What is assumed as economically necessary

to overcome the EU debt crisis?

Making some proposals in relation to the viability of the Greek Public Debt for the forthcoming 2015-2020 period

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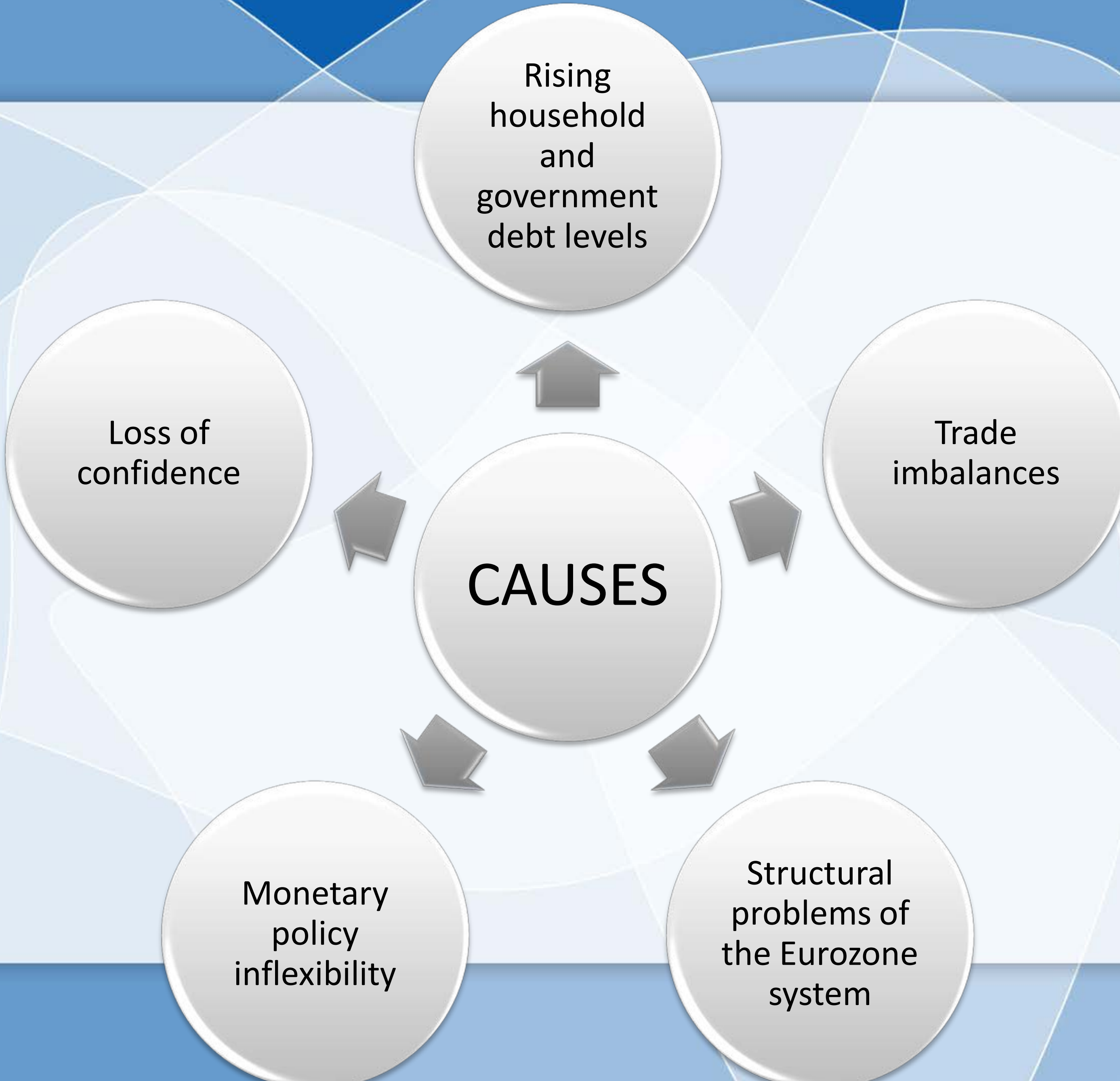
- What are we talking about?

