]](#endnote-41)and discretionary fiscal measures undertaken by governments during a recession had a negative impact on public finances. Nowhere was this starker than in the case of Greece, where a decade of chronic overspending and structural rigidities had undermined the fiscal situation, which remained precarious in 2008. When the global financial crisis hit Greece in 2008, its fiscal situation and dependence on external financing proved to be the country’s undoing.

In October 2009, the PASOK government, led by George Papandreou, came to power. Within weeks of assuming office, Papandreou revised the Greek budget deficit estimates from the 6.7 per cent of GDP provided earlier to 12.7 per cent of GDP, before finally declaring a deficit of 15.4 per cent of GDP for 2009.[[42]](#endnote-42) This event was the trigger for the crisis of confidence, which ultimately manifested in the sovereign debt crisis.

THE GREEK SOVEREIGN DEBT CRISIS

Greek sovereign debt referred to debt issued by the government of Greece in the form of sovereign bonds. The government promised to repay the face value of the bond at a specified future date, along with periodic interest payments at a given rate. The bonds represented an accumulation of government deficits—the excess of government expenditure over government revenues—that had to be funded through borrowings. The bonds were, theoretically, risk-free because a government could use various means to guarantee repayments, such as increasing taxes or printing money. However, in practice, there were several cases, including Greece, of governments being unable to repay, and thus defaulting on the debts.

Sovereign bond yields referred to the interest rates that the government paid on such bonds, which in turn depended on factors such as creditworthiness of the country as assessed by rating agencies, country risks (based on internal and external factors such as wars and unrest), and the exchange rates.[[43]](#endnote-43) The higher the perceived risk of default, the greater the bond yields would be.

Global investors in Greek bonds examined sovereign bond spreads—the difference between yields from Greek bonds and “risk-free” German *bunds* of similar maturities—to assess sovereign credit-worthiness and the risk of investments in Greece. Bond spreads, especially during periods of financial crisis that affected the government’s debt-servicing capability, provided a comprehensive measure of the overall risk premium, stemming from market, credit, liquidity, and other risks.[[44]](#endnote-44)

After accession to the Eurozone, Greek sovereign bonds were denominated in euros and held mainly by non-residents rather than domestic creditors (see Exhibit 4). Public debt had its own challenges, even when borrowed from domestic sources. It could crowd out private investment. Reliance on external debt, as in the case of Greece, posed other challenges. Sudden stops in external capital flows could result in defaults. Currency mismatches between the domestic currency-denominated tax revenues and the foreign currency-denominated debt servicing outlays could lead to balance sheet effects. Reliance on external sources for financing debt meant that the country would be unable to use a domestically spurred inflation to reduce the real debt burden. Finally, there was the risk of external political interference, which came with external debt.[[45]](#endnote-45)

Greece’s sovereign debt crisis was as much about its excessive dependence on external borrowings—and the resultant critical importance of investor confidence in sustaining these borrowings—as it was about the nation’s propensity for fiscal profligacy. Greece had relied on external borrowings even in the early years for financing its War of Independence against the Ottoman Empire, reaching indebtedness levels of about 120 per cent of GDP in 1832. Most of these borrowings were from private foreign investors in London and New York. However, during times of crisis, Greece had resorted to official loans from foreign governments as well. This practice of external borrowings had continued well after World War II, more so because of the relatively low and declining Greek domestic savings rate.[[46]](#endnote-46) Private foreign investors were willing to lend money to Greece due to the high bond yields, which reflected high-risk premiums due to higher default risks and different rates of inflation between Greece and its European peers.[[47]](#endnote-47)

As Greece prepared to enter the EMU in the 1990s and adopt the euro as its national currency, investors were buoyed by the belief that the strict entry criteria of the Maastricht Treaty meant Greece’s macro-fundamentals would converge with those of its other European peers. Thus, investors began to place more confidence in Greek bonds. As a result, Greek borrowing costs dropped dramatically and converged with those of its more credit-worthy European peers, like Germany. Thus, average 10-year Greek bond yields declined from 23.2 per cent in 1993 to 6.3 per cent in 1999, and the bond spreads declined accordingly (see Exhibit 5).

However, the borrowings were not used to increase the competitiveness of the economy. Rather, the Greek government used the cheap credit to pay for its spending—both domestic and for imports—and offset lower tax revenues. Thus, capital inflows were used to fund current consumption rather than capital expenditure that could generate productive streams of revenue for repaying debt. Moreover, adopting the euro denied Greece access to its sole source of international competitiveness at the time: devaluing the drachma.[[48]](#endnote-48)

In Greece, “the international financial crisis soon evolved into a sovereign debt crisis.”[[49]](#endnote-49) Investors, already concerned about Papandreou’s announcement of Greece’s misrepresented deficits, lost confidence after a series of credit-rating downgrades by all three rating agencies, culminating in April 2010, with Standard & Poor’s Financial Services LLC downgrading Greece’s sovereign debt ratings to junk status.[[50]](#endnote-50) Consequently, the market views on Greece changed rapidly. Greek bond yields rose steeply after 2010, and bond spreads between Greek and German long-term bond yields rose to 6.35 per cent (see Exhibit 5). In fact, after 2010, Greece lost access to private bond markets and had to resort to Eurozone rescue loans.[[51]](#endnote-51)

