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The Long-run Implications of the IMF Programs on Business and Economic Growth: The Case of the European Countries

Master's Dissertation

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CONTENTS

Table List……………………………………………………………………….8

Figure List………………………………………………………………………9

Introduction……………………………………………………………………11

CHAPTER 1 : THE OPERATING FRAMEWORK OF THE INTERNATIONAL MONETARY FUND (IMF) …………………..12-32

1.1 Historical Background……………………………………….........12

1.2 The founding of the IMF, its aims, its main characteristics and its composition…………………………………………………………….17-26

1.2.1 History of founding…………………………………………………......17
1.2.2 IMF Objectives…………………………………………………………17
1.2.3 Characteristics…………………………………………………….….18
1.2.4 Members of the Fund……………………………………………………...19
1.2.5 IMF Headquarters………………………………………………………20
1.2.6 IMF Resources…………………………………………………………….20
1.2.7 IMF's organizational composition……………………………………………22

1.3 The way the IMF works……………………………………………….27-32
1.3.1 Surveillance………………………………………………………………..27
1.3.2 Technical assistance………………………………………………………..29
1.3.3 Lending……………………………………………………………………….30

CHAPTER 2 : THE GLOBAL ECONOMIC CRISIS OF 2008…………………………………………………..33-52

2.1 What is leading to an economic crisis………………………..…...33-36

2.1.1 Definition of crisis…………………………………………………………….33

2.1.2 Historical review of crises…………………………………………………......34

2.1.3 Characteristics of economic crises……………………………………….....35

2.1.4 Types of economic crises………………………………………………………..35

2.1.5 The causes of the crises…………………………………………………………36

2.1.6 The effects of crises……………………………………………………………….36

2.2 The Global Economic Crisis of 1929……………………………37-40

2.2.1 Introduction…………………………………………………………………..37

2.2.2 The Crisis of 1929. Causes – effects…………………………………………37

2.3 The Global Economic Crisis of 2008……………………………41-52

2.3.1 Introduction……………………………………………………………………41

2.3.2 The climate before the Crisis………………………………………………...41

2.3.3 The Crash of 2008…………………………………………………………...44

2.3.4 The causes of the 2008 Crisis………………………………………………...47

2.3.5 The effects of the Crisis of 2008…………………………………………….49

2.3.6 Was the Crisis predictable?...51

CHAPTER 3 : THE CRISIS OF 2008 IN THE EUROZONE…………………...................................53-70

3.1 The Chronicle of the establishment of the Eurozone………... .53

3.2 The Crisis in the Eurozone…………………………….…….56-70

3.2.1 General view of the Crisis in the Eurozone and in Europe in general…….…56

3.2.2 Factors that have allowed the crisis to expand in the Eurozone and in Europe in general……………………………………………………………...............62

3.2.3 The Crisis in the European South……………………………………………..67

3.2.4 Measures to deal with the crisis in the Eurozone – Establishment of the EFSF…………………………………………………...69

CHAPTER 4 : EUROZONE COUNTRIES IN AUSTERITY PROGRAMS………………………………………………………..71-174

4.1 Greece………………………………………………………...71-130

4.1.1 The Greek economy before the Crisis…………………………….….71

4.1.2 The Greek economy during the Crisis……………………………......78

1. Pre-memorandum period………………………………………….….78
2. Memorandum period - How Greece led to the Memoranda……….....83
   - A) 1st Memorandum……………………………………………….85
   - B) 2nd Memorandum……………………………………………....89
   - C) 3rd Memorandum……………………………………….……….93
   - D) Impact of Programs…………………………………………….….97
   - E) What the Memoranda achieve……………………..………..124
   - F) Criticism of the Memoranda……………………………………..126

4.2 PORTUGAL…………………………………………..……....131-137

4.2.1 The Portuguese economy after joining the euro (1999-2009)……….…..131

4.2.2 Portugal in the Memorandum……………………………………...132

A) Implementation of the economic Adjustment Program-Memorandum……………………………………………...132

B) Impact of the economic Adjustment Program……………………133

C) Impact summary……………………………………….…..137

4.3 CYPRUS………………………………………………........138-152

4.3.1 The economy of Cyprus from its accession to the EU until the Global Crisis (2004-2009)………………………………………………138

4.3.2 Cyprus in Crisis and the Cypriot economy before the Memorandum (2009 - 2012)…………………………………………………139

4.3.3 Cyprus in the Memorandum……………………………..........144

A) Implementation of the Memorandum……………………….....145

B) Impact of the Financial Adjustment Program………………………145

C) Impact summary……………………………………………......150

4.4 IRELAND…………………………………………….…153-162

4.4.1 Ireland before the Crisis…………………………….…..…..153

4.4.2 Ireland in the Memorandum………………………….…..155

A) Implementation of the Program………………………………156

B) Impacts of the Memorandum……………………………..156

C) Impact summary…………………………………...…160

CONCLUSIONS………………………………………………....163-166

BIBLIOGRAPHY……………………………………………….167

TABLE LIST

Table 1: Governance structure of the IMF…………………………………….…..25

Table 2: IMF Managing Directors………………………………………………26

Table 3 : Historical review of crises……………………………………………34

Table 4 : GDP Growth in the Eurozone (% year-on-year change)………………58

Table 5: Deficit – Surplus Development of the General Government Budget (% of GDP)…………………………………………………………………….59

Table 6: Primary Deficit - Surplus of the General Government Budget (% of GDP)…………………………………………………………………….60

Table 7 : Gross Debt of the General Government Budget (% of GDP)…………………………………………………………………….61

Table 8: Annual Percentage Changes in Macroeconomic Variables……………..75

Table 9 : Yield difference between the Greek and German 10-year………………84

Table 10 : Number of Insured, Earnings and Wages in the private sector…………………………………………………………….....119

Table 11 : Greek debt course 1975-2009…………………………………...121

Table 12 : Economic indicators of Portugal 2009-2017 (%)……………………...136

Table 13 : Current account balance of Cyprus 2005-2012………………………142

Table 14 : Basic economic figures of Cyprus 2013-2019………………………152

Table 15 : Fundamental Figures of Ireland 2008- 2015…………………………162

FIGURE LIST

Figure 1 : Phases of the 1929 Stock Market Crash………………………………….40

Figure 2 : US national income (GDP in $ billions)………………………………….40

Figure 3 : Government deficit % of GDP (2009 European Commission forecast)…………………………………………………………....72

Figure 4 : Changes in the general government balance (% GDP) 2000-2009……...76

Figure 5 : Greece's GDP at constant prices, relative to the GDP of 35 advanced Countries…………………………………………………………………..81

Figure 6 : Employment in the Greek State (in thousands) 2016-2018 ……………....96

Figure 7 : Development of real GDP of Greece, of selected Member states and of the average of the Eurozone. 2008 : 1 - 2019 : 1 (2008 : 1 = 100)………...99

Figure 8 : Real GDP per capita and real consumption per capita in Greece, in selected member states and in Eurozone average in 2008-2018………………..…100

Figure 9 : Rate of change in domestic consumption 2000-2018…………………….101

Figure 10: Actual individual consumption, household consumption and General Government consumption 1996- 2018………………………………….102

Figure 11 : Private consumption in Greece, as a percentage of GDP 1995-2017……103

Figure 12 : Investments in Greece as a percentage of GDP 1995-2017……….…….104

Figure 13 : Underspending from the public investment budget, 2012-2017……….105

Figure 14 : Foreign Direct Investment Stock in Greece 1995-2017…………………107

Figure 15 : Foreign Direct Investment Stock in the EU and in the Eurozone 1995 - 2017…………………………………………………………………107

Figure 16 : General Government Expenditure as a percentage of GDP…………….109

Figure 17 : Expenditure of Non-Profit Institutions Serving Households as a percentage of GDP…………………………………………………….110