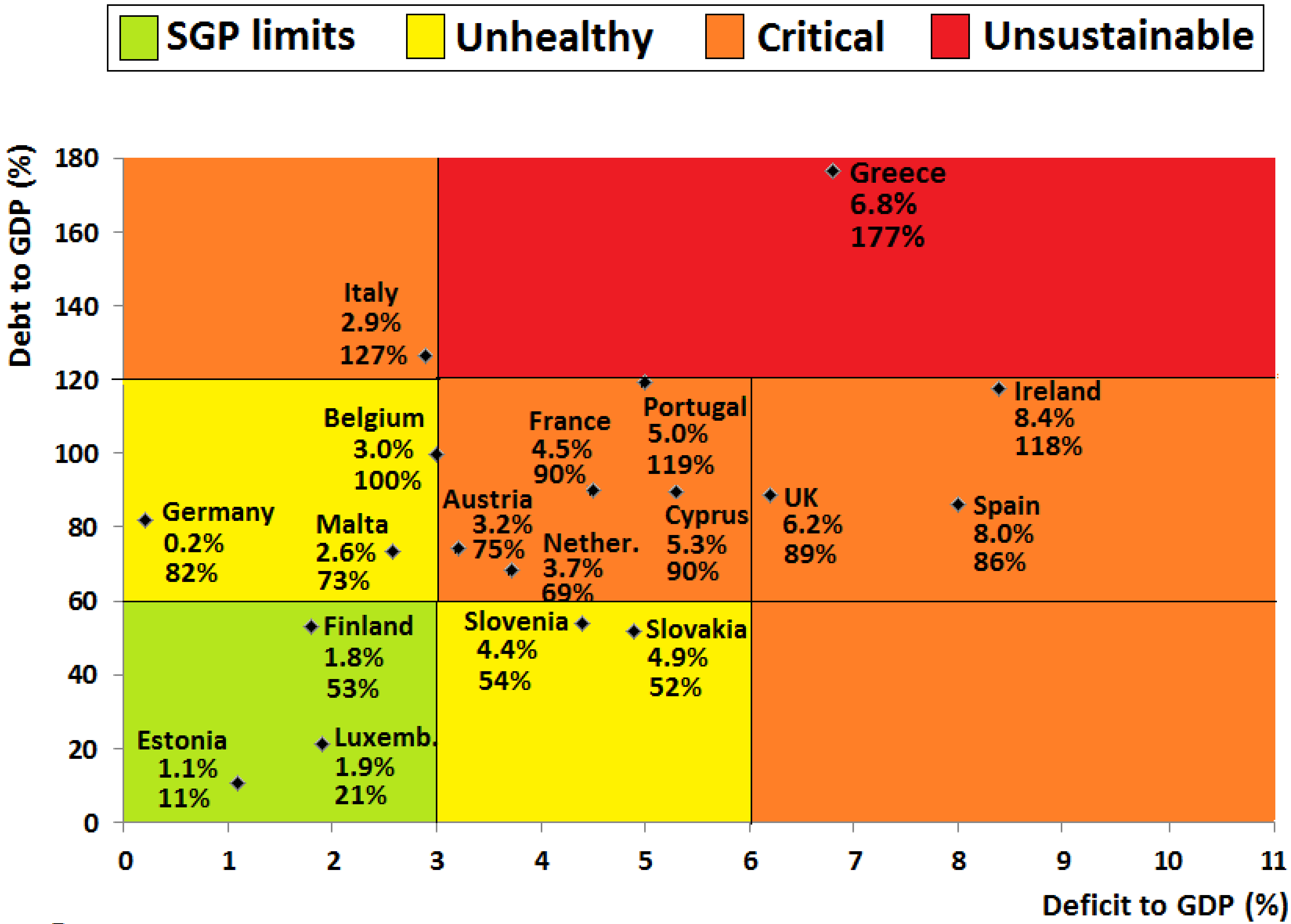
- The *European debt crisis* or the *Eurozone crisis* which is a debt crisis that has been taking place in the European Union since the end of 2009.

- The basic symptom:
- Several eurozone member states (Greece, Portugal, Ireland, Spain and Cyprus) were unable to repay or refinance their government debt or to bail out over-indebted banks under their national supervision without the assistance of third parties like other Eurozone countries, the European Central Bank (ECB), or the International Monetary Fund (IMF).

- **The global crisis**
- A period of general economic decline observed in world markets during the late 2000s and early 2010s.
- **The eurozone crisis** resulted from a combination of complex factors including:
- easy credit conditions during the 2002–2008 period that encouraged high-risk lending and borrowing practices.
- it is related to the financial crisis of 2007–08 and the US subprime mortgage with the high risky loans crisis of 2007–09.
- a part of the crisis was transferred to the EU banking system since many European banks were exposed to US CDO’s. This lead to deleveraging, bail-in problems, and capital flight.
- fiscal policy choices related to government revenues and expenses (government expenditures exceeded government revenues)