In response to these developments with its external debt, the Papandreou government announced a series of domestic measures to deflate the country’s ballooning fiscal deficits, regain investor trust, and win back the country’s lost credibility. The measures included a 10 per cent cut in social security spending, abolition of bonuses at state banks and a 90 per cent tax on private bankers’ bonuses, a 2 per cent increase in VAT from 21 per cent to 23 per cent, bans on increases in public sector salaries and pensions for at least three years, and a cap on annual holiday bonuses that including cancelling them altogether for high earners. In addition, the government announced a freeze on state-funded pensions, as well as increases in taxes on fuel, tobacco, and alcohol, and taxes on illegal construction.[[52]](#endnote-52) Papandreou further promised to fight corruption and tax evasion, calling them the country’s biggest problems.[[53]](#endnote-53)

Simultaneously, the government began to explore options for a bailout to help avoid a default, since high bond yields meant that the government would be unable to borrow to refinance its debt and would be forced to default, even if it did not intend to do so. The first bailout following the onset of the crisis happened in May 2010, when the troika, fearing a financial contagion and turmoil, agreed to provide €110 billion ($146 billion) in loans over three years.[[54]](#endnote-54) In exchange for this external aid, Greece agreed to implement a fiscal adjustment worth €30 billion (or 12.5 per cent of the 2009 GDP) spread over the following three years. The country also committed to bring the budget deficit down to 3 per cent of GDP by 2014.[[55]](#endnote-55) These were over and above the austerity measures earlier announced and partly implemented, which amounted to around 6 per cent of GDP. The bailout funds would bridge the funding gap left by the austerity program until Greece could return to borrow on financial markets at acceptable terms.[[56]](#endnote-56)

However, in 2011, it became clear that the May 2010 agreement was not working and that Greece would be unable to stabilize its debt-to-GDP ratio. One reason for this failure was that revised estimates of the 2009 Greek deficit published in 2011 indicated that the extent of fiscal contraction required to achieve the target debt-to-GDP ratios was far greater than that indicated in the 2010 agreement.

Moreover, bond yields across the Eurozone started increasing after the “Deauville bargain.” The deal, formed in October 2010, was an agreement between the German and French leaders, Chancellor Angela Merkel and President Nicholas Sarkozy, that euphemistically sought for “adequate participation by private bondholders.”[[57]](#endnote-57) In effect, the deal involved plans to make bond holders, such as banks and hedge funds, agree to debt write-downs (colloquially known as “haircuts”) through debt-restructuring agreements.[[58]](#endnote-58) Further, the political costs of implementing the austerity measures and reforms that were part of the bailout program inhibited Greece from implementing the changes. In 2011, amid public anger over austerity, Prime Minister Papandreou announced a national referendum on the second bailout, which was under negotiation. However, he called off the referendum after the centre-right opposition agreed to back the deal. Papandreou’s government collapsed and a new unity government, tasked with implementing further austerity and structural reforms, came into power.

The second bailout for Greece, approved in March 2012, was worth €130 billion ($172 billion).[[59]](#endnote-59) The deal included a 53.5 per cent haircut for private Greek bondholders, negotiated by the troika in October 2011; yet the final figure for the haircut was 74 per cent.[[60]](#endnote-60) In exchange, Greece was required to reduce its debt-to-GDP ratio from 160 to 120.5 per cent by 2020.[[61]](#endnote-61) The Greek populace deeply resented the austerity programs enforced by the troika, which was reflected in the increased share of votes obtained by the anti-austerity left fringe parties—an increase of 46 per cent over their share in the earlier election. Following the election, Antonio Samaras led a coalition of the ND and PASOK to form a government, and announced that Greece “had voted to stay in the euro.”[[62]](#endnote-62)

In 2013, unemployment in Greece exceeded 27 per cent, with rates over 60 per cent for those in the 25 years and younger demographic. Not surprisingly, a new set of austerity measures in 2013—implemented to secure the release of the first tranche of the rescue loans approved as part of the second bailout—faced deep resentment and protest. These measures aimed to overhaul the civil service and implement a new tax code and budget cuts. The measures included “plans to put 25,000 civil servants, including teachers, municipal police officers, and school janitors, into a ‘mobility plan’ by the end of the year, docking their wages ahead of forced transfers or dismissals.”[[63]](#endnote-63)

By 2014, Greece appeared close to recovery, reversing the 15 per cent fiscal deficit figure of 2010, and even achieving a small primary surplus and growth after four years of recession.[[64]](#endnote-64) However, the fiscal consolidation was achieved with large increases in taxation rather than spending cuts. In 2014, Greece returned to the international financial markets with its first issue of Eurobonds since the beginning of the crisis in 2010. Interest rates in the rest of the developed world at this time were ultra-low. Further, in 2012, the president of the ECB, Mario Draghi, had announced an open-ended program to buy the government bonds of struggling Eurozone states on the secondary market, with a vow to “do whatever it takes to preserve the euro.”[[65]](#endnote-65) Greece’s debt-to-GDP ratio was still 175 per cent, and the IMF had forecast a growth rate of only 0.6 per cent of GDP in 2014.[[66]](#endnote-66) Despite its history of default, credit ratings still remaining in junk status, and private bond holders recently suffering losses amounting to €130 billion in haircuts, the government was able to attract €3 billion in 5-year bonds at yields of 4.95 per cent.[[67]](#endnote-67)

Faced with a loss of 25 per cent of their income in five years and battling unemployment rates of 25 per cent, Greek citizens were increasingly disenchanted with the austerity programs prescribed by the international creditors. Nor could they appreciate the bailout programs, since they could not see the impact of the bailout money, which was not finding its way back to the economy but was being used simply to pay off Greece’s international loans.[[68]](#endnote-68) In January 2015, Tsipras, leader of the small radical left party, Syriza, in a coalition with the right-wing Independent Greeks,[[69]](#endnote-69) came to power riding on promises to roll back austerity measures and renegotiate Greece’s debt, which had reached 180 per cent. Leading the first Eurozone government to openly oppose the bailout conditions imposed by the Eurozone and the IMF, Tsipras said the election results had “made the troika history.” He also promised restoration of social justice by raising wages and pensions, and abolishing the new “unfair” taxes.[[70]](#endnote-70)