Figure 18 : Greece's trade balance as a percentage of GDP (1995-2017)……….....111

Figure 19 : Global Competitiveness Index (GCI) for Greece 2007-2017…………..112

Figure 20 : Entrepreneurship problems in Greece 2008-2018…………………….....113

Figure 21 : Greece's exports as a percentage of GDP 1994-2017………………….114

Figure 22 : Greece's exports 1995-2018 (EUR million)……………………….....…114

Figure 23 : Number of employees 2000-2018 (in thousands)…………………….....115

Figure 24 : Number of unemployed 2000-2018 (in thousands)……………………116
Figure 25 : Unemployment rates (first quarter 2013 – third quarter 2019)………...117
Figure 26 : Percentage of the population in Greece with inability to cover basic needs (2009 and 2016-2018)……………………………………………….....120
Figure 27 : Evolution of General Government Dept 2009-2021 (estimate for 2020 - 2021)…………………………………………………………..…...123
Figure 28 : Portugal's Public debt % of GDP 2008-2017……………………….....135
Figure 29 : Development of Cyprus's GDP 2004-2012 (million euros at current prices)……………………………………………………………..139
Figure 30 : Growth rate of the Cypriot economy 2008-2019…………………….....140
Figure 31 : Development of the fiscal balance of the General Government of Cyprus 2004-2012…………………………………………………………...140
Figure 32 : Public debt development of Cyprus 2007-2012 (% of GDP)……….…141
Figure 33 : Unemployment development in Cyprus 2000-2012 (in thousands)…...143
Figure 34 : Contribution of financial services to the Cypriot economy 2000-2010……………………………………………………….…...144
Figure 35 : Annual growth rate of GDP 2006-2019………………………………..145
Figure 36 : Percentage of the population at risk of poverty 2008-2018……………147
Figure 37 : Unemployment in Cyprus 2008-2019………………………………….148
Figure 38 : Development of Cyprus's public debt 2010-2018 as % of GDP……….149
Figure 39 : Irish budget deficit 2009-2015……………………………………….....154
Figure 40 : General Gonernment expenditure in Ireland 2000-2009……………....155
Figure 41 : Real GDP change 2010-2012…………………………………………157
Figure 42 : Inflation in Ireland 2007-2013………………………………………...158
Figure 43 : Unemployment in Ireland 2003-2015……………………………….....159

Introduction

The economic crisis that hit Europe in 2008-2009 and which was transferred from the USA, where it initially manifested itself as a banking crisis, affected the economic course of Europe and highlighted the timeless problems of the European construction.

All Eurozone countries inevitably increased their budget deficits in their efforts to tackle the Crisis. The result was an increase in their public debt, which in turn caused a new crisis in the whole European construction. The new crisis was the debt crisis. The European Union’s response to the debt crisis has been slow to emerge. When it manifested itself, it was linked to the inclusion in the Economic Adjustment Programs (Memoranda) of the member states which showed the greatest debt. The implementation of these Programs in which the International Monetary Fund also participated, had an impact on the economic and business activity of the countries. The adjustment measures implemented, affected all the major sizes of the economy of these countries. These effects on the economies of Greece, Portugal, Cyprus and Ireland are attempted by the present work to highlight as much as possible and in the context of the thesis, in an objective way based on the bibliography and statistical data of institutions which it cites.

CHAPTER 1 : THE OPERATING FRAMEWORK OF THE INTERNATIONAL MONETARY FUND (IMF)

1.1 Historical Background

Each economy operates and evolves within the context of the monetary system in which it is incorporated, that is the system through which the central bank or other monetary authority issues banknotes with the aim of providing liquidity to credit institutions in the conduct of its monetary policy.[1]

The necessary interconnection of the national monetary systems between them, as the money of a state is exchanged with the currency of other states in the course of trade, creates the international monetary system. So, if we wanted to give a concise definition of the international monetary system, we would define the international monetary system as the set of rules and practices governing international monetary relations to which the monetary authorities of the member states adapt their behavior because they consider it legally or morally binding.[2]

In the last quarter of the 19th century, namely in 1880, the Gold Standard was adopted.[3] England had established it since 1819. It was a system of fixed exchange rates. Its main features were the stable relationship of national currencies to gold, as each country determined the value of its currency in terms of gold, the fixed exchange rates between them, the free movement of gold across national borders and the complete convertibility of banknotes in gold.[4]-[5] As long as it was (until the beginning of the First World War) there was an unprecedented development of international trade. It certainly contributed to this, in addition to the structure of the system and the long period of peace.

1 Gortsos Ch. , Introduction to the Law of Economic and Monetary Union, Legal Library, Athens 2014

2 Katranis Alex K. , The International Economic Crisis and the Third World Debt: The Dimension of International Law, Sakkoula Publications, Thessaloniki 1993

3 The era of the Gold Standard is placed in the period 1880-1931

4 Blanchard Olivier, Macroeconomics, Pearson Education 2011, Greek version edited by Christos Nikas, Epicentro Editions 2012

5 Gemtos Petros A. , The organization of International Economic Relations: with special reference to the European Communities, Sakkoula Publications, Athens-Thessaloniki 1978

With the outbreak of World War I (1914-1918), the enormous demands of combatants on war material, but also the negative consequences of war even in countries that did not take part in it, resulted in the system of fixed exchange rates to be replaced by a floating exchange rate system. Free convertibility also stopped and in the currencies that had lost their link with the gold, the other states were now performing strict foreign exchange controls. Several post-war efforts have been made to return to the gold system. The United States returned it back in 1919, while in England and some 50 other countries it came back in 1925, following the prominent initiative of UK Finance Minister Winston Churchill. The return of the golden rule did not last for long and the real decomposition of the gold system came with the World Economic Crisis in 1929, when the banking system collapsed in many countries and the credibility of central banks was shaken, as to whether they could turn their currency into gold. As a result of this shock, many countries abolished their obligation to exchange their banknotes with gold and withdrew from the fixed exchange rate system. England was the first to leave on 21-9-1931 when it suspended the sterling convertibility in gold, followed by the US in 1933 and other countries.[6]-[7]

During the Great Depression of the 1930s, the countries tried to promote their economies that indicated the signs of failure, underestimating their currencies to compete for export markets and restricting the freedom of their citizens to hold foreign exchange.[8] This disastrous period for international trade was ended at the end of World War II, which led to the establishment of the International Monetary Fund (IMF).[9] So the states' concern for finding a system that would address the global monetary problems created by the depreciation of the currencies and the abolition of fixed exchange rates, was constantly growing**.** This reflection led to many international sessions on the issue of finding a solution.

But also during the Second World War (1939-1945), the representatives of the Allied forces (America, the United Kingdom, the Soviet Union, France, Greece, Belgium, Canada and others) trying to predict the economic needs of the post-war era and having alive the memory of the devastating economic events of the interwar period (1918-1939), were oriented to the design of an international monetary system that would ensure full employment, price stability, and at the same time would enable each country to achieve the balance of the external sector of its economy, without imposing restrictions on international trade.

6 Gemtos Petros A. , ibid

7 Krugman Paul R. and Obstfeld Maurice: International Economics-Theory and Policy, New revised greek edition, Kritiki Publications 2011, Volume A

8 http://www.imf.org/external/about/histcoop.htm

9 Gemtos Petros A., ibid

Thus, the discussions that took place during the war, ended initially in the simultaneous publication on 7 April 1943 of a British and an American plan for the establishment of a central coordinating monetary authority. The two designs differed from each other. The British “Proposals for an International Clearing Union”, known as the Keynes Plan, provided for the establishment of an international bank that would lend its member states up to75% of the imports and exports that made in the period 1936-39 and the loans would be counted in a new currency unit the bancor, whose gold correspondence would be fixed at regular intervals. It did not require the deposit of gold reserves or currency reserves. The American draft “Preliminary draft outline of a proposal for a United and Associated Nations Stabilization Fund” funded by a team of experts headed by Harry D. White, Assistant to Minister for Economic Affairs, H. Morgenthau, known as the White Plan. The White Plan provided for (a) the application of the dollar as an international payment instrument, the maintenance of gold as monetary reference unit and the establishment of a new international monetary organization (Fund) to which member states would transfer part of their foreign exchange reserves, depending on GDP, so that the organization could form capital, (b) the amount of the loans would not be proportional to imports and exports as provided for in the Keynes Plan, but according to the participation of each state in the formation of capital, (c) this international organization would have “police” powers. That is, it would exercise strict supervision of states to comply with the rules of the new system. It followed the publication of a French and a Canadian plan and consultations with other countries to bring Britain and the United States to an agreement published on April 21 1944. The American plan decisively influenced the final configuration of the system. This agreement was then discussed with other countries in June 1944 in Atlantic City New Jersey and submitted to the United Nations Monetary and Credit Conference meeting in Bretton Woods New Hampshire from 1-22 July 1944 with the participation of representatives of 44 countries, among them and Greece. These negotiations resulted in the Bretton Woods Treaty.[10]

