



GREEK CRISIS 2015

BUSINESS ECONOMICS

RESEARCH PAPER

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INDEX

- INTRODUCTION
- SUMMARY
- LITERATURE REVIEW
- METHODOLOGY
- GREEK CRISIS 2015
- REASON FOR CRISIS
- CONCLUSION
- HOW CAN GREECE CRISIS BE SOLVED?
- BIBLIOGRAPHY

INTRODUCTION

Greece is the 16th largest economy in the 27-member European Union. Greece's debt crisis is something that has happened in the eastern Mediterranean. Whereas the Greek crisis affected the market far from the streets of Athens as it has affected the private sector. Many economists consider this crisis to have been the worst financial crisis since the 1930's great depression. Things in Greece started going wrong during the financial crisis of 2007-08. At the same time, the 2008 global financial crisis contributed to the eurozone crisis. These crises led to the loss of confidence in the Greek economy. Between 2009 & 2017 the Greek government debt rose from 300 billion euros to 318 billion euros. This research paper includes the reasons behind the crises, the effect of austerity on the Greek people, taxation, social effect, literature review and actions Greece would have taken to avoid the crises





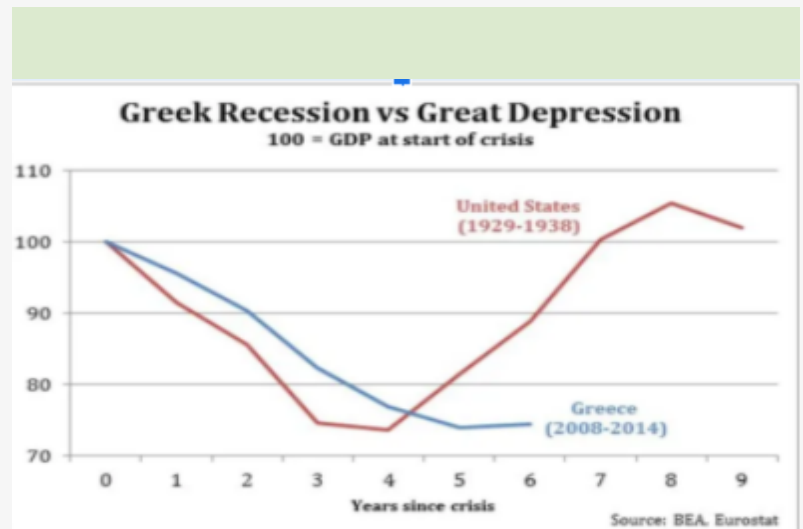
SUMMARY



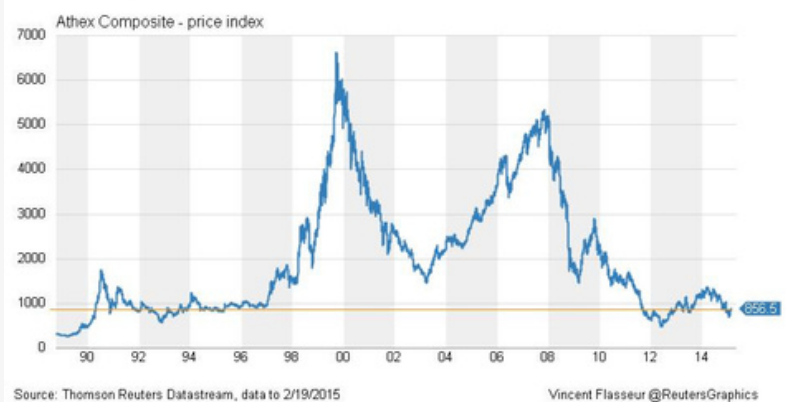
This paper reviews the alternative explanations offered to explain the Greek crisis and checks their analytical validity. The first part focuses on the methodology and the literature review of the Greek crisis then comes the mainstream explanations. It distinguishes the main versions ('Greek disease', EMU has problems but can be rectified). Mainstream explanations are criticised for failing to comprehend properly the deep structural dimensions of the Greek crisis and attributing it to policy errors. These explanations are criticised for offering a weak structural explanation of the Greek crisis by focusing upon policy or conjectural elements. the last part includes the reasoning scenario behind this greek mess where we have argued about the frangible base of the Greek government which lead the country toward crisis. choice and currency, hiding exact budget deficits have fueled this crisis.

LITERATURE REVIEW

Since late 2009, Greece has been submerged in financial crises unprecedented in its modern history, during this period Greece has adjusted their policies by cutting social expenditure and raising taxes and this has dramatic impact on Greece economic system Economists Gibson, hall, tavlas state that " when Greece announced to join the eurozone to less than 3.5% in early 2015, this started a trend of borrowing at low interest for Greece which accrued an unsustainable debt level that grew to crisis proportion by 2009".

