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From Problem Child to Model Student

Greece's New Role in Europe

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Sovereign debt, migration crisis, corruption – this was what people associated with Greece up until a few years ago. Recently, we have been reading more about growth, a return to the capital market and increasing popularity. The country has one of the highest growth rates in the EU and is developing into Europe’s energy hub. How did this come about? What has been done right in recent years? And what does Greece’s new self-confidence mean in terms of the country’s geopolitical orientation and European policy?

Before the Crisis: The “Golden” 2000s

With the introduction of the euro in 2002, Greece finally became part of the inner circle of the European integration process. At the same time, Greece’s inclusion in the eurozone meant that the possibility of devaluation and the individual assessment of public finances and economic strength by banks and international institutions was initially eliminated, so interest rates for Greek government bonds were at a standardised European level in the 2000s. This led to a sudden availability of cheap money in the country, thereby generating a momentum that was further fuelled by the national football team winning the 2004 European Championships and the country hosting the Olympic Games in the same year.

Greece was in a state of elation: public-sector investments went ahead, the public administration was further expanded, and the ruling parties in particular created numerous privileges. For example, employees could retire after only 20 years of work if they had an underage child. There were bonuses for coming to work on time in the public sector. The parties recruited supporters in droves, who then had to be provided for accordingly in order to retain them. This led to more protection of vested interests, thereby perpetuating the phenomenon of cronyism and clientelism. The rude awakening came in 2008 with the collapse of the investment bank Lehman Brothers and the start of the banking crisis, which led to a sovereign debt crisis in Greece two years later – the beginning of a decade of

severe economic and political upheaval in the country.

A Country in Crisis: Collapse in the 2010s

When the financial crisis occurred, the capacity of states to respond appropriately to economic crises was called into question. Although they were all part of the same economic community, the member states of the eurozone proved to have different levels of resilience; Southern Europe in particular was put to the test – and Greece especially. The chronic weakness of the Greek economy and the lack of structural changes, combined with the lack of transparency in the publication of the country’s budget figures, led to economic collapse. The premiums for Greek government bonds skyrocketed: the interest rate on Greece’s long-term bonds peaked in February 2012 at 29.2 per cent¹, creating a situation in which Greece was no longer able to service its debt. The Greek state was “rescued” by means of three different aid packages provided by the European Union and its member states in order to avert insolvency. However, this “rescue” was linked to conditions that can be summarised under the following main objectives:

- the sustainability of public finances was to be restored,
- financial stability was to be maintained,
- reforms were to be implemented to promote growth and employment,
- the public sector was to be modernised.

Learning from Crises: The Dawn of a New Decade

The necessary reforms, particularly in the areas of labour, social security, economic consolidation and justice, led to severe cuts and major social upheaval. This in turn resulted in widespread political change in the country. Having been one of the two traditional pillars of power in Greece for the preceding 40 years, the social democratic party PASOK collapsed. At the same time, the left-wing alliance Syriza emerged, primarily supported by the nationwide protests against the reforms. When Syriza formed the government together with the right-wing populist ANEL (Independent Greeks) in 2015, Prime Minister Alexis Tsipras and his Finance Minister Yanis Varoufakis promised to abandon the painful reforms. The reality of the economic situation quickly caught up with them, however, and they were also forced to implement measures that, although unpleasant, were considered necessary by most experts.

Despite positive developments, Greece has the second-highest unemployment rate in the EU.

It was not until the election of Kyriakos Mitsotakis in 2019 that the country was gradually able to shake off the lethargy of the crisis years. Mitsotakis and his conservative *Néa Dimokratía* (ND) party recognised the need for the reforms introduced thus far and had already developed further ideas for the future of Greece during their time as an opposition party. These were now implemented more consistently than before. The measures gradually began to take effect and, step by step, the country has been able to regain access to the international capital market over the past four years. The rating agency S&P Global Ratings restored Greece to “creditworthy” status on 20 October 2023, followed by Fitch in December 2023.² Greece is now also seeing higher economic growth and was able to tackle the COVID-19 crisis more effectively than other countries in Europe thanks to a now more

efficient state. The idea of Greece 2.0 was born, restoring pride and motivation to the Greeks. The so-called National Recovery and Resilience Plan provides for 106 investments and 68 reforms spread across four pillars:

- green transition;
- digital transformation;
- employment, skills and social cohesion;
- private investment and economic transformation.