The new system, which was founded with the Bretton Woods agreement, known as the “Bretton-Woods System”, would operate under the IMF which was responsible for overseeing exchange rates. It had fixed exchange rates against the US dollar, linking the currencies to the US dollar and through it with the gold, unchanged gold price in dollars, $35 an ounce (1 ounce= 31,1034768 grams), currency convertibility for current transactions, loans from the IMF to cover foreign transactions. Member-states were obliged to have the

[10] Gemtos Petros A. , ibid pp.37-38 and Katranis Alex. K. , ibid

bulk of the available cash in gold or dollars and had the right to sell dollars to the US central bank against gold at the official price. The new system was in fact a revised gold system, as it retained the advantages of the old system of gold with the parallel autonomy of the states in the pursuit of economic policy. But later evolved from "a system of golden exchange rate rule with the dollar as the main reserve currency"[11] de facto into "a dollar system"as the economic omnipotence of the United States and their policy of buying and selling gold in other countries established the US dollar as the leading currency of the western world.[12]

The Bretton-Woods system worked smoothly in the first post-war twenty years. Since the late 1960s it has begun to undergo pressure from the devaluations of the coins made by some powerful states and so its collapse soon came. These pressures were directly related to the structure of the US economy. The dollar exchange rate with gold in the Bretton-Woods system was overvalued from the outset. This overstatement as well as increased public spending on social benefits (healthcare etc.) and the huge military spending that the then US President Lyndon Johnson spent on the Vietnam War, worsened the situation. When the US economy entered in recession in 1970 and unemployment was steadily rising, the appreciation that the dollar should be depreciated in relation to all major European currencies, was internationally established. This prediction led to continued dollar sales in the foreign exchange market, as the confidence in the dollar had already been shaken. Under these circumstances , US President Richard Nixon was forced on 15 August 1971 to temporarily suspend the dollar's convertibility to gold. This presidential announcement was the final blow to the abolition of the Bretton-Woods system, as in Nixon's announcement almost all other countries stopped supporting their exchange rate with the dollar. Thus, a real situation, that had been formed, has been formalized internationally with US gold reserves not enough to cover dollar reserves in other countries.[13]-[14]-[15]

In December 1971 the Smithsonian Agreement was signed in Washington by the most important economic countries. With this agreement new exchange rates were set and the Bretton-Woods rules were modified in terms of the level of fluctuation, which was set ±2%. The dollar was depreciated 8% against other currencies, the official gold price was set from 35 to 38 dollars an ounce and the dollar continued to be a benchmark for the new exchange

[11] Krugman Paul R. , Obstfeld Maurice: International Economics- Theory and Policy, Pearson Education 2003, sixth edition
[12] Gemtos Petros A. , ibid
[13] Krugman Paul R. , International Economics-Theory and Policy, 4th improved Greek version, Kritiki Publications 2016
[14] Gemtos Petros A. , ibid
[15] Cholevas I.K. , International Trade Relations, Interbooks Publications, Athens 1994

rates. However the US did not agree to resume the sale of gold to other central banks. This redefinition of the rates, that US President Nixon described as "the most important monetary agreement of world history", lasted only fifteen months, as in February 1973 the dollar was depreciated by another 10%. In March of that year the Japanese currencies and most of the European countries now fluctuated against the dollar. The exchange rate was finalized.[16]-[17]-[18]

The main cause of the Bretton-Woods system collapse has been varied. In one view, the main cause of its collapse was its defective structure, as it sought to coexist with two incompatible and contradictory policies: stable exchange rates and autonomous economic policies of the states.[19] In other aspect, the main cause was the US macroeconomic policy measures of the period 1965-1968 (increased military spending, social benefits) that led to an increase in US inflation, which other countries had to import as their currencies were linked to the dollar.[20]

Thus, since March 1973 a regulated fluctuation exchange rate system was established internationally. Six years later, in March 1979, the European Monetary System was created and in January 1999 EMU (Economic Monetary Union) became operational with the introduction of the euro and the operation of the European Central Bank. The real circulation of the euro began in 2002. Finally, 83 IMF member countries, almost all industrial and many large developing countries, chose in 2014 a form of flexible exchange rate and since then 80% of the world's total trade has been conducted between these countries.[21]

[16] Krugman Paul R. , such as footnote 7
[17] Gemtos Petros A. , ibid
[18] Gowland David, International Economics, Croom Helm 1983, translation by Christos Nikas, Paratiritis Publications 1990
[19] Gemtos Petros A. , ibid
[20] Krugman Paul R. , such as footnote 13
[21] Salvatore Dominick, International Economics, 12th edition, Tziola Publications 2017

1.2 The founding of the IMF, its aims, its main characteristics and its composition

1.2.1 History of founding

The new international monetary system established by the Bretton Woods Agreement (July 1944), as mentioned above, could not by itself achieve the purpose for which it was established (a compromise between the internal autonomy of states and international stability), if at the same time it was not envisaged the establishment of an organization that would have the power of supervision and the responsibility for the efficient operation of the system. This is why it led to the founding of the IMF. Reasonably, it is said that the post-war introduction of the system of fixed exchange rates is linked to the founding of the IMF which functioned as the guardian of the new global monetary order.[22]-[23] The same agreement provided for the establishment of the IMF and the establishment of the International Bank for Reconstruction and Development (World Bank). But the formal establishment of these two organizations took place about 17 months later on 27 December 1945, when 39 of 44 countries adopted the relevant articles of the founding agreement.[24] The effective operation of the World Bank began on 25 June 1946 and the IMF on 1 March 1947. These two organizations have been known to be called “Bretton Woods organizations” or “twin brothers organizations”, as both serve the common goal of organizing the post-war system of international economic relations.[25]

1.2.2 IMF Objectives

The establishment of the IMF had two objectives: one at the international level and one within the member states. The first objective, at international level, was to contribute to the harmonious increase in international trade and to ensuring the stability of international monetary system by granting loans to member states when balance of payments problems arose. The other aim was to contribute to full employment, to maintaining high income levels and to the development of productive resources in the member states.[26] In essence, it aimed

[22] Gemtos Petros A. , ibid
[23] Spiliopoulos Odysseus, International Economic Organizations, Dionikos Publications, Athens 2004
[24] Initially 45 countries were invited to participate. Australia, Haiti, Liberia, New Zealand, the Soviet Union and Venezuela did not accept the invitation. The later joined in 1946.
[25] Katranis Alex. K. , ibid
[26] Spiliopoulos Odysseus, ibid

at reconciling the internal autonomy of its members with international stability. Namely, the IMF was intended as the "fire brigade" of the global capitalist system[27] and as the "lender of last resort".[28] In particular, the main objectives of the IMF are identified in Article I of the Articles of Agreement (Statute) and are:

- the promotion of international monetary cooperation
- to facilitate the expansion and balanced development of international trade in order to achieve high levels of employment and real income, as well as the development of productive resources of all members
- the promotion of exchange rate stability between countries to avoid competitive exchange depreciation
- to assist in consolidating of a multilateral payment system with respect to current transactions between members and eliminating exchange restrictions that hinder the development of world trade
- the availability of resources as long as there are sufficient safeguards for members experiencing balance of payments difficulties, in order to correct the balance of payments problems without resorting to measures that destroy national or international prosperity
- to reduce the duration and to limit the degree of imbalance in the international balance of payments of members.[29]-[30]

1.2.3 Characteristics

The IMF is an international economic and monetary organization, provided by the United Nations and one of its specialized agencies. It is the central institution of the international monetary system, the system of international payments and exchange rates between national currencies, which prevents the occurrence of crises in the payment system.[31] It is the international economic organization with the largest involvement of independent states. The IMF's overall structure, as reflected in the contents of the Articles of Agreement, expresses the effort of the signatory countries to avoid a repeat of the turbulent experience of the interwar period, the uncontrolled competitive currency depreciation.