In June 2015, history seemed to repeat itself. In response to international creditors’ terms of structural and fiscal reforms in return for new bailout loans, Tsipras struck a hard position, calling for a national referendum on July 5, 2015, on the proposals.[[71]](#endnote-71) Anticipating turmoil as investors sought to take their money out of Greece, Tsipras announced emergency capital controls, limiting bank withdrawals to €60 ($67) per day and calling a bank holiday after the ECB capped its support.[[72]](#endnote-72) On June 30, 2015, Greece officially defaulted on a $1.7 billion payment to the IMF,[[73]](#endnote-73) necessitating a third bailout. Greeks voters had rejected the international creditor terms in the July 5th referendum, but the Greek parliament, led by Tsipras, accepted the bailout deal. Consequently, in August 2015, Greece received its third bailout of €86 billion ($96 billion), to be distributed in tranches and to conclude in August 2018. In return, the creditor nations, especially Germany, required policy commitments from Greece, including implementation of tax reforms, cuts in public spending, privatization of state assets, and labour law reforms, among other austerity measures.[[74]](#endnote-74) The goal was to achieve a primary budget surplus of 3.5 per cent of GDP by 2018 (0.25 per cent deficit in 2015, 0.5 per cent surplus in 2016, and 1.75 per cent surplus in 2017).[[75]](#endnote-75) The Bank of Greece felt that this was not feasible and proposed a surplus of 1.5 to 2 per cent of GDP (see Exhibit 6).[[76]](#endnote-76)

A division rose between the IMF and the Eurozone creditors. The IMF refused to contribute funds to this bailout unless the creditors provided Greece with “significant debt relief” in the form of “longer grace periods, longer payment schedules, and lower interest rates, instead of outright debt cancellation” because “it was unrealistic for Greece to repay its debts without extra help.”[[77]](#endnote-77) The IMF stressed debt restructuring and structural reforms, while the Eurozone insisted on an austerity-measures-led fiscal surplus.[[78]](#endnote-78)

In 2016, more than six years, 13 austerity packages, 12 pension cuts, and three bailouts later, Greece was continuing its downward economic spiral. Its debt stood at about 181 per cent of GDP. The repayment of loans received as part of the second bailout alone would continue until 2056.[[79]](#endnote-79) Non-performing loans totalling $119 billion accounted for 45 per cent of the country’s loans. Unemployment was around 23 per cent, and about three-fourths of unemployed people had been jobless for at least a year.[[80]](#endnote-80) Greek consumption had declined by 6.4 per cent and exports by 7.2 per cent in the second quarter of the year. The public sector accounted for 40 per cent of GDP. Greece’s real growth rate was −0.1 per cent, inflation was −0.82 per cent, the fiscal deficit was −4.5 per cent, and the current account balance was −$70 million. The country required foreign investment to kick-start growth, which seemed impossible, given the hostile fiscal policies faced by both domestic and foreign investors. The harsh austerity measures had led to greater tax evasion and Greece’s attempts to renege on its loan repayments.[[81]](#endnote-81)

In December 2016, the yields on Greek 10-year government bonds stood at 6.94 per cent, as opposed to the 0.25 per cent yield on German bonds of comparable maturities.[[82]](#endnote-82) Greece’s two-year bond yields were even higher at 7.44 per cent, compared to −0.8 per cent for their German equivalents.[[83]](#endnote-83) In December 2016, the finance ministers of the 19 Eurozone countries offered Greece “short-term debt relief,” to be applied before 2018, that could reduce the country’s debt-to-GDP ratio by around 20 percentage points by 2060.[[84]](#endnote-84) Within 10 days of securing this “relief,” Greece snubbed its international lenders by offering its low-income pensioners a pre-Christmas payoff and instituting a VAT suspension on some islands, which violated the terms of the 2015 bailout. The prospect of an exit from the Eurozone hung over Greece like an ominous cloud. At the same time, Tsipras knew that the political reality of the wafer-thin majority of two that his coalition government held gave him very little scope for fiscal navigation to accede to the creditors’ demands.[[85]](#endnote-85) Could Greece overcome its “Achilles’ heel”—poor fiscal policy? How could Tsipras set the Greek fiscal house in order?

