Greece in the EU: Crisis and Risk IBSS July 2012

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GREEK ECONOMY

PAST AND FUTURE STORIES

Defaults in Greece

Six official defaults:

- 1827
- 1843
- 1860
- 1893
- 1932
- 1954

Greece: First loans and first official loan default in 1827

- Two loans were taken, one in 1824 and one in 1825. The first loan was issued for **800,000** British pounds**.** The second loan was issued for **2,000,000** British pounds.
- **The first official loan default was in 1827,** as Greece was unable to pay the interest on these first two loans.

Greece: Second official loan default in 1843 Third one in 1860

- **In 1843**, Greece defaulted on a loan of 60,000 gold Francs (GF). This loan was guaranteed by the so called **troica** (France, England,USA). This loan was spent on payments of the previous two British loans.

- The British began to warn Athens in 1845 and that they wanted the loan payments. In 1854, the French and the British blockaded the port of Piraeus until 1857. By 1860, Athens made it clear that the country was unable to comply.

Greece: Fourth official loan default in 1893

- On October 30, 1893, Prime Minister Charilaos Trikoupis appeared in the Greek Parliament, and announced the historic **"Unfortunately, Gentlemen, we are bankrupt!".** Then he went on to acquire seven loans with very high interest rates.

- The **International Financial Control** (comprised of international and national financiers) imposed their authority on Greece and started collecting all sales taxes paid to state monopolies for products such as salt, oil, cigarettes etc., directly for the lenders, and that went on for 80 years, until 1978!

Greece: Fifth and sixth official loan defaults

Bankruptcy happened in **1932**. Greece owed 2,868,100 gold francs.

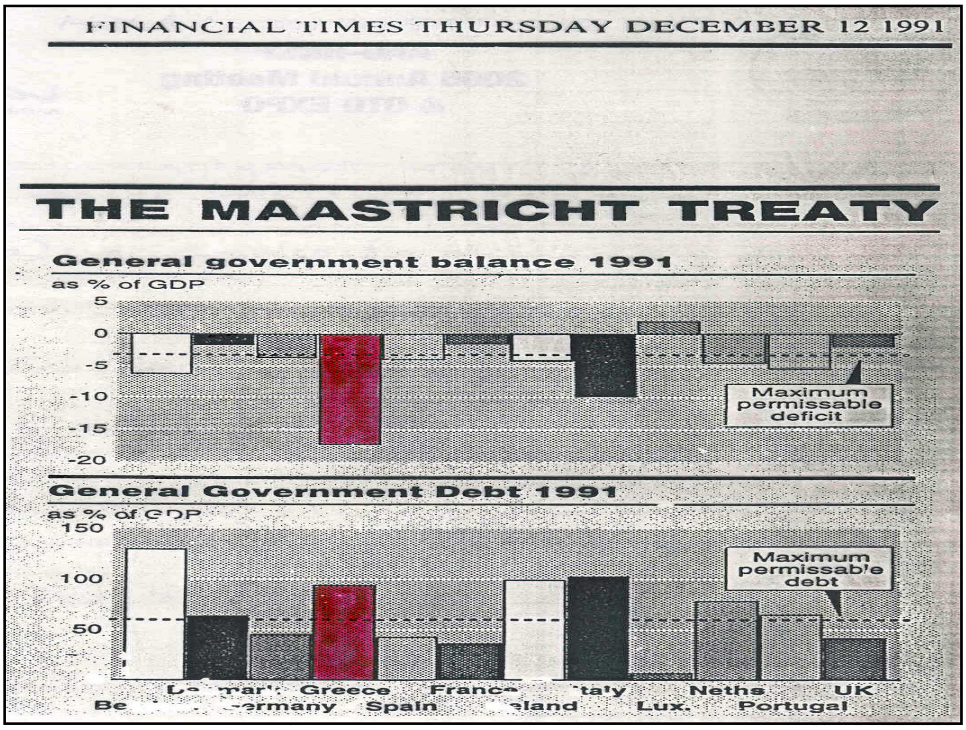
In **1954**, Spyros Markezinis cut three zeros at the end of inflationary banknotes to stabilize the currency.

Greece in the EU

Political priority the EMU

The **Stability and Growth Pact,** which defines the criteria that EU member nations must meet to qualify for adoption of the euro, requires:

- An **annual government deficit** not to exceed 3% of GDP
- Total outstanding **government debt** not to exceed 60% of GDP
- **Rates of inflation** within 1.5% of the three best performing EU countries
- Average **nominal interest rates** within 2% of the average rate in the three countries with the lowest inflation rates
- For at least two years, exchange rate fluctuations within the "normal" margins of the **ERM** (convergence criteria)



Economic Crisis in Greece 2012

- **In the EU-27, 23% of the population is at risk of poverty(115m). In Greece it is 28%**
- **In 2012, minimum wage in the private sector regulated by the Greek National General Collective agreement, will be reduced by 22%**
- **Unit labor costs will fall by 15%**

EU Grants

- 1989 – 2013 The Major EU Funding Policy offered to EU member states 751 b. euros
- Greece got 78 billion euros for grants.
- (Greece has about 2% of the current EU population.)

2012 Economic Crisis in Greece

- **Annual reduction of our GNI by 7%**
- Steep **fall** of 10% in **employment**
- A record high of 22.4% **unemployed**
- **Manufacturing input** has fallen by 16%

Is EMU Sustainable?

An Optimum Currency Area (OCA) cannot co-survive with the question of who is next to leave.

Greek Problems

- High governmental expenditure
- Over-regulated economy
- Black market
- High expenditure for defense
- Not self-reliant in agriculture
- Very big public service
- Spending for R&D 0.8 % of the GNI