[27] Varoufakis Yanis, The Global Minotaur, Greek edition, Livani Publications, Athens 2012

[28] Boughton James M. and Lateef Sarwar K. , Fifty Years after Bretton Woods, International Monetary Fund and World Bank Group, 1995

[29] http://www.imf.org/external/np/exr/facts/glance.htm

[30] CL (Compulsory Law) 766/1945 Official Government Gazette 315/ 27-12-1945 Issue A'

[31] Peet Richard, Unholy Trinity The IMF, the World Bank and the WTO, Zed Books, 2003

1.2.4 Members of the Fund

Since the announcement of the IMF, almost all states regardless of the level of development of their economy, wanted to “do not stay out” of the new reality. That is why, while the founding articles were approved by 39 countries, as mentioned above, today the organization has 189 members. In the initial members do not include two of the largest ones today in terms of quotas, Germany and Japan, which became members in August 1952. The last “primary” member is Venezuela, which declared its participation in 1946. Greece has been a founding member of the IMF since 1945. It ratified the Bretton Woods Agreement with CL 766/1945 which was published in the Official Government Gazette 315/ 27-12-1945 Issue A’. Of the countries of the Western World, Switzerland is not a member.[32]

Any independent state may, if it wishes, become a member upon a request to do so, provided that it undertakes the obligations arising from the Articles of Agreement and from the acts adopted by the IMF bodies . Accession is decided by the Board of Governors, which sets out conditions based on principles applicable to other countries that are already members (Article II, section 2).[33] Each state, upon its accession to the IMF, assumes a percentage of participation. This share, set by the IMF itself, is proportional to the strength of the economy of the member state in the global economy and is called “quotas”. It corresponds to a number of shares and determines its maximum contribution to the financial resources of the IMF. The subscription of each member is equal to the participation share. (Article III, section 1). On joining each country pays a quarter of its shareholding in the form of widely accepted foreign currencies (such as US dollars, euro, yen or sterling) or in the form of Special Drawing Rights. This amount is the so-called reserve tranche of the member state and is of particular importance because it affects the level of financial assistance which is entitled to claim from the IMF. The remaining three quarters are paid in the domestic currency of the state. The role and importance of quotas is decisive for each member, because the size of quotas determines the votes[34] that each member state will have in decisions taken by the IMF bodies, the amount of funding that the member state will be entitled to receive from the IMF and the percentage assigned to it in the allocation of Special Drawing Rights. The richer a member country is, the higher the quotas. The United States pays approximately 17% of the Fund’s capital and has more than 16% of the votes, while for Greece this percentage corresponds to

[32] Gemtos Petros, ibid

[33] The Articles refer to Law 1086/1980 (Official Government Gazette 256 A’) on the ratification of the second amendment “to the International Fund” Agreement and are referred by their new numbering.

[34] According to the Article XII, section 5 of Law 1086/1980 , each member country has 250 basic votes and one additional vote for each contribution to the IMF’s capital. That is the system of weighted voting.

0.38% of the total budget of the Agency (approximately 1 billion euro). In the end the states have total votes depending on their participation in the IMF capital. It is true, however, that with this quota structure, the control of operation and decision-making comes to the hands of rich states that have the opportunity increasing their contributions to the Fund's capital to obtain a larger number of votes. Quotas are reviewed by the Board of Governors, at least every five years, either to increase Fund resources or to reform members' voting rights.[35]

Members may withdraw at any time with simple written notice to the Fund's headquarters. Membership ceases upon receipt of the notice (Article XXVI). However , the Statute [Article XXVI section 2(b)] provides for the possibility of compulsory withdrawal if the member fails to fulfill its obligations towards the Fund. The relevant decision shall be taken by the Board of Governors by a majority of 85% of the votes. This disciplinary sanction was imposed in 1954 in Czechoslovakia. In the past, Cuba and Poland have left. The last came back in 1986.[36]

1.2.5 IMF Headquarters

Article XII section 1 of the IMF Statute provided that the seat of the Fund would be located in the territory of the member state with the largest shareholding, and representative offices and branches could be established in other countries. Given that since the beginning of the IMF operation, the country with the largest share remains the USA, the Organization has been based in Washington since 1945 and has offices in Paris and Brussels.

1.2.6 IMF Resources

For the fulfillment of its objectives, the IMF needs to manage its resources rationally and with program. The resources are divided into own resources and resources that the IMF acquires through borrowing. Own resources come from the "capital"[37] subscriptions that the member countries pay upon joining the Agency or when the quota is increased in case of revision. Such revisions were made in 2006 (1.8% increase in quota), 2008 (11.8%), while with the 2010 revision that came into force from 2016, the quota was doubled and quota resources amounted to US $ 692 billion.[38] The next quota revision (15th revision) was

[35] http://www.imf.org/en/About/Factsheets/Sheets/2016/07/14/12/21/IMF-Quotas
[36] Naskou- Perraki P. , The Law of International Organizations: the institutional dimension, Ant. Sakkoula Publications, Athens- Komotini 2011
[37] Peet Richard, ibid
[38] http://www.imf.org/en/About/Factsheets/Where-the-IMF-Gets-Its-Money

scheduled for 2019. This capital is therefore increasing with each country's new membership. Thus, while the initial capital at the foundation was $ 7 billion, with subsequent memberships of new members in the Fund and the quota revisions, it reached $ 476.8 billion in 2011 and US $ 1 trillion in April 2018.[39] But the IMF's core income is the interest of the loans that the Fund concludes with various countries. Before the mortgage crisis there was no demand to borrow from the IMF. Latin America and African countries, which were likely to seek borrowing, increased their foreign exchange reserves by rising prices of raw materials and did not resort to borrowing, resulting in a fall in IMF revenue.[40]

The IMF's investment income is part of the IMF's own resources. Thus, in the context of the new IMF revenue model, in December 2010 the Fund sold, by decision of the Board of Governors, 1/8 of the available in gold at market prices in order to avoid any market disruption. The funds from this sale were intended to finance low-income countries and to strengthen the soft loan program.[41] The inadequacy of the IMF's own resources makes it borrowed. The IMF, unlike other international organizations, is not borrowed from international money markets, but from member countries or from international financial institutions, such as the International Settlement Bank. So in 1962, ten IMF member countries (USA, Canada, Germany, France, Italy, Japan, the Netherlands, Belgium, Britain and Sweden) made available a certain amount to the Fund in national currency and signed with the IMF the General Arrangements to Borrow (GAB), to which Switzerland has also been participating since 1984. These agreements gave the IMF the right , if its resources were insufficient, to raise some of the amount given by the Group of Ten (G-10) and to use it for the financial support of ten, but also of other non-participating member states.[42]

Following the Mexican monetary crisis in 1994, the IMF Executive Board established New Arrangements to Borrow (NAB) in 1997. With NAB some member states (25)[43] and institutions have undertaken to provide the IMF with additional debt-funds in their national currency. These are complementary resources of the Fund and have access to them in those member states that do not participate in the group of 25, but subject to conditions. NAB are the second line of defense that complements the IMF's resources.

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39 http://www.imf.org/external/np/exr/facts/finfac.htm

40 Roumeliotis Panagiotis, Towards a Multipolar World, Livani Publications, Athens 2009

41 Such as footnote 38

42 Gortsos Chr. , Overview of the current capital adequacy supervision framework and its upcoming revision, Bulletin of the Hellenic Bank Association, no. 25-26 , B-C Quarter 2001

43 The members of the G-10 and Australia, Austria, Norway, Spain, Luxembourg, the Hong Kong Central Bank and others.

In early 2009, the IMF signed a number of bilateral loan agreements in order to be able to support member countries during the global financial crisis. Bilateral lending agreements are the third line of defense of the IMF, following quotas and NAB.[44]

1.2.7 IMF's organizational composition [45]

Article XII of the IMF Statute provides for the organization and administration of the Fund. According to this, the IMF's bodies are:

- the Board of Governors
- the International Monetary and Financial Committee (IMFC)
- the Development Committee
- the Executive Board
- the Managing Director
- the staff

The Board of Governors is the IMF's principal and supreme decision-making body. It consists of the representative of each member country named Governor. The member country appoint him/her as well as his/her alternate. Usually he is the Minister of Finance or the head of the Central Bank. Although the Board of Governors has assigned many of its responsibilities to the Executive Board, it reserves the right to approve inter alia quota increases, acceptance of new members, removal of members, amendments to the Articles of the Agreement and regulations. The Board of Governors elects the Executive Directors and is the final arbitrator on issues related to the interpretation of the Articles of the IMF Agreement. Its decisions shall be taken by a majority of the votes cast, unless otherwise specified in the Articles of the Agreement. The voting can take place either by organizing a meeting or remotely using modern electronic services (e-mail etc.) . It normally meets once a year in September or October in Washington for two consecutive years and the third year in the country of an alternate member state.