This will mobilise a total of 31.16 billion euros.³

Taking Stock of Recent Domestic Policy: More Positives than Negatives

Greece’s development is progressing slowly but steadily and citizens are starting to feel the results of a prudent economic policy. Despite the major challenges that the country has recently faced – such as the COVID-19 pandemic, which hit at a sensitive time when the country’s recovery had only just begun, and the war in Ukraine – the measures taken have helped the economy return to pre-crisis levels. It was also possible to prevent a large part of the population becoming impoverished as a result of exorbitant energy costs. This is particularly notable, because despite a significant drop in unemployment, Greece still has the second highest rate in the EU. Major challenges also remain in other areas of the economy and the welfare state, not least due to demographic trends: Greece’s population is ageing and the country has one of the lowest birth rates in Europe (1.26). The most recent census in 2021 recorded a decline in the country’s total population (10.48 million) for the first time. Meanwhile, life expectancy has risen to an average of more than 80 years.

Combined with past distortions in the labour and insurance sectors, which led to the early retirement of hundreds of thousands of citizens, this has resulted in an explosive mix for the future of insurance in Greece. In recent years, numerous measures have been taken to establish a basis for the sustainability of the insurance system, but efforts still have to be continued in this area. It



Post-pandemic recovery: With the number of visitors set to surpass 35 million, 2023 might turn out to be a record year for Greece's tourism sector. Those high figures pose a challenge to public infrastructure, however. Photo: © Thanassis Stavrakis, AP, picture alliance.

should not be forgotten that more than 500,000 highly qualified young people left the country during the years of the crisis to pursue a better life abroad. Most of them have not yet returned and the brain drain continues, albeit to a lesser extent.

Nonetheless, the outlook for one of the most important sectors of the Greek economy is positive: with more than 35 million guests, 2023 is expected to be the best year in the history of Greek tourism. In recent years, considerable investments have been made in both classic and lesser-known destinations. At the same time, however, this makes further measures necessary, since the impact of mass tourism and the problems it entails are becoming apparent in some places. The often limited or outdated public infrastructure is no longer able to meet the marked increase in demand, leading to a deterioration in services for both locals and visitors.

Revitalisation of public investment has already solved some of these problems in the area of infrastructure. In recent years, Greece has built up an extensive road network that is one of the largest in Europe in relation to the country's population. Thanks to the effective use of EU funds, the public infrastructure has been modernised and made eco-friendly. Yet considerable

deficits remain: the railway tragedy that claimed numerous lives in Tempi at the beginning of 2023 highlighted the state's chronic failure to modernise its infrastructure in certain important areas and bring it into line with European and international standards. Similar conclusions can be drawn from the devastating forest fires that occurred in the summer of 2023 and the inability of the authorities responsible to provide citizens with a high level of civil protection in the face of the worsening climate crisis, which will clearly hit Greece and the Mediterranean region hard.

At the same time, however, the government is introducing positive measures in terms of sustainability by providing incentives for private individuals to renovate their homes and upgrade their energy efficiency: this will reduce the country's energy footprint – energy savings in the private sector alone are expected to amount to at least 213,000 tonnes of oil equivalent per year by 2025. This is around 1.5 per cent of the country's total annual energy requirements, or the consumption of 105,000 households. By 2030, energy savings of up to 30 per cent are to be achieved across the country compared to today.⁴ Thanks to political stability and the reliable economic upturn, large companies and industrial



Strong support: Ever since Russia attacked Ukraine, Greece has stood firmly on Kyiv's side. The picture shows Greek Prime Minister Mitsotakis receiving President Zelensky in Athens in August 2023. [Photo: © Giorgos Kontarinis, Eurokiniss, ANE, picture alliance.](#)

firms have regained confidence in the country and are relocating to Greece, particularly in the technology, logistics and pharmaceutical sectors.

The country's new-found stability is helping to strengthen its international profile.

The digital revolution in Greek public administration was one of the dominant messages that the Mitsotakis government was able to draw on for its re-election in the summer of 2023. Digitalisation has led to an improvement in relations between citizens and the state, thereby strengthening trust in institutions to a certain extent. A range of services are now provided digitally, reducing the costs of government administration. Digitalisation has played an important role at key moments: examples of this include the efficient administration of vaccinations established during the pandemic, but also the introduction of a standardised emergency number (112). A single number also ensures that the security authorities can be contacted quickly, promoting standardisation across Europe. Another example is the “Market Pass”⁵, a measure designed to help households cover part of the increased cost of purchases, particularly

food. Citizens who are entitled to this benefit receive a special debit card from the banks to which the state transfers the benefit.

As a result, digitalisation has improved relations between citizens and the state and made many services accessible electronically, but public bureaucracy has still not been modernised and streamlined as much as it should have been. In the area of justice, for example, only a few steps have been taken to shorten the duration of proceedings, while the acute problems of understaffing in the administrative services and the reorganisation of the court system remain. This is an area where digitalisation is not yet sufficiently advanced. Much has been done in the field of education and there have been significant breakthroughs here in recent years. Digital education has been introduced and curricula have been modernised. Nonetheless, further efforts must be made to adapt the education system to the rapidly changing working environment and the needs of the future.