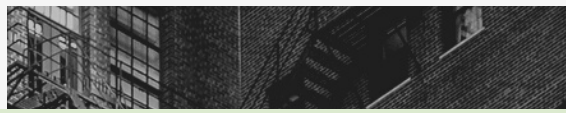


Greek stock market



Mitsopoulos and Pelagics (2011) collected numerous surveys that document the low competitiveness of the greek economy, as greek attracts little foreign investment compared to other eurozone countries, the business climate was plain, simple and unattractive. A NY TIMES journalist suggested," as huge cuts into employment and domestic demand . the economy will get smaller and weaker and the debt burden relatively heavier ".

Konstantino Lihalos, president of Hellenic change of commerce in Athens states that " you cannot keep milking the cow without feeding it". This statement gives exposure to Greek government psychology that they were trying to cut worker wages and pensions while taxing them more due to which there was less money circulating in the economy. But there has been one question: why was the EU so harsh on Greece??



METHODOLOGY



The path we have followed contains many methods. The economic methodology that we used for our research was a theoretical, inductive, quasi-experimental, hypothetical deductive investigation and secondary research. As we used previous research papers and information available for the data of our own research for the Greek crisis, which is known as the secondary research method. As most of the data is theory-based and not calculative we used a theoretical approach. As we collected most of the facts and rearranged them for our research, we also made use of the inductive method. For our analysis which was done with the help of the Twin Deficits Hypothesis, hence we also used the hypothetical deductive investigation method for our conclusion. As there is no correct solution found for the Greek crisis to date, and many people are continuing their research to get an end to the crisis in the near future and experiments are being conducted with different approaches such as we did in this paper, this method is also called quasi-experimental research.

GREEK CRISIS 2015

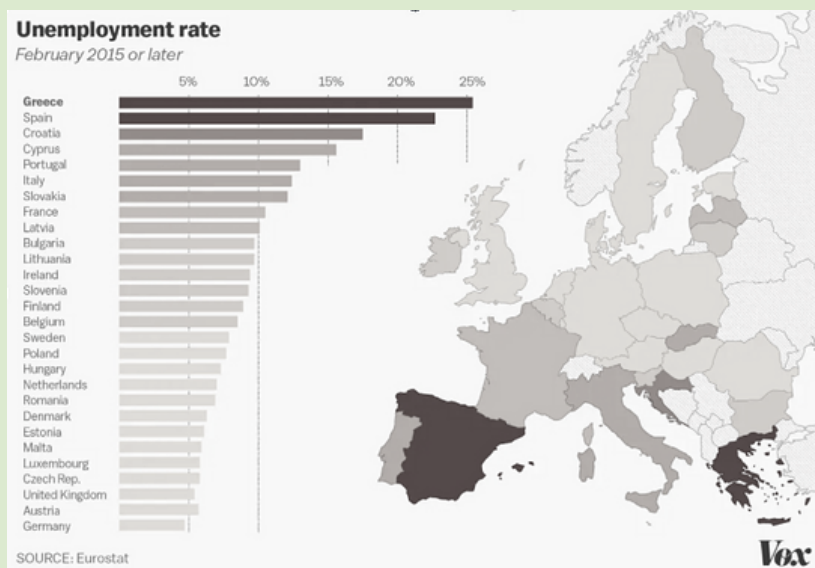
World War II devastated each & every country's economy, but post-world war II high levels of economic growth have been seen from 1950 to 1980, also known as the "greek economic miracle". Foreign investment, development of the service industry, massive construction activity related to large infrastructure projects was the reason behind the Greek economic miracle. From 1950 until the 2008 economic crisis, except for the relative economic stagnation of the 1980s, Greece consistently outperformed most European nations in terms of annual economic growth

Greece's economy was plagued by several problems, as the Greek government was hiding the budget deficit and other economic information. The outbreak of the global crisis showed how fragile the foundations of Greek prosperity were. There was a sudden decline in creditworthiness, a reduction in ratings by global rating agencies and an almost complete stoppage of financial flow. The budget deficit of gross domestic product increased from 6.7 per cent of GDP in 2007 to 15.1 per cent in 2009. It turned out that for many years fraud and statistical manipulation had taken place with the help of the American bank. The disclosure of such a high deficit resulted in a loss of the global market confidence in the Greek economy. fear of defaults led to the collapse of the greek bond market. This would shut down the further payment of debt.

BAILOUT MEASURES SO FAR FAIL TO FIX THE ECONOMY

On 3 May 2010, The Eurozone countries and the IMF agreed to a three-year €110 billion loan for 5.5% interest, where there was a condition that Greece had to implement the austerity measure. In July 2011, the eurozone leader agreed to extend the repayment time period for Greece to 15 years and to cut the interest rate to 3.5 %. Additionally, they also approved a 109 billion euro package to Greece, the euro leader and IMF settled an agreement with the bank where they have written off 50% of Greek debt.