EXHIBIT 1: TIMELINE OF GREECE’S DEFAULTS AND BAILOUTS

|  |  |
| --- | --- |
| **Year** | **Main Events** |
| 1824–1825 | Uprising against the Ottoman Empire. Two loans issued in London to finance the war. |
| 1826 | First Greek default on the “independence loans” (Debt:GDP > 100%). |
| 1829 | Independence. |
| 1833 | King Otto of Bavaria enthroned as King of Greece. The three “Great Powers”—Great Britain, Russia, and France—bail Greece out through a guaranteed loan of 60 million francs, to be raised in private markets, in exchange for legal control over Greek revenues. |
| 1843 | High taxes and expense cuts in Greece in exchange for the 1833 bailout cause public discontent. Economic crisis and revolt against Otto. |
| 1862 | King Otto overthrown. |
| 1878–1879 | Debt restructuring and exit from crisis. Beginning of another lending boom. |
| 1893 | Second Greek default. |
| 1898 | Second guaranteed loan by the Great Powers. Greece’s fiscal affairs again become subject to external interference. |
| 1929–1931 | Government revenues decline, inflation rises to above 40%, exports shrink, and foreign exchange reserves deplete. A banking crisis in 1931, as well as a mass immigration of refugees from Asia Minor, leads to worsening public finances. Two “refugee loans” borrowed in 1924 and 1928, with the League of Nations acting as the trustee. |
| 1932 | Greece exits the “gold standard.” Its currency, the drachma, depreciates by 50% and external debt servicing costs double. Debts, borrowed in dollars and pounds, can no longer be serviced through drachma tax revenues. Thus, there is a third Greek default in April 1932. |
| 1941–1944 | Occupation by Nazi Germany and Fascist Italy. |
| 1946 | Civil war. |
| 1949 | Marshall Plan grants and lending by the United States. |
| 1964 | Debt restructuring and market re-access to loans. |
| 1967–1974 | Military coup, and military junta takes power. |
| 1974 | Collapse of the dictatorship. Referendum creates a parliamentary republic. A new centre-right government of the New Democracy (ND), headed by Constantine Karamanlis, comes to power. |
| 1981 | Membership in the European Economic Community. |
| 2001 | Introduction of the euro. |
| 2010 | Sovereign Debt Crisis. The “troika” demands primary surpluses and reforms as a condition for bailout and for Eurozone membership. Greece loses market access. |
| 2012 | Private debt restructuring and “haircuts.” |
| 2014 | Greece goes back to international financial markets and attracts €3 billion in 5-year bonds at yields of 4.95%. |
| 2015 | Greece officially defaults on a US$1.7 billion payment to the IMF. Greeks reject international creditor terms in a national referendum. Tsipras accepts a bailout deal, and Greece receives its third bailout. |
| 2016 | Greece snubs its international lenders and offers its low-income pensioners a pre-Christmas payoff, as well as a VAT suspension, which violates the terms of the 2015 bailout. |

Source: Carmen M. Reinhart and Christoph Trebesch, “The Pitfalls of External Dependence: Greece, 1829–2015,” NBER Working Paper 21664, National Bureau of Economic Research, 2015, 12, accessed August 10, 2017, www.nber.org/papers/w21664.

EXHIBIT 2: GREECE—KEY INDICATORS FOR SELECT YEARS (1973–2015)

| **Series Name** | **1973** | **1974** | **1975** | **1980** | **1981** | **1985** | **1990** | **1991** | **1995** | **2000** | **2001** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| GDP growth, annual (%) | 8.1 | −6.4 | 6.4 | 0.7 | −1.6 | 2.5 | 0.0 | 3.1 | 2.1 | 3.9 | 4.1 | 3.3 | −0.3 | −4.3 | −5.5 | −9.1 | −7.3 | −3.2 | 0.4 | −0.2 |
| Inflation, GDP deflator, annual (%) | 20.9 | 22.8 | 13.1 | 19.2 | 21.6 | 19.0 | 20.7 | 19.8 | 9.8 | 1.6 | 3.5 | 3.4 | 4.3 | 2.6 | 0.7 | 0.8 | −0.4 | −2.4 | −1.8 | −1.0 |
| Agriculture, value added |  |  |  |  |  |  |  |  | 8.1 | 6.1 | 5.8 | 3.4 | 3.2 | 3.1 | 3.3 | 3.4 | 3.7 | 3.6 | 3.7 | 4.1 |
| Industry, value |  |  |  |  |  |  |  |  | 21.6 | 21.0 | 21.7 | 20.4 | 17.7 | 17.1 | 15.7 | 15.6 | 16.2 | 16.5 | 15.9 | 15.7 |
| Services, etc., value add |  |  |  |  |  |  |  |  | 70.3 | 72.9 | 72.4 | 76.2 | 79.1 | 79.7 | 81.1 | 81.1 | 80.1 | 79.9 | 80.3 | 80.2 |
| Exports of goods and services | 11.6 | 14.2 | 14.1 | 19.3 | 21.4 | 16.1 | 14.8 | 14.2 | 14.4 | 23.7 | 22.8 | 22.5 | 23.4 | 19.0 | 22.1 | 25.5 | 28.7 | 30.4 | 32.5 | 31.9 |
| Imports of goods and services | 20.1 | 21.3 | 21.2 | 25.3 | 25.8 | 24.3 | 25.3 | 24.4 | 22.7 | 34.7 | 33.4 | 35.0 | 36.0 | 28.8 | 30.7 | 32.3 | 33.1 | 33.2 | 34.9 | 31.8 |
| Gross capital formation | 48.3 | 38.3 | 36.4 | 30.6 | 25.0 | 31.3 | 27.6 | 28.4 | 22.5 | 25.8 | 25.7 | 27.1 | 24.5 | 18.3 | 17.0 | 15.1 | 12.8 | 11.6 | 11.8 | 9.8 |
| Time required to start a business (days) |  |  |  |  |  |  |  |  |  |  |  | 38.0 | 19.0 | 19.0 | 19.0 | 11.0 | 11.0 | 14.0 | 13.0 | 13.0 |
| Domestic credit provided by financial sector | 26.6 | 28.7 | 30.3 | 59.4 | 66.3 | 71.5 | 85.2 | 77.8 | 82.1 | 87.0 | 100.5 | 112.1 | 115.5 | 115.7 | 147.6 | 156.0 | 139.1 | 137.1 | 138.3 | 135.7 |
| Tax revenue | 12.5 | 12.6 | 12.7 | 13.8 | 12.2 | 18.6 | n/a | n/a | 20.6 | 22.5 | 20.9 | 20.2 | 20.2 | 19.8 | 20.2 | 22.1 | 23.6 | 23.7 | 24.4 | 24.7 |
| Military expenditure |  |  |  |  |  |  | 3.3 | 3.0 | 3.1 | 3.5 | 3.3 | 2.7 | 3.0 | 3.2 | 2.7 | 2.5 | 2.4 | 2.4 | 2.3 | 2.6 |
| Merchandise trade | 22.1 | 25.3 | 26.8 | 27.6 | 24.9 | 30.7 | 28.5 | 28.8 | 27.0 | 34.8 | 32.7 | 32.1 | 33.6 | 27.2 | 31.7 | 35.2 | 40.2 | 41.2 | 42.3 | 39.5 |
| Net migration (no. of people) |  |  |  |  |  |  |  |  |  |  |  | 80,157 |  |  |  |  | −136,299 |  |  |  |
| Current account balance |  |  |  | −3.9 | −4.6 | −6.9 | −3.6 | −1.5 | −2.1 | −7.5 | −6.9 | −14.0 | −14.5 | −10.9 | −10.1 | −9.9 | −2.5 | −2.1 | −1.6 | 0.1 |
| Unemployment rate, as a proportion of labour force (%) |  |  |  |  |  |  |  |  |  | 11.4 | 10.8 | 8.4 | 7.8 | 9.6 | 12.7 | 17.9 | 24.4 | 27.5 | 26.5 | 24.9 |
| Government debt | 15.0 | 20.0 |  | 21.4 | 25.4 | 46.0 | 68.2 | 70.5 | 99.0 | 104.9 | 107.1 | 103.1 | 109.4 | 126.7 | 146.2 | 172.1 | 159.6 | 177.4 | 179.7 | 177.4 |
| Government fiscal balance |  |  |  | −2.8 | −7.9 | −10.6 | −14.7 | −10.7 | −9.7 | −4.1 | −5.5 | −6.7 | −10.2 | −15.1 | −11.2 | −10.3 | −8.8 | −13.2 | −3.6 | −7.5 |