The Board of Governors is consulted by two Committees, the International Monetary and Financial Committee (IMFC) and the Development Committee. The IMFC was established in 1974 by the Board of Governors and until 1999 was known as the Interim Committee. It has 24 members, coming from the group of 189 governors and representing all member countries. Its structure reflects that of the Executive Board and its 24 constituencies. It meets twice a

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[44] Such as footnote 39

[45] https://www.imf.org/en/About/Factsheets/Sheets/2016/07/27/15/24/How-the-IMF-Makes-Desicions

year, during the IMF- World Bank Spring and Annual meetings to discuss the course of the international monetary and financial system and proposals to amend the Articles of the Agreement etc. After each meeting the Committee issues a communiqué. It does not hold formal votes, but it works with consensus.

The Development Committee was also set up in 1974. It is a joint Commission with 25 members (usually Finance Ministers). Its mission is to advise the Board of Governors of the IMF and the World Bank on issues related to economic development in emerging markets and developing countries. It represents all members of the IMF and World Bank.

The Executive Board is a 24-member body. In its composition participate, as its chairman, the Managing Director appointed by the IMF Executive Board and the Executive Directors, of whom nineteen from November 2016 are elected, and the other five from the five countries with the largest quota are appointed by their countries. The Executive Board carries out the day-to-day operations of the IMF, exercises the responsibilities assigned to it by the Board of Governors and the Articles of the Agreement. It usually takes decisions by consensus, but sometimes it takes decisions by vote. The quota of each member also determines the validity of the vote. The views expressed by the Executive Board in most formal meetings summarize them in a document called Summing Up.

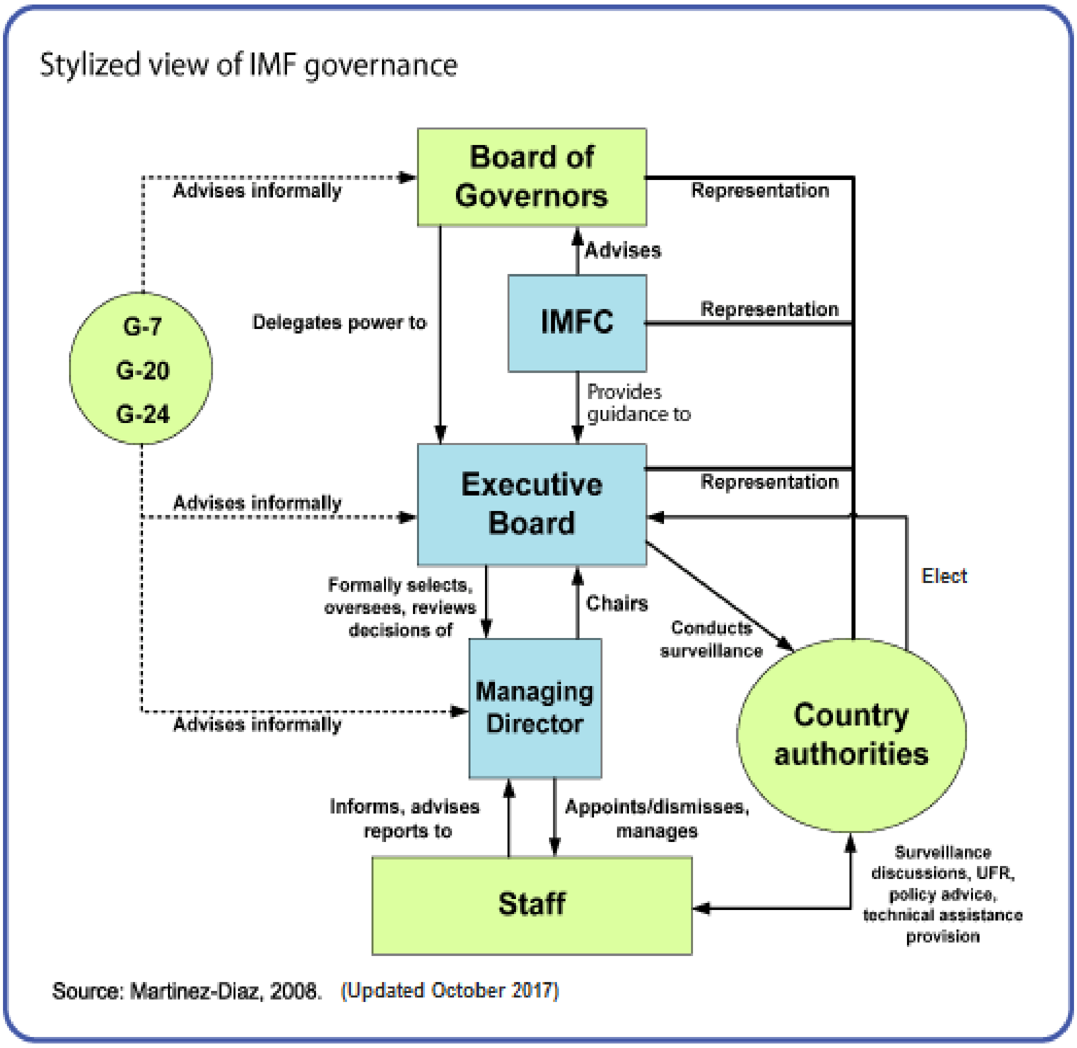
The Managing Director is the chairman of the Executive Board and head of all IMF staff. He is appointed by the Executive Board for five years and is assisted by four Deputy Managing Directors. He does not have the right to vote at the Board of Governors meetings when he is a party. For the position of the Managing Director a national of any of the member states of the Fund may be designated. Although the election of the Managing Director may be made by a majority of the votes cast, however these appointments were made in the past by consensus rather than by vote. For the 2011 election, the Executive Board decided that the next Managing Director's selection process should be made in an open and transparent manner. The same procedure was adopted for the choice of 2016.[46]

[46] http://www.imf.org/external/np/sec/pr/2011/pr11191.htm and http://www.imf.org/external/np/sec/pr/2016/pr1619.htm

IMF Staff are about 2700 employees coming from more than 150 countries that are designated as international civil servants. They are accountable only to the IMF and not to the authorities of their respective countries. About 2/3 of the staff are economists with a high level of expertise in Fund matters, as the remaining staff of other specialists is skilled. They are headed by the Chief Executive Officer. All staff have a mission to serve the institution's objectives in order to promote global economic growth, stability, raising living standards and employment. That is why, with his appointment to the IMF each of the staff signs an agreement that binds him to the ethical rules of the Fund. The IMF has an integrated framework of ethics for the staff. In this context it is, a) the independent ethics office to guide and advise staff on its behavior, b) an independent mediator to help address employment problems and c) an integrity hotline that allows staff and the general public report abuse of IMF resources by staff.[47]-[48]

[47] Peet Richard, ibid
[48] http://www.imf.org/external/hrd/conduct.htm

Table 1: Governance structure of the IMF



Source: www.imf.org

Table 2: IMF Managing Directors

Nr	Dates	Name	Country of origin	Background
1	6 May 1946 – 5 May 1951	Dr. Camille Gutt	Belgium	Politician, Economist, Lawyer, Economics Minister, Finance Minister
2	3 August 1951 – 3 October 1956	Ivar Rooth	Sweden	Economist, Lawyer, Central Banker
3	21 November 1956 – 5 May 1963	Per Jacobsson	Sweden	Economist, Lawyer, Academic, League of Nations, BIS
4	1 September 1963 – 31 August 1973	Pierre-Paul Schweitzer	France	Lawyer, Businessman, Civil Servant, Central Banker
5	1 September 1973 – 18 June 1978	Dr. Johan Witteveen	Netherlands	Politician, Economist, Academic, Finance Minister, Deputy Prime Minister, CPB
6	18 June 1978 – 15 January 1987	Jacques de Larosière	France	Businessman, Civil Servant, Central Banker
7	16 January 1987 – 14 February 2000	Dr. Michel Camdessus	France	Economist, Civil Servant, Central Banker
8	1 May 2000 – 4 March 2004	Horst Köhler	Germany	Politician, Economist, Civil Servant, EBRD, President
9	7 June 2004 – 31 October 2007	Rodrigo Rato	Spain	Politician, Businessman, Economics Minister, Finance Minister, Deputy Prime Minister
10	1 November 2007 – 18 May 2011	Dr. Dominique Strauss-Kahn	France	Politician, Economist, Lawyer, Businessman, Economics Minister, Finance Minister
11	**5 July 2011 – present**	**Christine Lagarde**	France	Politician, Lawyer, Finance Minister

Source: Wikipedia

1.3 The way the IMF works

The IMF's main and ultimate goal is to achieve international exchange rate stability which results in internal monetary and financial stability and the reduction of inflation.[49] In order to achieve this goal and of course all of the above mentioned objectives, the IMF activates three important functions, which are: surveillance, technical assistance and lending.