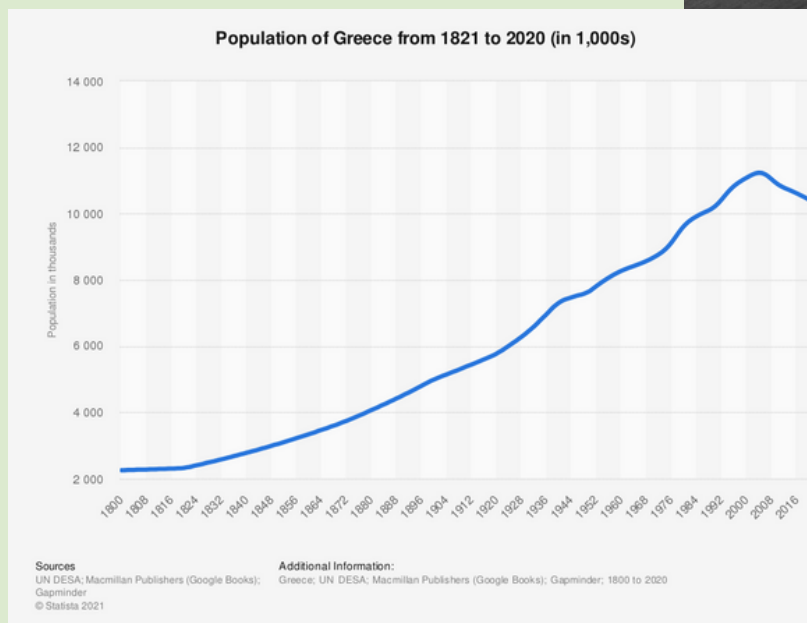
The loan which was given to Greece was only to pay the interest and not for economic development. whereas austerity measures had a worse impact on Greece's economy. Under austerity measures Greece has to increase the vat tax and corporate tax, it has to reduce the incentive of retirement, reduce the labour wage to reduce the cost of goods, and privatise state-owned businesses.



Eu and bond rating agency was harsh because they don't want Greece to pay its old debt with new debt. In the year 2008-14, the unemployment rate was growing rapidly from 8.4% to 26.%, reduction in public investment, an increase in taxes has further weakened the economy.

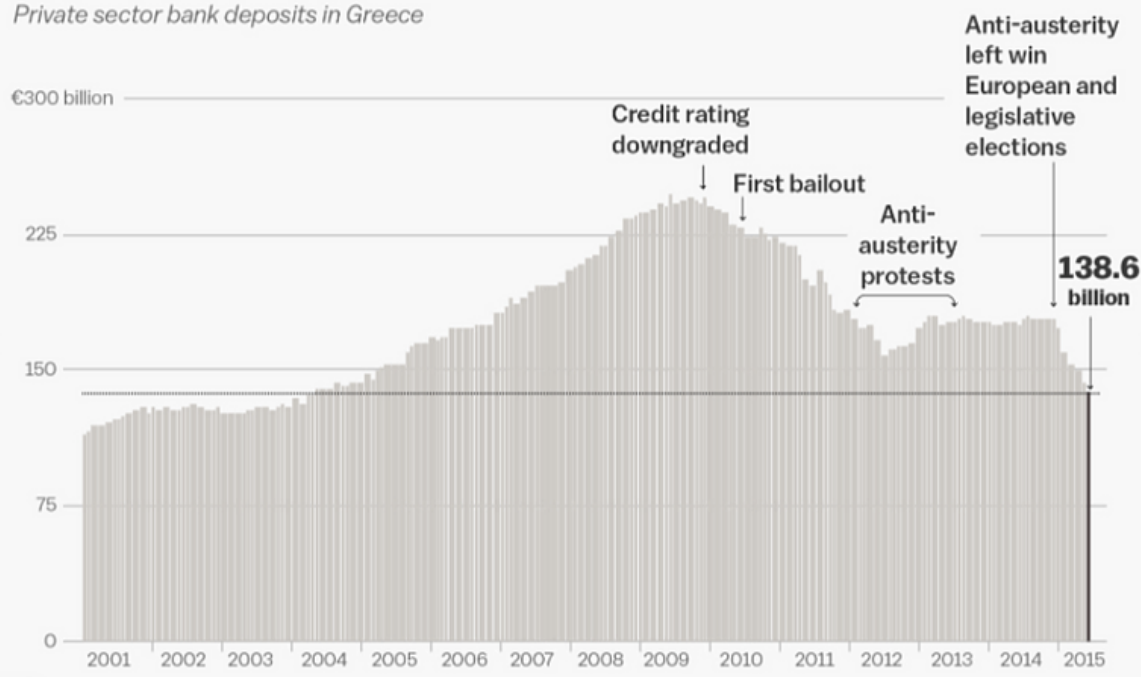
After a sharp increase in 2008, Greek public debt was growing, although relatively slowly. In 2011, it increased sharply and since 2013 it has been consistently well above 170 per cent

The Greek government failed to commit necessary resources to homelessness due to austerity measures. Before the crisis, Greece's population was growing. Since the crisis, it's shrinking. It states that Greek people are leaving, and it is productive but it will be difficult for Greece to recover from the crisis.