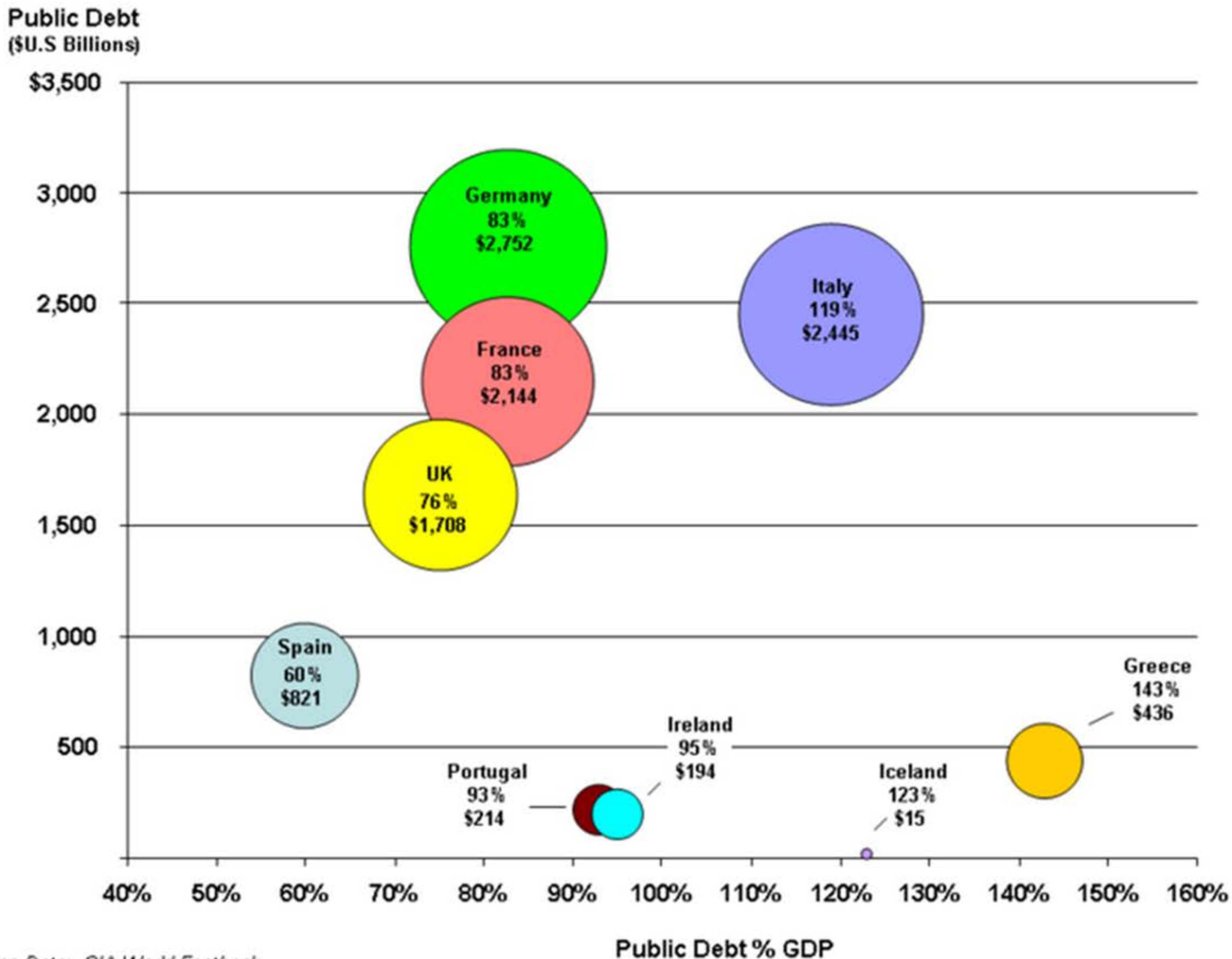

CAUSES
Rising household and government debt levels
Trade imbalances
Structural problems of the Eurozone system
Monetary policy inflexibility
Loss of confidence

Budget Deficit and Public Debt to GDP - 2012



Source: Eurostat

Public Debt and Debt to GDP - 2010



Source Data: CIA World Factbook

- **A CASE STUDY OF THE EURO-DEBT CRISIS: The Greek economy in brief**

Some historical and macro-economic data before the 2010 financial crisis in brief: ***The rise and the fall of Greece*** **(1945-2015)*:***

The rise…………………….

- The "Greek economic miracle period" was a period of sustained economic growth in Greece from 1950 to 1973. During this period, the Greek economy grew by an average of 7.7%, second in the world only to West Germany and Japan.
- Angus Maddison (1995), "Monitoring Global Economy 1820-1992), OECD.

- Industrial production also grew annually by 10% for several years, mostly in the 1960s.

- Greece benefited:
- foreign direct investments (FDI)
- significant development of the chemical industry
- Exports of agricultural and industrial products even in European, Asian and African countries
- development of tourism and the services (tertiary) sector
- massive construction activity, connected with huge infrastructure projects and rebuilding in the Greek cities after the WWII catastrophe of national economic infrastracture
- exports,
- For instance, in 1970 it had 8% growth in real GDP per year and Public debt was a **only 17%** of the GDP.