Note: All figures are a percentage of GDP unless otherwise specified.

Source: “Greece,” DataBank, The World Bank, accessed February 12, 2017, http://data.worldbank.org/country/greece.

EXHIBIT 3: DEBT AND DEFICIT FIGURES FOR GREECE, DECLARED Versus REVISED (1997–2003)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **1997** | **1998** | **1999** | **2000** | **2001** | **2002** | **2003** |
| Government Deficit | Declared | −4.03 | 2.46 | 1.77 | −2.00 | −1.40 | −1.40 | −1.70 |
| Revised | −6.61 | −4.28 | −3.44 | −4.10 | −3.70 | −3.70 | −4.60 |
| Government Debt | Declared | 108.18 | 105.82 | 105.24 | 106.10 | 106.60 | 104.60 | 102.60 |
| Revised | 114.01 | 112.41 | 112.31 | 114.00 | 114.70 | 112.50 | 109.90 |

Source: “Report by Eurostat on the Revision of the Greek Government Deficit and Debt Figures,” Eurostat, European Commission, November 22, 2004, accessed April 12, 2015, http://ec.europa.eu/eurostat/documents/4187653/5765001/GREECE-EN.PDF/2da4e4f6-f9f2-4848-b1a9-cb229fcabae3?version=1.0.

EXHIBIT 4: GREECE’S DEBTORS, by INSTITUTION AND COUNTRY

|  |
| --- |
| EUROZONE: 60%  European Financial Stability Fund: €141.8 billion  Greek Loan Facility: €52.9 billion |
| IMF: 10% |
| ECB: 6% |
| GREEK BANKS: 3% |
| FOREIGN BANKS: 1% |
| BANK OF GREECE: 1% |
| OTHER BONDS: 15% |
| OTHER LOANS: 3% |

|  |  |
| --- | --- |
| **COUNTRY** | **AMOUNT**  **(in € billions)** |
| Germany1 | 68.2 |
| France1 | 43.8 |
| Italy1 | 38.4 |
| Spain1 | 25.0 |
| IMF | 21.4 |
| ECB | 18.1 |
| Netherlands1 | 13.4 |
| U.S.2 | 11.3 |
| U.K.2 | 10.8 |
| Belgium3 | 7.5 |
| Austria3 | 5.9 |
| Finland3 | 3.7 |

Notes: IMF = International Monetary Fund; ECB = European Central Bank; Due to rounding, the total does not equal 100 per cent; 1 These loans were mostly in the form of EU bailout loans, but some were provided by domestic banks; 2 Loans provided only by domestic banks; 3 Only EU bailout loans.

Source: “The Greek Debt Crisis Story in Numbers,” BBC News, July 10, 2015, accessed August 10, 2017, www.bbc.com/news/world-europe-33407742.

EXHIBIT 5: LONG-TERM GOVERNMENT 10-YEAR BOND YIELDS, Germany vERSUS Greece

(1993–2017)

Source: Created by case author based on Statistical Data Warehouse, European Central Bank, accessed April 16, 2017, https://sdw.ecb.europa.eu/browse.do?node=9691124.