Greece bank deposits haven't been this low in a decade

Private sector bank deposits in Greece



Due to crises, Greece lost access to the global market and this collapsed Greece banking system. Banks imposed a 420 euros weekly limit on withdrawals. That prevented depositors from draining their accounts and worsening the problem. People turned to debit and credit cards for purchases. As a result, federal revenue increased by 1 billion euros a year. Greek bank deposits fell to their lowest levels in a decade. The reason, Greeks people were worried about Greece, as it might leave the euro in whole or in part.

REASON BEHIND THE CRISIS

- They underestimate the role of the 2007-8 global financial crisis. IT is unanimously considered as a mere financial crisis without origins and causes in the sphere of real accumulation. However, if this crisis is so significant and lengthy as it appears to be, it must surely have some basis in the main sphere of economic activities
- Seeds of this crisis were sown in 2001 when Greece entered the eurozone, Greece experienced a wild boom in the early years. Greece was taking the loan at a lower interest rate, as a result, Greece debt continued to rise until the 2008 eruption.
- there were two main deficiencies of the greek economy .1)large and persistent fiscal deficits financed through borrowing which lead to massive debt amounts and (2) falling competitiveness. and it is stated that this deficiency is caused by structural error and uncompetitiveness it is a Greek 'disease'. Therefore, it emphasises mainly policy errors and recognizes structural deficiencies only as a consequence of these nationally-specific policy errors.



REASON BEHIND THE CRISIS

- Far from helping the Greek economy to get back on its feet, bailouts only served to ensure that Greece's creditors were paid while the government was forced to scrape together paltry tax collections. While Greece had structural issues in the form of corrupt tax evasion practices, Eurozone membership allowed the country to hide from these problems for a time but ultimately created an economic straitjacket and an insurmountable debt crisis evidenced by the country's massive default.
- by 2010 Greece was veering toward bankruptcy which might lead to another financial crisis, To avert the crisis, IMF, ECB, European commission called "TROIKA", agreed to emergency funding to Greece and Greece was bailed out in exchange for austerity measures. The effects of the austerity measures on the Greek population were severe. austerity has damaged the economy. Deflating wages increased unemployment and reducing tax receipts, thus making it even harder to pay its debts.
- The election of Syriza was one of the most dramatic twists in greek history. It has resulted in Greek political life being dominated by a fear/anger spectrum, where fear of euro exit lead to unemployment and a great recession.
- The greek crisis 'rests with the Greek authorities who mismanaged their economy and deceived everybody about the true nature of their budgetary problems



CONCLUSION

The financial crisis began in the USA and spread to the world and affected developed and developing countries. and one of them is Greece. It has accumulated enormous debt that today is about 175 % of its GDP. There was a negative effect of the austerity policy from 2010 to 2014 that has a worse impact on the unemployment rate as it has increased by 21 %, it has also affected private consumption expenditure and expected government consumption. The crises not only accelerated the corruption in the economy but also revealed weakness in the economy, the fragile foundation of Greece.

From the above research, we conclude that Greece could have solved these if they wouldn't have gone for the euro currency or they would have abandoned the euro and reinstated the drachma Currency. Or they could have taken debt without any of the austerity measures, and this might lead to a better result. because the EU AND IMF .they were providing a bailout to greek so it can remain liquid but it was misleading, the EU and IMF were saving Greece from permanent debt relief. In effect, Greece is being given loans to pay off old debt. Eu must have done it intentionally because they wanted to capture the global market like the dollar.



CONCLUSION



This chart shows the value of the euro USD. That's been a disaster for Greece. The normal way a country like Greece would deal with these kinds of problems is to sharply devalue their currency in order to boost tourism and exports. But because Greece is part of the euro, and they don't control eurozone monetary policy, they haven't been able to devalue.

HOW CAN THE GREEK ECONOMIC CRISIS BE SOLVED?

- greek should reform the labour market because unions affect the economy
- they should provide quality education which is needed for a dynamic economy
- greek's need to change their mentality, despite a slew of negative news, they should come together and try to turn the situation
- fundamentally what is needed is government should take ownership of the reformed agenda and instil a modicum of stability and good execution.



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