- Geopolitically, Greece was the only European oriented NATO member, and military powerful state in the wider area of the Balkans during the Cold War era

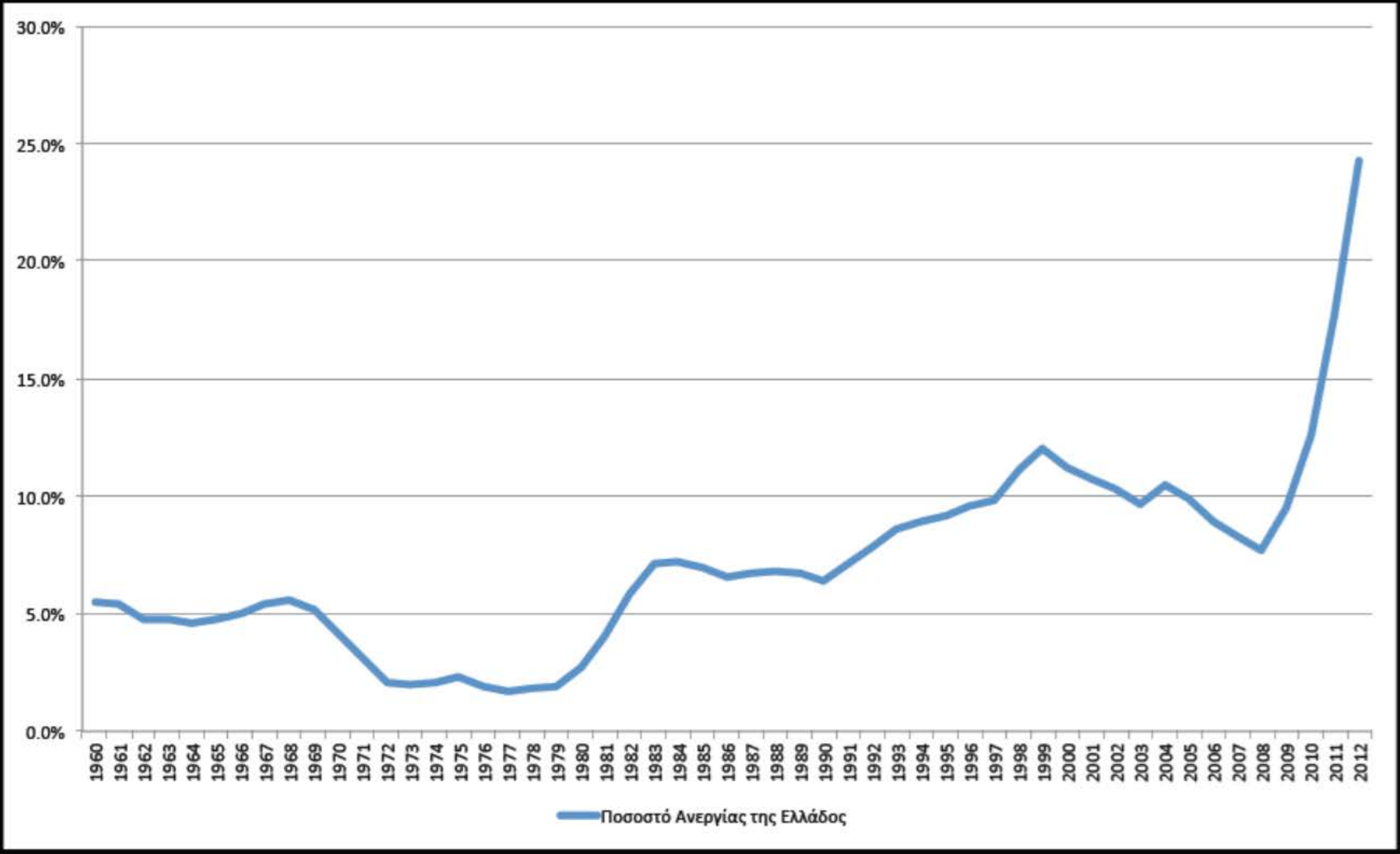
- Having all these data being taken into account: ***Greece met all the basic prerequisites to become the 10th member of the European Economic Community (EEC) in 1981***

………………..*and the fall of the Greek economy*

The 1980-2010 period:

Political parties tried to satisfy the demands of their political clients:

- by increasing wages in both the private and the public sector and by performing excessive appointments of civil servants in the public sector (characterized by very poor efficiency)
- by the excessive rise of taxation to private companies
- by a parasitic shape of trade unions Syndicate actions linked to opportunistic behaviour by their leaders took place (many strikes etc.).
- Simultaneously, there was a harsh competition by some industrial giants from the other EEC countries
- Thus, the Greek industrial base was under a process of gradual disorganization and loss of competiveness
- Many hi-ranking political officials were gradually engaged with corruption scandals, as far as public sector procurement is concerned.
- Greeks gradually started to adopt a corruptive mentality of excessive and irrational consumption instead of investing and savings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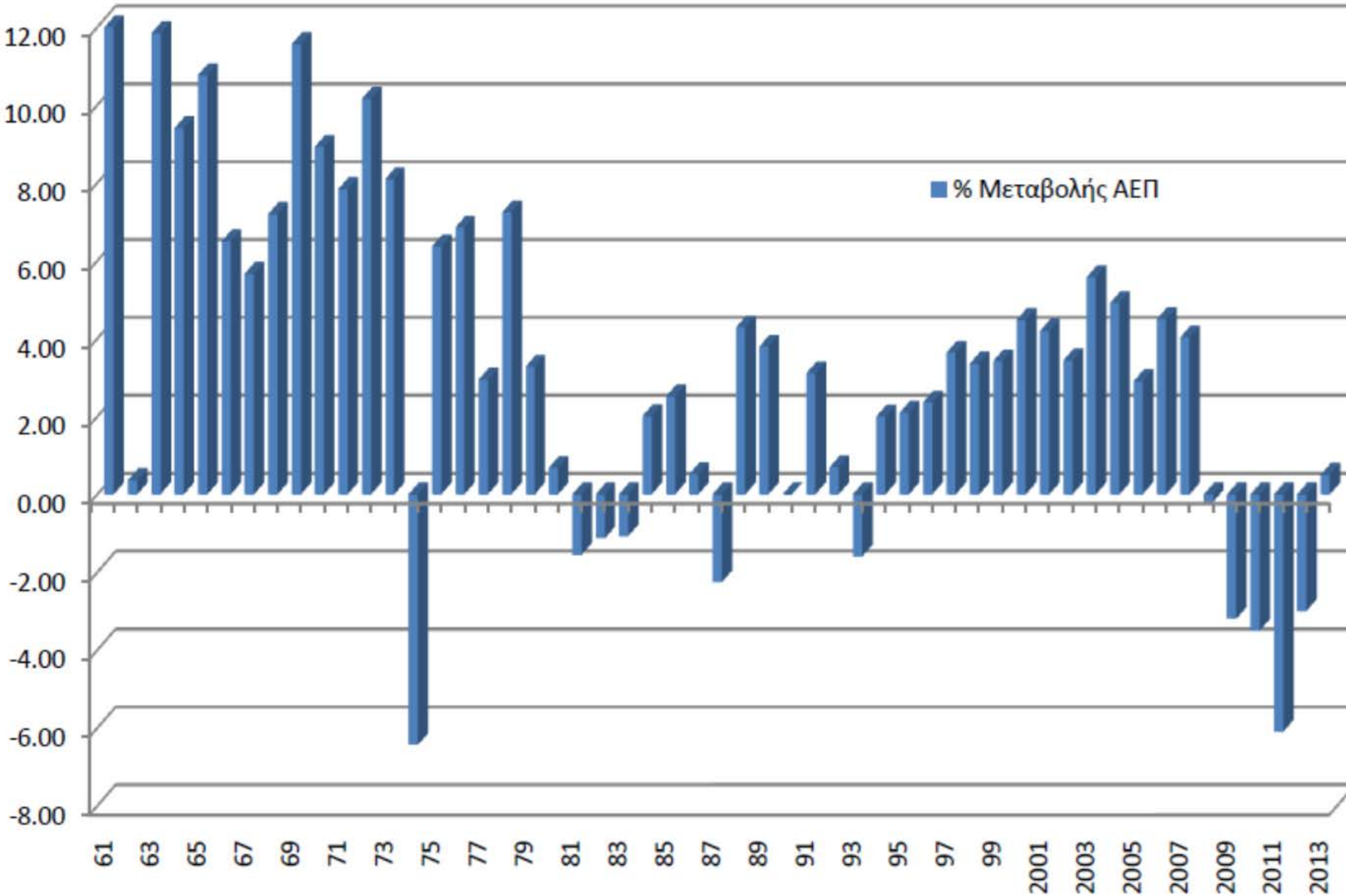
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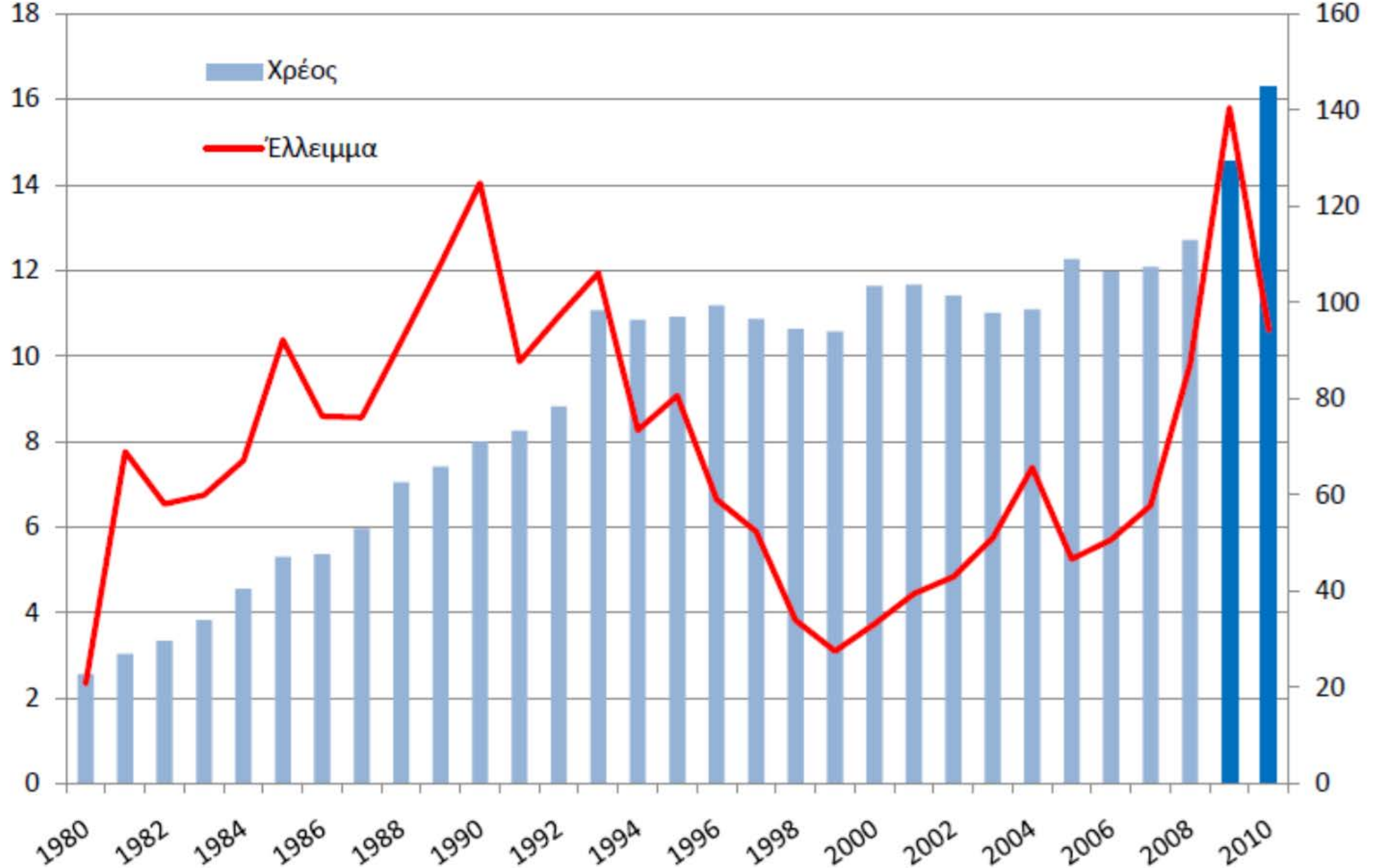