EXHIBIT 6: GREEK FISCAL DATA—REVENUE, EXPENDITURE, AND DEFICIT/SURPLUS (percentage of GDP)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **CATEGORY** | | | | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| General Government Revenue  (Percentage of GDP) | Current Revenue | Direct Taxes | Households | 5.2 | 5.1 | 5.3 | 5.1 | 5.7 | 6.6 | 6.4 | 6.1 | 5.9 |  |
| Corporations | 3.1 | 3.0 | 3.2 | 3.1 | 3.5 | 4.1 | 4.0 | 3.6 | 3.5 |  |
| Total Direct Taxes | 8.3 | 8.1 | 8.5 | 8.3 | 9.2 | 10.8 | 10.5 | 9.8 | 9.7 |  |
| Indirect Taxes | VAT | 7.1 | 7.0 | 6.3 | 7.1 | 7.3 | 7.2 | 7.0 | 7.1 | 7.3 | 8.1 |
| Taxes on Energy | 1.2 | 1.5 | 1.8 | 2.5 | 2.2 | 2.3 | 2.3 | 3.0 | 2.3 | 2.3 |
| Total Indirect Taxes | 12.6 | 12.6 | 11.7 | 12.6 | 13.5 | 13.6 | 14.1 | 15.5 | 16.1 | 17.1 |
| Net Social Contributions | Employers\* | 5.0 | 5.0 | 4.7 | 5.1 | 4.8 | 4.8 | 4.7 | 4.5 | 4.4 | 4.4 |
| Households\* | 5.8 | 5.7 | 5.5 | 5.9 | 5.9 | 6.1 | 6.0 | 6.0 | 6.3 | 6.6 |
| Total | 12.4 | 12.7 | 12.4 | 13.1 | 13.2 | 13.9 | 13.5 | 13.5 | 13.9 | 14.2 |
| Sales | | 2.8 | 3.0 | 2.9 | 3.0 | 2.9 | 2.8 | 2.8 | 2.8 | 2.9 | 3.2 |
| **TOTAL CURRENT REVENUE** | | **37.9** | **38.5** | **37.6** | **39.2** | **41.5** | **44.0** | **44.9** | **44.4** | **45.3** | **47.9** |
| Capital Revenue | Capital Taxes | | 0.1 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| **TOTAL CAPITAL REVENUE** | | **2.4** | **2.2** | **1.4** | **2.1** | **2.5** | **2.5** | **4.2** | **2.5** | **3.0** | **1.8** |
| Total Revenues | | | | 40.4 | 40.7 | 38.9 | 41.3 | 44.0 | 46.5 | 49.1 | 46.9 | 48.3 | 49.7 |
| Fiscal Burden | | | | 33.4 | 33.6 | 32.8 | 34.1 | 36.0 | 38.4 | 38.2 | 38.9 | 39.8 | 41.6 |
| General Government Expenditure  (Percentage of GDP) | Current Expenditure | Social Payments | Old Age Pensions | 12.2 | 13.6 | 14.5 | 15.0 | 16.4 | 17.5 | 16.2 | 16.9 | 17.4 |  |
| Unemployment Benefits | 0.8 | 0.7 | 1.0 | 1.0 | 1.1 | 0.7 | 0.7 | 0.4 | 0.5 |  |
| Total Social Payments | 17.2 | 18.9 | 20.6 | 20.9 | 22.9 | 23.2 | 21.4 | 21.8 | 22.2 | 22.3 |
| Interest | | 4.5 | 4.8 | 5.0 | 5.9 | 7.3 | 5.1 | 4.0 | 4.0 | 3.6 | 3.2 |
| Compensation of Employees | | 11.1 | 11.6 | 13.1 | 12.4 | 12.6 | 12.8 | 12.2 | 12.3 | 12.3 | 12.3 |
| Intermediate Consumption | | 6.7 | 6.2 | 6.7 | 6.1 | 4.9 | 5.1 | 4.7 | 4.9 | 4.9 | 4.7 |
| Subsidies | | 0.1 | 0.0 | 0.1 | 0.2 | 0.6 | 0.7 | 1.1 | 0.9 | 1.0 | 1.0 |
| **TOTAL CURRENT EXPENDITURE** | | **41.4** | **43.6** | **47.5** | **47.4** | **50.0** | **48.4** | **45.2** | **45.7** | **45.6** | **45.1** |
| Capital Expenditure | Investment | | 4.9 | 5.6 | 5.7 | 3.7 | 2.5 | 2.5 | 2.5 | 3.4 | 3.7 | 3.9 |
| Capital Transfers | | 0.6 | 1.5 | 1.3 | 1.3 | 1.8 | 4.4 | 12.3 | 0.9 | 3.9 | 0.4 |
| **TOTAL CAPITAL EXPENDITURE** | | **5.7** | **7.3** | **6.6** | **5.0** | **4.3** | **7.0** | **17.0** | **4.9** | **8.6** | **3.9** |

