Greece’s Economic Bailout

What is the issue?

\n\n

\n

- Greece recently celebrated its exit from bailout plans that commenced in 2010.
\n
- Nonetheless, some imminent risks persist, which Greece needs to handle.
\n

\n\n

What is the context of Greece’s Bailout?

\n\n

\n

- Recently, Greek PM Alexis announced the end of Greece’s third and final of the multiple bailouts since 2010, that helped the country avoid a financial collapse.
\n
- During the 8 year period since 2010, Greece borrowed over $330 billion from multiple lenders - IMF, European Commission and European Central Bank.
\n
- In return, Greece undertook structural reforms, submitting itself to a controversial and painful austerity programme.
\n
- Notably, during that phase, Greek economy shrunk by a quarter, unemployment was at 28%, and government spending was slashed heavily.
\n
- Further, salaries and pensions of employees were also cut, and hundreds of thousands of Greeks emigrated and a third of the country fell into poverty.

\n

\n\n

What are the other aspects that haunt Greece?

\n\n

\n

- While Greece has sailed through the bailouts and is looking optimistically towards the future, the path ahead is far from clear.
\n
- Greece owes a staggering 180% of GDP in debt and also, and has also agreed for stringent budgeting conditions to its lenders for getting bailed out.
\n
- Notably, Greece will now need to maintain a 3.5% primary surplus (a budget surplus prior to interest payments) until 2022 and then around 2% until 2060.
\n

\n\n

\n

- IMF has warned that such budget surpluses are rare and is especially challenging for a country with an ageing population.
\n
- Further, with the country just emerging out after a decade of economic strife, maintaining such high budgetary surpluses might impact its growth potential.
\n
- This in turn might affect Greece's ability pay off its debt.
\n

\n\n

What are the pending reforms?

\n\n

\n

- Many reforms were taken up during the bailout period, but a lot else remains to be done – like greater flexibility in the labour market.
\n
- Simplified licensing processes for companies and banking reforms to reduce non-performing assets (NPA) on bank's balance sheets are other areas.
\n

- Notably, almost half of all outstanding loans of banks are now NPAs.
\n
- Further, the existing tax base needs to be reorganised to ensure that the bulk of the burden doesn't fall on the middle classes as it now does.
\n

\n\n

How does the future look?

\n\n

\n
- Greece's Euro zone creditors agreed in June to a softening of debt repayment terms, including extended maturity periods.
\n
- Delayed interest payments and buffer funds to stabilise and ease the country's re-entry into financial markets are also being mulled over.
\n
- Despite all this, the IMF has cautioned that Greece is at risk of getting stuck in a debt trap with onerous surplus conditions having to be maintained.
\n
- These conditions imply restraints on government spending programmes that could, for instance, be used to stimulate growth.
\n
- The country's creditors need to consider reducing the mountain of debt, so Greece stands a solid chance of emerging out completely from its downfall.
\n

\n\n

\n\n

Source: The Hindu

\n