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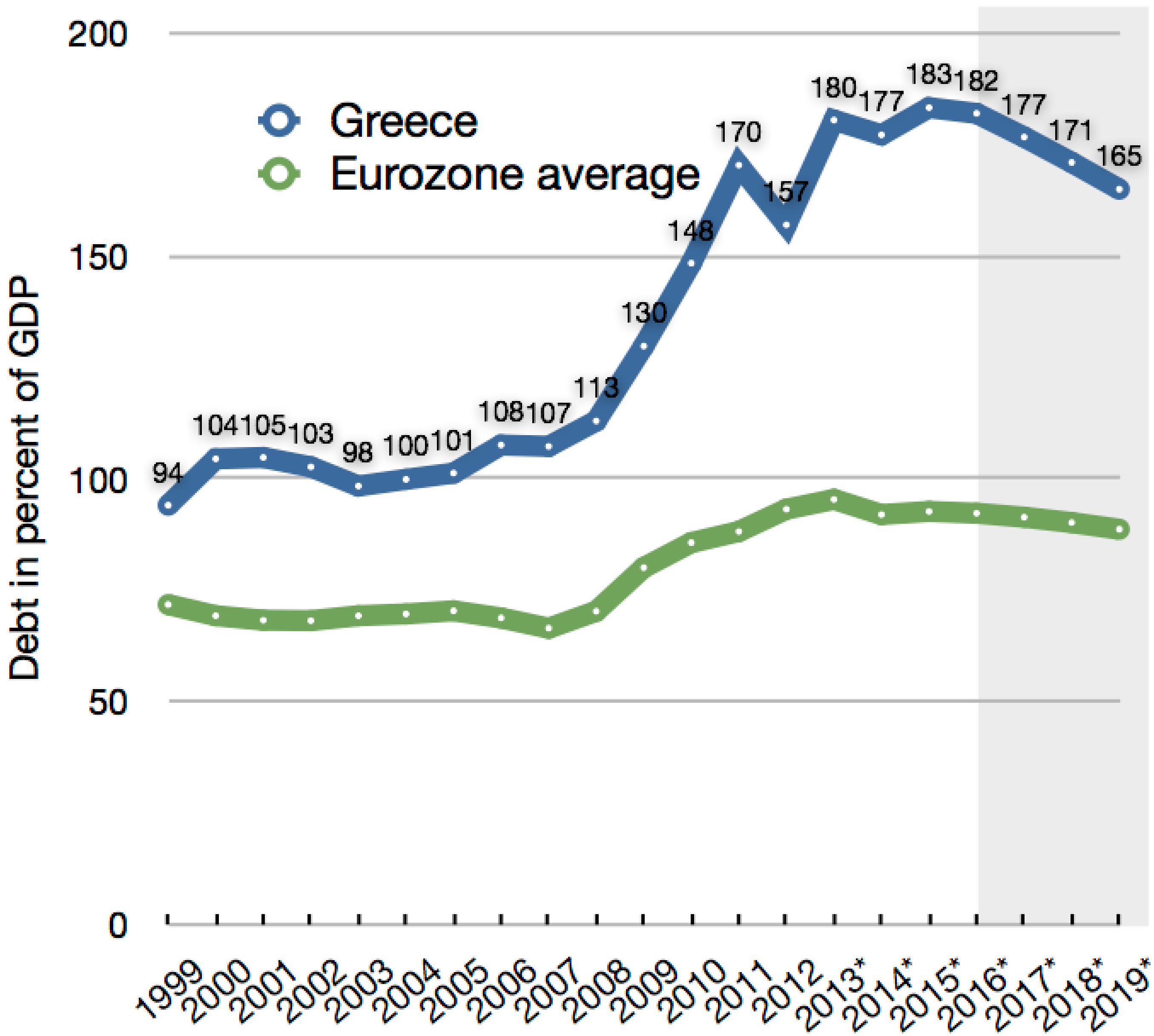