1.3.1 Surveillance

For the smooth operation of the monetary system introduced by the Bretton Woods Agreement, IMF auditing and supervision was deemed necessary. Thus, in order to maintain stability in the international monetary system and to avoid crises, the IMF monitors the policies implemented by the member states as well as national, regional and global economic developments through an official system known as surveillance.[50] In the context of this audit function, the IMF initially oversaw only the countries' foreign exchange policies. With the introduction of floating exchange rates, however, after 1971, the role of the IMF has expanded and not only manages the exchange rates, but also the economic policies of the member states. The functioning of supervision arises from the constitutional (Article IV) power of the IMF to oversee the monetary system in order to ensure its effective functioning and the compliance of each member state with the obligation to implement the rules which maintain domestic and international stability.[51]

The IMF supervision concerns the continuous recording and analysis of the overall internal and external economic policies of the member states. Particular emphasis is placed on measures related to growth, prices, exchange rates, external payments balance, trade restrictions and payments. Continuous surveillance aims to identify those policy points of the member states which cause or potentially cause economic and financial instability.[52] Each country participating in the IMF accepts the obligation to put its economic and financial policy in strict control of the international community.[53] With their membership of the IMF, member states undertake certain obligations to make their supervision more effective.

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[49] Naskou- Perraki P. , ibid
[50] http://www.imf.org/external/np/exr/facts/glance.htm
[51] Spiliopoulos Odysseus, ibid
[52] Katranis Alex. K. , ibid
[53] http://www.imf.org/external/about/econsurv.htm

In particular, each member state undertakes the following obligations:

a) to consult with the IMF on exchange rate policy, whenever requested [Article IV, section 3 (b)]

b) to consult with other states with a view to ensuring smooth coordination on exchange rate policies

c) to provide the IMF with detailed and accurate information on "national data" to facilitate supervision and to effectively carry out its tasks [Article IV, section 3 (b) and Article VIII section (5)] and

d) to cooperate with the IMF in order to ensure smooth coordination for the achievement of the IMF's objectives.

Supervision functions include bilateral, regional and global supervision.

Bilateral surveillance

The core of bilateral surveillance is the regular, usually annual, consultations of the IMF with each member state. These consultations are known as "Article IV consultations", as they are provided for in Article IV of the IMF Statute. During these consultations a group of IMF economists visit a country and conduct a general control of the country's economic policy. It collects economic and financial information and discusses the economic and financial developments and policies with government officials and the head of the Central Bank. It often meets representatives of businesses, trade unions and other bodies. The consultations focus on the possible consequences of domestic policy in other member states but also internationally, as well as on the effects on the domestic economy of the developments taking place in other countries and internationally. In addition, the IMF staff, in the context of bilateral surveillance, also assesses the exchange rates of member states to determine whether they are generally suitable for exchange rate stability and accordingly advise on the implementation of appropriate policies. The IMF mission-team then submits to the Executive Board of the Fund a report with its findings and presents them to the Executive Board for discussion. Representatives of the country also participate in the debate. The Council will notify the government of the country the IMF's official position on the country's situation by adopting a decision that has no binding legal value. However, the member state has every interest in taking seriously any recommendations of the IMF to "legitimize" in the future to seek financial assistance. When the Council's views are sent to the country's government, the consultation process is completed. Most country reports are published on the IMF website.[54]-[55]

Regional surveillance

Regional surveillance is exercised in associations such as the Eurozone , the West African Economic and Monetary Union, the Central African Economic and Monetary Union and others. During the regional surveillance, the IMF mission reviews the recent economic developments as well as the policies pursued by the association of countries in different regions. The IMF mission sets out its findings in a report that it promotes, as well as the reports of bilateral surveillance. These reports are classified in the regional economic reports and provide data and analyses for the most important regions of the world. Such regional economic outlook reports have been drafted from time to time to discuss economic developments and key policy issues in Asia, Europe, the Middle East, Africa south of Sahara and the Western Hemisphere.[56]

Global surveillance

Global supervision includes the review by the Executive Board of all global economic trends and developments. The IMF is preparing reports on the World Economy and Global Financial Stability, which highlight and analyze the latest developments and prospects of the global economy. These reports are published twice a year with quarterly updates. In the context of the global oversight, we can also incorporate the frequent informal discussions of the Executive Board on developments in the global economy.

1.3.2 Technical assistance

Capacity building by the IMF member countries is one the three key functions of the IMF. The IMF , through its many years of experience, provides technical assistance and training to member countries mainly on economic issues in order to acquire the ability to design and implement appropriate economic policies. Technical assistance and training are provided in almost all sectors of the member countries, so this IMF activity covers 28% of the IMF budget.[57] Mostly, however, aid is directed to economic issues (fiscal policy and management,

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[54] Such as footnote 53

[55] Spiliopoulos Odysseus, Sanctions within the framework of international economic organizations. The case of the International Monetary Fund. Greek Review of European Law, Issue 1, 2001

[56] Such as footnote 53

[57] http://www.imf.org/en/About/Factsheets/imf-capacity-development

expenditure management, banking system etc.). For more than 50 years, the IMF has worked with the Treasury and the Central bank of the member countries, helping countries to raise public revenues, modernize banking systems and establish appropriate legal frameworks that are in line with the IMF's final goal. Depending on the needs of each country, the form of technical assistance is provided. Technical assistance is provided through missions from the Fund staff or through e-learning. So far, the IMF has provided support for capacity building in all 189 member countries.

1.3.3 Lending

One of the important functions of the IMF is borrowing. This function is activated at the request of the member country. When a member country, regardless of the level of economic growth, faces balance of payments problems and cannot find adequate funding in affordable terms in order to meet its international obligations, then it can resort to the IMF.[58] As a country's economic problems (balance of payments problems) pose a threat or a potential threat to the global financial system, the IMF, as guardian of the international monetary system, has a basic statutory obligation to provide financial assistance to the member country.[59] This economic support aims to give the borrowing country the opportunity to implement smooth adjustment policies, that will restore the conditions for a stable economy and a sustainable growth without balance of payments problems**.** If the IMF financial support is not demanded by the member state concerned, then the adjustment process for that country could have been sharp and with multiple implications for the economies of other countries.[60]

The adaptation policies that the country will be called upon to implement, vary from country to country and are commensurate with the circumstances of the country and the nature and extent of the problem that the country faces. IMF loan programs are tailored to the needs of each country. So if a country's economic problem is a sharp drop in the price of a key export product, then temporary financial assistance may be needed until the price of the product in question recovers and the painful effects of a sudden adjustment are avoided. Therefore immediately after the submission of a request from a member country to receive financial support from the IMF, a team of Fund experts visits the country concerned to check

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[58] Spiliopoulos Od. , such as footnote 55

[59] The IMF does not provide loans for specific projects, such as development banks (http://www.imf.org/external/about/lending.htm)