EXHIBIT 6 (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **CATEGORY** | | | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| Primary Expenditure | | | 42.6 | 46.0 | 49.0 | 46.6 | 47.0 | 50.3 | 58.2 | 46.6 | 50.6 | 45.8 |
| General Government Deficit/Surplus,  Primary Deficit/Surplus, and Government Consumption  (Percentage of GDP) | Government Deficit (−) / Surplus (+) | Central Government | −7.3 | −11.0 | −15.1 | −10.7 | −9.3 | −8.4 | −15.4 | −4.4 | −5.9 | −0.8 |
| State Government |  |  |  |  |  |  |  |  |  |  |
| Local Government | 0 | 0 | 0 | −0.3 | 0.2 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 |
| Social Security Funds | 0.6 | 0.9 | 0 | −0.2 | −1.2 | −0.8 | 1.9 | 0.4 | −0.3 | 1.2 |
| Total | −6.7 | −10.2 | −15.1 | −11.2 | −10.3 | −8.9 | −13.1 | −3.7 | −5.9 | 0.7 |
| Primary Deficit (−) / Surplus (+) | | −2.2 | −5.4 | −10.1 | −5.3 | −3.0 | −3.8 | −9.1 | 0.3 | −2.3 | 3.9 |
| Government Consumption | Compensation of Employees | 11.1 | 11.6 | 13.1 | 12.4 | 12.6 | 12.8 | 12.2 | 12.3 | 12.3 | 12.3 |
| Intermediate Consumption | 6.7 | 6.2 | 6.7 | 6.1 | 4.9 | 5.1 | 4.7 | 4.9 | 4.9 | 4.7 |
| Social Transfers in Kind | 2.6 | 2.9 | 3.1 | 3.2 | 3.4 | 2.9 | 2.4 | 2.1 | 2.3 | 2.4 |
| Consumption of Fixed Capital | 2.9 | 3.0 | 3.3 | 3.5 | 3.6 | 3.7 | 3.9 | 3.8 | 3.7 | 3.5 |
| Total Government Consumption | 20.5 | 20.7 | 23.3 | 22.2 | 21.7 | 21.8 | 20.5 | 20.3 | 20.3 | 19.7 |
| **Government Debt** | | | **103.1** | **109.4** | **126.7** | **146.2** | **172.1** | **159.6** | **177.4** | **179.7** | **177.4** | **179.0** |

Source: Statistical Data Warehouse, European Central Bank, accessed April 23, 2017, https://sdw.ecb.europa.eu/home.do.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of the Government of Greece or any of its employees. [↑](#endnote-ref-1)
2. € = EUR = euro; All currency amounts are in EUR unless otherwise specified; €1 = US$1.08 on December 31, 2016. [↑](#endnote-ref-2)
3. The Eurozone was a subset of the European Union (EU), comprising 19 of the 28 EU countries that used the euro as the national currency. Phillip Thorne, “Understanding Data: European Union vs. Euro Zone,” Moody’s Analytics, accessed August 10, 2017, www.economy.com/support/blog/buffet.aspx?did=D8A2232F-AAC5-43D0-AD70-2F737DD7261D; Nicholas Economides, “How Greece’s Troubled Economy Could Turn Around in 2017,” *Fortune*, January 3, 2017, accessed August 10, 2017, http://fortune.com/2017/01/03/greece-euro-2017. [↑](#endnote-ref-3)
4. Jan Strupczewski and Karolina Tagaris, “Greece Snubs Lenders, Approves Christmas Bonus as Europe Divided,” *Fiscal Times*, December 15, 2016, accessed August 10, 2017, www.thefiscaltimes.com/latestnews/2016/12/15/EU-Commission-believes-Greek-debt-relief-deal-robust-EUs-Moscovici. [↑](#endnote-ref-4)
5. Helena Smith, “Greek Gloom as Economy Stalls Amid Latest Bout of EU Wrangling,” *Guardian*, April 8, 2017, accessed August 10, 2017, www.theguardian.com/business/2017/apr/08/greece-last-protesters-diehards-rise-up-compromise-syriza-eurozone. [↑](#endnote-ref-5)
6. Strupczewski and Tagaris, op. cit; George Alogoskoufis, “Greece’s Sovereign Debt Crisis: Retrospect and Prospect,” GreeSE Paper No. 54 in *Hellenic Observatory Papers on Greece and Southeast Europe* (London: London School of Economics and Political Science, 2012). [↑](#endnote-ref-6)
7. John Mauldin, “Greece’s Debt Problem Has Reached a Dangerous Point,” *Forbes*, December 21, 2016, accessed August 10, 2017, www.forbes.com/sites/johnmauldin/2016/12/21/greeces-debt-problem-has-reached-a-dangerous-point. [↑](#endnote-ref-7)
8. “Long-Term Interest Rate Statistics for EU Member States,” European Central Bank, accessed August 10, 2017, www.ecb.europa.eu/stats/financial\_markets\_and\_interest\_rates/long\_term\_interest\_rates/html/index.en.html. [↑](#endnote-ref-8)
9. Alogoskoufis, op. cit.; Ralph C. Bryant, Nicholas C. Garganas, and George S. Tavlas, eds., *Greece’s Economic Performance and Prospects* (Athens: Bank of Greece and Washington: Brookings Institution, 2001); Carmen M. Reinhart and Christoph Trebesch, “The Pitfalls of External Dependence: Greece, 1829-2015,” NBER Working paper 21664, National Bureau of Economic Research, 2015, accessed August 10, 2017, www.nber.org/papers/w21664. [↑](#endnote-ref-9)
10. “History of Greece,” greeka.com, accessed August 10, 2017, www.greeka.com/greece-history. [↑](#endnote-ref-10)
11. Reinhart and Trebesch, op. cit., 1 [↑](#endnote-ref-11)
12. Alogoskoufis, op. cit. [↑](#endnote-ref-12)
13. Eurostat, European Commission, accessed August 10, 2017, http://ec.europa.eu/eurostat/data/database. [↑](#endnote-ref-13)
14. Bryant, Garganas, and Tavlas, op. cit., 8. [↑](#endnote-ref-14)
15. George Alogoskoufis and Nikos Christodoulakis, “Fiscal Deficits, Seignorage, and External Debt: The Case of Greece,” in *External Constraints on Macroeconomic Policy: The European Experience*, ed. George Alogoskoufis, Lucas Papademos, and Richard Portes (Cambridge, UK: Cambridge University Press, 1991). [↑](#endnote-ref-15)
16. Alogoskoufis, op. cit., 46. [↑](#endnote-ref-16)
17. Rebecca M. Nelson, Paul Belkin, and Derek E. Mix,“Greece’s Debt Crisis: Overview, Policy Responses and Implications,” Congressional Research Service No. R41167, 2011, 2, accessed August 10, 2017, https://fas.org/sgp/crs/row/R41167.pdf. [↑](#endnote-ref-17)
18. Bryant, Garganas, and Tavlas, op. cit., 8 [↑](#endnote-ref-18)
19. Alogoskoufis, op. cit., 19. [↑](#endnote-ref-19)
20. Susan C. Stokes, “Political Clientism,” in *The Oxford Handbook of Political Science*, ed. Robert E. Goodin (Oxford, UK: Oxford University Press, 2011), 649. [↑](#endnote-ref-20)
21. Nelson, Belkin, and Mix, op. cit., 2. [↑](#endnote-ref-21)
22. Bryant, Garganas, and Tavlas, op. cit., 8 [↑](#endnote-ref-22)
23. Ibid; Alogoskoufis, op. cit., 18. [↑](#endnote-ref-23)
24. Renate Neubäumer, “The Prologue to the Greek Crisis,” *Vierteljahrshefte zur Wirtschaftsforschung* 84, no. 3 (2015): 9–28, doi:10.3790/vjh.84.3.9. [↑](#endnote-ref-24)
25. Alogoskoufis, op. cit., 18 [↑](#endnote-ref-25)
26. “General Government Gross Debt: Annual Data,” Eurostat, European Commission, accessed August 10, 2017, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1. [↑](#endnote-ref-26)
27. Bryant, Garganas, and Tavlas, op. cit., 17. [↑](#endnote-ref-27)
28. Alogoskoufis, op. cit., 18. [↑](#endnote-ref-28)
29. Bryant, Garganas, and Tavlas, op. cit., 17. [↑](#endnote-ref-29)
30. Alogoskoufis, op. cit., 46. [↑](#endnote-ref-30)
31. “Greece Joins Eurozone,” BBC News, January 1, 2001, accessed August 10, 2017, http://news.bbc.co.uk/2/hi/business/1095783.stm. [↑](#endnote-ref-31)
32. Bryant, Garganas, and Tavlas, op. cit., 19. [↑](#endnote-ref-32)
33. Ibid, 21. [↑](#endnote-ref-33)
34. Alogoskoufis, op. cit., 11. [↑](#endnote-ref-34)
35. “Greece’s Debt: 1974–2017,” Council on Foreign Relations, accessed August 10, 2017, www.cfr.org/greece/timeline-greeces-debt-crisis. [↑](#endnote-ref-35)
36. “Kostas Karamanlis,” Hellinca World, accessed August 10, 2017, www.hellenicaworld.com/Greece/Person/en/KostasKaramanlis.html. [↑](#endnote-ref-36)
37. “Report by Eurostat on the Revision of the Greek Government Deficit and Debt Figures,” Eurostat, European Commission, November 22, 2004, accessed April 12, 2015, http://ec.europa.eu/eurostat/documents/4187653/5765001/GREECE-EN.PDF/2da4e4f6-f9f2-4848-b1a9-cb229fcabae3?version=1.0. [↑](#endnote-ref-37)
38. “Timeline of a Crisis: How Greece's Tragedy Unfolded,” *Telegraph*, June 16, 2011, accessed August 10, 2017, www.telegraph.co.uk/finance/economics/8580720/Timeline-of-a-crisis-how-Greeces-tragedy-unfolded.html. [↑](#endnote-ref-38)
39. Nick Malkoutzis, “How the 2004 Olympics Triggered Greece’s Decline,” Bloomberg, August 2, 2012, accessed August 10, 2017, www.bloomberg.com/amp/news/articles/2012-08-02/how-the-2004-olympics-triggered-greeces-decline. [↑](#endnote-ref-39)
40. Centre for Culture Research and Documentation, *The Chronicle of the Great Crisis: The Bank of Greece 2008–2013* (Athens: Bank of Greece, 2014), accessed August 10, 2017, www.bankofgreece.gr/BogEkdoseis/The%20Chronicle%20Of%20The%20Great