Source: Eurostat

* Ernst & Young using data from Oxford Economics

- **The issue of the sustainability of the Greek public debt**

- According to a recent European Commission estimation the Greek public debt will be as high as 182,8 % of the GDP in 2016

What must be done:

- Greece should achieve political stability for the next years. But since the prestige of political parties has been gradually eroded because of the economic decline, no single party seem capable enough to win in the elections alone, thus they should formulate **effective coalitions** with clearly defined political and economic goals

What must be done:

The new government which was formed on Sept 2015 must:

- Implement reforms at once (eg., **privatisations** of economically harmful state companies, selling state land property, implementation of the **"OECD toolkit"** so that the state's expenses will cut down.

- **Take decisive measures to face tax evasion** are now mandatory. Tax evasion is ah high as 25-30 of the annual GDP. The state loses thus, a significant amount of annual public revenues

- **The public sector must have re-organised:** Lower cost, higher efficiency. This will be done if perhaps the management of them will receive technical assistance by the private sector or EU consultants.

- But the re-organisation of the public sector may mean that some thousands of public servants (or even tens of thousands must be fired) so as to reduce state expenses.

- The number of public sector employees in Greece was reduced by 267,095 during the period 2009-2013. In 2009, there were 952,625 public employees but in 2013 their number fell to 675,530. According to Greek news, a percentage of them retired, but the vast majority were working on contracts that were not renewed.

- But isn’t' this a risky policy option for a ravaged economy?
- Wont’ this cause a deeper recession, at least for the short-term period?

- The EU should have included in the 3rd memorandum bailout package, a **“development package”**, such as the proposed **“Junker package”**, (investments in order to make more productive some sectors of the Greek economy, perhaps in areas such as agriculture or SME’s etc.)

- Greece must cut down taxation on firms (which is now approximately 30% on profits) so as to attract FDI and repatriate national investments and even to attract more FDI.

Certainly any possibility of a partial write off of the Greek debt, will be of help to (providing that this would have been agreed by the EU institutions ECB, ESFS, ESM).

This would have very much helped in order to lead to the gradual recovery of the Greek macro-economic figures.

But the most important issue is to make the economy more efficient, which means:

- Cut-down state expenses
- Face tax-evasion
- Reduce excessive taxation because it inhibits growth and growth is the way to achieve annual state surpluses which then, will be used for the gradual reduction of the colossal public debt in the long run.

- **Some ideas of facing the euro-crisis:**

- Some thinkers are in favour of the creation of a **“Pan-European Investment Project”** which means that a percentage of the Eurozone budget (perhaps 8% it) must be channeled to EU-27 countries for investment purposes.