Strengthening the Country's Reputation within the EU and Internationally

Abroad, the sense of stability that Greece has begun to convey after years of crisis and political experimentation has helped strengthen the country's profile, both internationally and in terms

of European policy. Having long played a role on the international stage as a problem case at best, Greece has started to become a formative player also capable of contributing its strategic goals in the European context. These new Greek foreign policy goals can be summarised as follows:

Conclusion of Strategic Partnerships and Alliances with Countries Such as Israel and Egypt – Particularly in the Energy Sector

In recent years, Greece has developed active diplomacy in the Eastern Mediterranean and the Balkans aimed at strengthening the country's position as an energy hub. This includes plans for the development of environmentally friendly electricity transmission cables in cooperation with Israel (EuroAsia Interconnector) and Egypt (GREGY). At the same time, there has been significant expansion of the grids connecting the country with its northern neighbours and with Italy and Turkey. Greece has greatly increased its LNG storage capacity, contributing not only to its own energy security, but also increasing its capacity to provide its neighbours with energy, thus making them less dependent on Russian gas. The country is now investing heavily in the development of renewable energy sources and is increasing the share of these in the energy mix. According to official figures from the state grid administration authority (ADMIE), the share of renewable energies in energy generation reached 47.1 per cent in the period from January to October 2022, surpassing that of fossil fuels. In October 2022, the country was supplied with electricity exclusively from renewable energy sources for an uninterrupted period of five hours.

Enhancement of the Traditional Strategic Alliance with the United States and France

In a context of instability and uncertainty on a global scale, Greece is strengthening its defences: the traditional strategic cooperation with the United States is being placed on a new footing. The new “spring” in Greek-American relations is reflected in the promotion of the role of the port of Alexandroupolis on the border with Turkey as

an alternative point of access to the Black Sea – facilitating the transfer of valuable war material supplies to Ukraine, among other things – and also in the conclusion of a mutual defence agreement in May 2022.

Likewise, Greece is seeking to pursue closer relations with France: a year earlier, in 2021, a defence agreement to this effect was concluded as part of a comprehensive armaments package, with the delivery of state-of-the-art frigates from France as the main element. In South East Europe and the Mediterranean region, Greece is strengthening its military deterrent capabilities – and therefore NATO's eastern flank. There has been a high price to pay, however: in 2022, Greece spent 3.54 per cent of its gross domestic product on defence – the highest percentage in the entire alliance, even surpassing that of the United States.

Ending Decades-old Border Disputes with Neighbouring Countries

In June 2020, Greece signed an agreement with Italy on the demarcation of the Exclusive Economic Zone (EEZ), thereby putting another piece of the puzzle in place to legally safeguard the rights of the Eastern Mediterranean countries. Another point worth mentioning here is the political agreement arrived at between Greece and Albania on their joint appeal to the International Court of Justice in The Hague on the issue of the demarcation of their EEZs. A declaration has yet to be signed, however. In October 2020, Greece signed an agreement with Egypt on the mutual (partial) demarcation of their EEZs – calling into question the memorandum previously concluded between Turkey and Libya to define their EEZs and which contains demarcations incompatible with those established in the agreement between Athens and Cairo.

Active Participation as a NATO and EU Member in Supporting Ukraine against Russia's War of Aggression

The war in Ukraine marked a turning point not just in Greek foreign policy but also in the country's national and historical narratives regarding

its traditionally close relations with Russia, which are mainly based on the shared Orthodox tradition. The clear support for Ukraine from the outset and alignment with the Western camp dispelled concerns that close Greek–Russian relations could influence the country’s position on the war in Ukraine. Greece is providing political, military, material and moral support to Ukraine – a policy that was confirmed during President Zelensky’s visit to Athens in August 2023, when a joint declaration was signed on the continued support of Ukraine in the war in defence of its national integrity and its path to the EU.