    %20Crisis.pdf. [↑](#endnote-ref-40)
41. Automatic stabilizers were economic policies and programs that worked automatically, without explicit government interventions, to counter economic cycles. They included corporate or personal taxes, which automatically decreased during a recession, and public spending on unemployment insurance, which automatically increased during recessions. Automatic stabilizers were different from discretionary fiscal measures, which were explicit government interventions to stabilize business cycles. Such discretionary measures during a recession may have included lowering tax rates or increasing public spending. [↑](#endnote-ref-41)
42. Nelson, Belkin, and Mix,op. cit. [↑](#endnote-ref-42)
43. “Definition of ‘Sovereign Bond,’” *Economics Times*, accessed August 10, 2017, http://economictimes.indiatimes.com/definition/sovereign-bond; “What Are Sovereign Bonds?” The Balance, accessed August 10, 2017, www.thebalance.com/what-are-sovereign-bonds-1979114. [↑](#endnote-ref-43)
44. Dimitri Bellas, Michael G. Papaioannou, and Iva Petrova, “Determinants of Emerging Market Sovereign Bond Spreads: Fundamental vs Financial Stress,” IMF Working Paper WP/10/281, International Monetary Fund, 2010, accessed August 10, 2017, www.imf.org/external/pubs/ft/wp/2010/wp10281.pdf. [↑](#endnote-ref-44)
45. External investors held 70 per cent of such debt, and domestic residents only 30 per cent. Reinhart and Trebesch, op. cit. [↑](#endnote-ref-45)
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