- More steps should be taken towards a **Banking Union because it is an important step towards a genuine Economic and Monetary Union.**

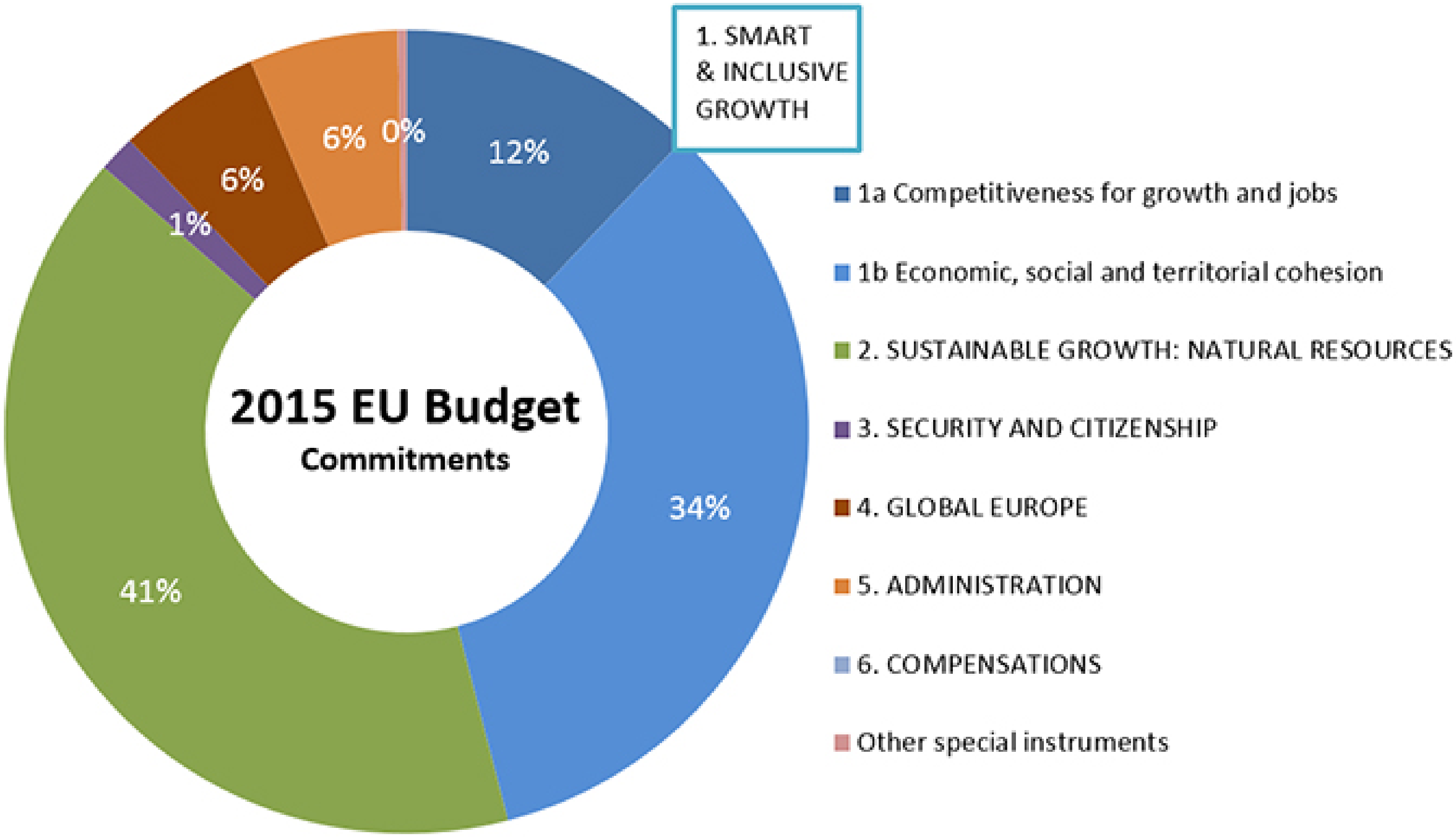
- The procedure towards a banking union has already started. However, there is still in the open the issue of offering guarantee to all banks throughout the EU, meaning that if a bank in a member-state faces problems, the deposits of its depositor are still not guaranteed by a pan-European Banking authority

- It could be like a version of the TARP project in the US raised by the US Finance Minister Timothy Geithner (700 billions)

- **Why the banking union?**

- It will allow for the consistent application of EU banking rules in the participating countries.
- It will create a more transparent, unified and safer market for banks.
- It will prevent failing of banks that may face serious problems (asset losses etc.)
- It will make the overall European monetary and banking system more credible and perhaps it may cause the overall reduction of the interest rates, thus it may prove beneficial for undertaking a new series of investment plans throughout the EU-27 member economies

- The size of resources of the EU budget should be increased. A **1% of the EU budget is not enough**, and only a part of it can be used in favour of “solidarity” policies (1b)



- 1b (economic and social cohesion) is just not sufficient, if the EU really wants to further proceed into a political integration.

- Finally, perhaps some policies of Quantitative Easing (QE) or Fiscal Easing will be in favour of facing the economic recession in some EU-member states, such as Greece