[60] http://www.imf.org/en/About/Factsheets/IMF-Lending

and assess the affected sectors of the economy (financial sector, banking etc.). In the context of the visit, the IMF expert group, following discussions with the government, assess the size of the country's need for funding and looks at the kind of support that is appropriate. Typically the government of a country and the IMF must agree on a program of economic policies before the IMF lends the country. Loan is always conditional, as the member state is committed to adopting specific economic policy measures that the IMF suggests. The IMF lending policy under terms that it places in the borrowing country, is known as "conditionality". This program which contains the policies that the country has agreed with the mission group that it will implement, is presented to the IMF Executive Board in a "Letter of Intent" that the country is submitting to the IMF. Details of the program are included in a "Memorandum of Understanding". When agreement is reached on the proposed policies and on the type and amount of funding, a recommendation is submitting to the Executive Board to ratify the country's political intentions and to allow for the disbursement of the loan. The entire approval process of the program can be completed within 48-72 hours after the agreement is reached, if the IMF applies the emergency procedure. This process is being implemented by the IMF, when a member state is faced with an emergency situation that threatens the country's economic stability and requires immediate action to reduce the damage to the borrowing country or the global monetary system (Emergency Financing Mechanism). The Emergency Financing Mechanism was first implemented in 1997 when the crisis in Asia emerged, in 2001 for Turkey and the years 2008-2009 for Armenia, Georgia, Hungary, Iceland, Latvia, Pakistan and Ukraine. The economic program envisaged under the agreement, shall be drawn up by the member state in cooperation with the IMF. The commitments undertaken by the country for certain policy actions, when agreed with the IMF in an economic policy program, are known as political conditions. These commitments are an integral part of the lending process and the disbursement of the loan is conditional on compliance with the commitments.[61] The conditions include the design of programs, as well as the process of monitoring the progress and implementation of the program. Compliance with the conditions- commitments is intended to ensure that the country's balance sheet is strong enough to enable the country to repay the loan. Also it is intended to ensure that the resources of the Fund do not risk, making them available to other members in need. The loan is usually given in incremental installments as long as the program lasts. The progress of the program is being examined by the IMF, usually by monitoring the implementation of the

[61] http://www.imf.org/external/np/exr/facts/crislend.htm

policy actions pledged by the country. The disbursements of the installments are made after the implementation of policy actions for which the country has been committed. The objective of this IMF tactic as a "diligent" lender, is to ensure the implementation of the program, to prevent the borrower from deflecting the program and to reduce the risks to the Fund's resources from the possible non-repayment of the loan. As a rule, the IMF provides financial aid only if it ascertains that the country concerned is able to repay the loan.[62] The duration of the financial assistance initially provided by the IMF was short-lived. Since the 1980s, the IMF's policy on this issue is geared to lengthening the duration of funding. According to the Article V, section 2 (A) , of the Articles of the Agreement (amendment 1992), the disbursement of the loan is made either in drawing rights or in the currencies of the member states.

The number and total amount of loans provided by the IMF are fluctuating from year to year. About four of the five IMF member countries have borrowed at least once. In the first two decades since the founding of the IMF, half of the loans were granted to industrialized countries. IMF lending increased in the 1970s with the oil crisis and the credit crunch in the 1980s. In the early 2000s, deep crises in Latin America raised the demand for IMF borrowing, while in 2004 sound economic conditions around the world allowed for repayment of loans to the IMF, thus reducing the demand for lending. IMF lending increased again at the end of 2008 due to the global financial crisis affecting many countries.[63] This has prompted the IMF to significantly strengthen its lending capacity to face the growing financial needs of the countries hit by the economic crisis. Thus, from the beginning of 2008 to the end of 2009, the IMF lent about $ 60 billion in markets affected by the crisis. In March 2009, the IMF revised its lending framework by modernizing borrowing conditions, in order to strengthen its ability to prevent and resolve crises in the monetary system.[64]

The IMF's financial policy is in the line with its objectives and aims at restoring balance of payments balance in the shortest possible time and not in supporting the economic development of the member states, which belongs to the objectives and competence of other organizations.[65]

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[62] Katranis Alex. , ibid
[63] Such as footnote 59
[64] http://www.imf.org/external/np/exr/map/lending/index.htm
[65] Katranis Alex. K. , ibid

CHAPTER 2 : THE GLOBAL ECONOMIC CRISIS OF 2008

2.1 What is leading to an economic crisis

2.1.1 Definition of crisis

The global crisis of the financial system of 2007 / 2008, has brought to the fore the reasonable question, of what is leading to an economic crisis and whether the economic life and everyday life of citizens are affected by such a crisis.

Economic science, exploring the “crisis” phenomenon, has formulated various definitions of the crisis. A common feature of all definitions is the element of the sudden disruption of the functioning of the system. So talk about the political crisis, social crisis, financial crisis, monetary crisis, ecological crisis etc.

According to one definition, crisis is a situation during it the smooth operation of the system is disrupted in an abrupt and unexpected way and the characteristics and properties of the system change. In other aspect, the crisis can be seen as the violent and necessary response of the system to distortions that preexisted and are the real cause of the crisis.[66]

In particular, with regard to the economic crisis, by giving a simplified definition, we would say that it is a situation in which an economy is constantly reducing its economic activity. By economic activity we mean all the macroeconomic aggregates with the most important investments, which when they are fluctuating, also affect the rest of the economy (unemployment, GDP etc.) [67] According to a scientific view, the economic crisis is defined as the particularly prolonged period of time, when there is a surplus of work (unemployment) and a surplus of capital (savings not invested) that affect the economic life of citizens.[68] Other researchers, consider the economic crisis as that period when the market has continuously downward movement or when banking panic is observed [69] (monetarists). However, all definitions include the element of the sudden appearance of the crisis phenomenon.

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[66] Kotios Aggelos - Pavlidis Georgios, International Economic Crises. System or policy crises? Rosili Publications, Athens 2012

[67] Kotios Aggelos - Pavlidis Georgios, ibid

[68] Varoufakis Yanis, Crisis Vocabulary. The financial terms that are undermining us. Potamos Publications, Athens 2011

[69] Kotios Aggelos - Pavlidis Georg. , ibid

2.1.2 Historical review of crises

The following table depicts the occurrence of crises historically from the mid-16th century to the present.

Table 3 : Historical review of crises

1557-1560	The bankruptcy of the Habsburg state
1634-1637	The tulip “bubble” in Netherlands
1696	The English monetary crisis
1711-1720	The South Sea bubble in England
1716-1720	The financial crisis of the John Law system in France
1799	The commercial crisis of Hamburg
1815	The British economic crisis due to oversupply
1825	The British financial crisis
1837-1843	The crisis in the US and then in Great Britain
1847	The British railroad crisis
1857	The first global economic crisis (started in the US)
1873	The banking and economic crisis (lasted until 1878)
1882	The collapse of stock exchanges in France
1923	The collapse of Germany due to hyperinflation
1929-1935	The global economic crisis
1945-1949	The supreme inflation in many countries after the World War II
1971-1973	The collapse of Bretton Woods system
1973	The first oil crisis
1979-1980	The second oil crisis
1981	The crisis of the American savings banks
1991	The Japanese crisis
1994-1995	The crisis of Tequila (Mexico)
1997-1998	The financial crisis in Southeast and East Asia
2000	The Dot Com bubble
2008	The Global Economic Crisis (started in the US)
2010	The Eurozone Crisis

Source : Kotios Aggelos - Pavlidis George , ibid

2.1.3 Characteristics of economic crises

World economic history has seen periods of prosperity, stagnation, recession and crisis of the economy. The most common crises are economic crises.

The main features of economic crises include the following: Economic crises are a common phenomenon and occur in a violent way and perhaps unexpected (for experts expected). They have a national or regional origin. This, of course, does not prevent them from spreading internationally.[70] Every crisis has its own international transmission mechanisms. They show repeatability,[71] because the economies have not been taught at least sufficiently, from the past mistakes that caused the earlier crises. It is a complex phenomenon and no economic crisis is the same as the previous ones, nor the only one. Their intensity, the speed of deployment, and the possible provocation of another form of crisis (e.g. political crisis), vary depending on the domestic and international political (and not only) conjuncture. The end of economic crises can not be determined in time and when an economic crisis ends, it creates new economic reality and often affects the political developments.