Addressing Security Challenges in Relations with Turkey

Greece’s relations with Turkey have repeatedly been characterised by phases of increased and lowered tension. Until the earthquake in Turkey and the train accident in Tempi, Greece, both of which took place in February 2023, relations had reached a turning point: a heavy shadow had been cast on Greek–Turkish relations by the increasing challenges to Greece’s security through the instrumentalisation of migrants, the passage of Turkish research vessels in disputed waters for the purpose of hydrocarbon exploration, the challenge to Greek sovereignty over the Aegean islands, Turkey’s policies – perceived as aggressive by Greece – on key international agreements from the past, and its provocative rhetoric towards Greece. However, the Greek government’s determined and moderate stance contributed to avoiding an escalation and effectively protecting Greek interests. Following the elections in the two countries in mid-2023 and in line with the solidarity explicitly expressed and granted to each other during the earthquake and the train accident, bilateral relations are once again in a phase of *détente*. Mutual meetings and visits are leading to a rapprochement. Military provocations are currently being refrained from. This phase culminated in the meeting between Prime Minister Mitsotakis and President Erdogan on 7 December 2023 in Athens and the signing of numerous intergovernmental agreements.

Greece’s “Return” to the Balkans

The Greek presence in the South East European region has been strengthened in recent years. Together with Germany, Greece is one of the main drivers of the Berlin Process for the integration of the Western Balkans into the European Union. Up until the outbreak of the financial crisis, Greece had a strong economic presence in the region, while Greek banks penetrated many Balkan markets, including Bulgaria, Romania, Albania, Serbia and North Macedonia. After years of absence, Greece is now returning to the Balkans. At the same time, it is also developing a series of diplomatic initiatives aimed at strengthening the European course of the Western Balkans, while at the same time trying to solve its own bilateral problems with its neighbours. The most recent example of this are the negotiations with Albania on defining the maritime border in the Ionian Sea. However, the case of the arrest of a mayor of Greek origin in a small town in southern Albania has been testing relations between the two countries for months, as doubts have been raised on the Greek side about the rule of law in the neighbouring country.

Proactive Involvement in Europe

Greece is exerting greater influence on the policies of the European Union, too. In addition to the matters already mentioned in the energy sector and the strategic alliances in the Middle East and Far East, the area of regulations on migration is one example of where the country can raise its issues to a greater extent at EU level. Here it can be observed that the image of the European Union in Greece has changed in recent years – despite the fact that the reforms triggered in the country by external pressure remain unpopular. Migration is the dominant topic when it comes to EU debates: the number of refugees arriving in 2023 will almost reach the level of 2019, the year with the highest numbers to date. The reform of the common asylum rules currently being negotiated between the EU institutions includes key demands from Greece: these involve arriving migrants being distributed across the member states, and the country of arrival at the EU’s

external border no longer being solely responsible for asylum procedures and residence. The current five EU hotspots can form a technical basis for this, as registration, asylum procedure, accommodation and coordinated follow-up processes are already being trialled and implemented on a daily basis there.

Conclusion

Greece is a South East European country that conveys a sense of stability in an environment of uncertainty. It is a constitutional state: the oldest in the region, facing challenges, of course, and requiring constant vigilance for its protection. It has weaknesses that need to be addressed with regard to pluralism and also in the quality of journalism. The Europe-wide rise of the extreme right has left its mark on Greece, too. The phenomenon of the neo-fascist Golden Dawn party may have been dealt with in court due to its criminal nature, but as the recent elections showed, a significant proportion of the population supports forces that pose a challenge to public debate. Protecting the country's institutions and ensuring a high level of democratic dialogue are crucial objectives.

Greece has worked its way out of the crisis of the 2010s. It is now mainly up to the Greeks themselves and their re-elected government to continue to develop the country, striving for continuity and consistently pursuing reforms in public services while ensuring a constructive and vigorous foreign policy and astute communication. Greece is an example of how a country can reform its way out of a crisis with the help of European solidarity and emerge stronger as a result. Europe could do with more positive examples like this!

– translated from German –

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- 1 CEIC 2023: Greece Long Term Interest Rate, in: <https://ogy.de/4n1r> [6 Dec 2023].
- 2 Nikas, Sotiris / Oyamada, Aline 2023: Greece's Upgrade by Fitch Broadens Market for Country's Bonds, Bloomberg, 1 Dec 2023, in: <https://bloom.bg/4ajW0CS> [5 Dec 2023].
- 3 Greek Ministry of Finance 2021: Greece 2.0. National Recovery and Resilience Plan, in: <https://bit.ly/466Mm3A> [12 Sep 2023].
- 4 Greek Government 2023: Save 2023, in: <https://bit.ly/46barqa> [16 Oct 2023]. The tonne of oil equivalent (TOE) is a unit of measurement for the amount of energy released when one kilogramme of crude oil is burned. In the area of energy technology (heating), it is referred to more specifically as heating oil equivalent in ktoe (kilotonne of oil equivalent).
- 5 Information Society 2023: "Market Pass": More than 120,000 applications in a few hours, 21 Feb 2023, in: <https://ogy.de/ndwx> [16 Oct 2023].