2.1.4 Types of economic crises

Because the economic crises appear in a variety of forms, a safe criterion for their classification would be the cause of their occurrence and the sector(s) affected. The economic literature has developed a categorization of economic crises on the basis of the causes that caused them. Based on the typology of economists Reinhart and Rogoff, the crises are divided into: 1) currency crises, 2) inflation crises, 3) banking crises, 4) external debt crises and 5) domestic debt crises.[72] On others, with a further criterion on the sector(s) affected by crises, economic crises can be distinguished in 1) recessionary crises, 2) exchange crises, 3) sovereign debt crises and 4) financial crises. Finally, on the basis of their geographical scope, economic crises fall into 1) national, 2) regional and 3) global crises. The most important category of economic crises is the sovereign debt crises.[73]

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[70] Kotios Aggelos - Pavlidis Georg. , ibid

[71] Mourmouras Ioannis , The double crisis, Vol. B, Germanos Publications, 2014, where reference is made to 205 countries experiencing currency collapse conditions, 124 that faced a collapse of their banking system, 26 double banking- currency collapse, 63 public debt crisis and 8 have suffered a general collapse of their economy. And all this in the last 40 years.

[72] Katsikas Dimitrios, Financial Crises and International System. Types of Economic Crises, National Kapodistrian University of Athens, , Athens 2015 , Open Academic Courses.

[73] Kotios Aggelos - Pavlidis Georg. , ibid . More on the detailed analysis and classification of economic crises

2.1.5 The causes of the crises

All major economics schools have dealt with the causes of the crises. The research began in the early 20th century, but after the Great Depression of 1929 it proceeded intensively. The Austrian School launched the survey first, attributing the crises to incorrect over-investments (cheap money policy, technological changes, etc.). For the neoclassical or monetarist school, which believe that the market system is self-regulating, crises have exogenous causes (rising raw material prices, changes in currency rates etc.). On the contrary, in the Keynesian and Marxist terms, the causes of the crises are endogenous. In particular, the Keynesian approach attributes the causes of the crises to reducing demand and reducing investment. Marxist view, accepts crises as inherent to the capitalist system and deterministic.[74]

The research has shown that the causes of the crises are both complex and varied. They may be due to factors in the country itself where the crisis occurred or to external factors or to both factors. Domestic factors, of course, include the country's fiscal and monetary policy, as their structure and operation can lead to major economic imbalances, such as budget deficits, current account deficits, high levels of public and external debt. Also, an exchange rate that has been set at "unequal" levels can adversely affect competitiveness and lead to further increases in current account deficits. Moreover, a financial system with "weak legs" can cause borrowing and capital problems. Finally, a political instability, as well as an unstable and changing legislative-tax and investment system, discourage investment initiatives and moves, with a negative impact on all sectors of the economy.

The external factors include natural disasters, warfare and large price fluctuations in commodities on which the production of many countries depends (oil, etc).

2.1.6 The effects of crises

The course of crises has shown that the crises have a negative impact on the social and political fabric. They cause up to catastrophic consequences on social life. They usually affect institutions and their functions, to the point where the "substantial" existence and effectiveness of some institutions, relating to either the emergence of crises or to the confrontation, are questioned by many. Irrespective of the causes, crises in general bring about rising unemployment, lower incomes, increased uncertainty and perhaps a change in the political and economic climate.

[74] Kotios Aggelos - Pavlidis Georg. , ibid and there references.

2.2 The Global Economic Crisis of 1929

2.2.1 Introduction

The global economy has often faced the “phenomenon” of the economic crisis so far. Irrespective of the moment at which it occurred, its duration and the consequences it caused, every crisis left its own imprint, even if it had “borrowed” some features of a previous crisis.

In this Chapter, although we will present the global Crisis of 2008 (the tragic consequences of which, unfortunately, we are still experiencing in Greece), we thought it appropriate to refer, briefly, to what has happened since the Great Depression of 1929 until the 2008 Crisis broke out. We chose this report because we believe that we will achieve, or at least try to achieve a fuller presentation of this chapter. Furthermore, because we believe that this reference to the 1929 Crisis will help to conclude if the story is actually repeated and if George Bernard Shaw[75] was right saying “If story is repeated and the unexpected always happens, how unachievable learning from experience is man?” .

2.2.2 The Crisis of 1929. Causes – effects

At the end of the World War I, society faced an economic recession. Fortunately, this recession was not long-lasting, because under the conditions of peace now, the world (forgetting the suffering of the war) began in the early 1921 to turn to the market for more consumer goods. This led to the recovery of overproduction in the economies of powerful countries and especially in America. What was the result? Part of their huge profits, US companies lent to European countries and especially to England and Germany, in order to increase their profits. What was the consequence? European industries, applying the US model, turned to massive standard production that brought prosperity and economic recovery.

Thus, since the early 1920s a new period of economic development began, tentatively at the beginning, more intense afterwards, which brought general over-optimism and overcame the horror of the war. It had, of course, preceded the 1907 Crash, when the New York Stock Exchange lost 50% of its value, which led to the establishment of FED (Federal Reserve) with the task of preventing such crises.[76] This over-optimism prompted businesses to borrow from the banks excessive amounts for investments and increase their output, for the sake of greater profit. The large companies boosted the investments and the market flooded with

[75] Irish theatrical writer, who was awarded the Nobel Prize for Literature in 1925.

[76] Varoufakis Yanis, The Global Minotaur. America, the True Origins of the Financial Crisis and the Future of the World Economy. Zed Books Publications, London & New York, 2011

cheap money, as the banking system expanded in the face of this over-optimism. The same over-optimism prompted the banks to borrow to lend, and the consumers to borrow to play in the stock market.[77]

During the period 1921-1929 the Stock Market experienced an unprecedented explosion. Stock prices rose much faster than their dividends, to such an extent that the dividend-to-share price ratio, from 6.5% in 1921, fell to 3.5% in 1929. But on 28 October 1929 the index of the stock market dropped from 298 points to 260. The next day, on 29 October 1929 (the so-called Black Tuesday) it fell further, reaching 230 points. It recorded a total fall of 23% in two days and 40% from the previous month (September). In November, the index continued its downward trend, indicating 198 points!!! (Figure 1). This was not because of a sudden liquidation of the shares in view of an upcoming economic crisis (which no one expected). It happened because the shareholders, holding shares bought at high prices and expecting a rise in the index and future profits from them, were afraid of the continued rise in the index and decided to sell their shares.[78] What was the result? The large drop in stock prices and the above-mentioned index. The stock market "bubble" burst!!! The Crash of 1929 came!!! Its source was the end of a speculative "bubble".

The Great Depression that followed the stock market crisis is characterized as the strongest that hit humanity until the 2008 Crisis. The dramatic and outrageous drop in the stock prices caused the closure of many banks. The credit system collapsed. The business and private assets fell sharply, as do their incomes. The production declined due to falling demand and prices. The international trade also collapsed.[79] The increase in unemployment reached the vertical. In 1929, unemployment in the US was 3.2%, and in 1933 it rose to 24.9% , forcing one in four to look for a job.[80] The US national income in 1930 decreased by 14% and the following year an additional 25%. [81] (Figure 2). This Crisis was long-lasting (it lasted until about 1940), expanded around the world with great intensity and was not limited to US and its close trading partners. This international nature is the most impressive feature of the 1929 Crisis.[82]

The outbreak of the Crash in 1929 found Herbert Hoover in the US presidency and the international economy to operate with the Gold Standard (reference was made to the first

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[77] Varoufakis Yanis, Crisis Vocabulary, ibid

[78] Blanchard Olivier, Macroeconomics, Pearson Education 2003, 4th edition, for the Greek language edited by Christos Nikas, Epikentro Publications, 2012

[79] Kotios Aggelos - Pavlidis Georg. , ibid

[80] Blanchard Olivier, ibid

[81] Varoufakis Yanis, The Global Minotaur (2011), ibid

[82] Krugman Paul - Obstfeld Maurice, such as footnote 7

Chapter of this paper). Hoover to address the Crisis, increased tariffs on imported products in order to increase the demand for domestic products. The other countries immediately retaliated with the same policy and international trade collapsed. Hoover also failed to maintain the cohesion of the social fabric, as the hoovervilles[83] were dismantled by the US army under his command. The new president of the United States since 1932, Franklin Roosevelt, applying a different monetary policy, moved his country away from the Gold Standard and tried to control the Crisis with the well-known New Deal.[84] But he only succeeded in slowing the Crisis, so when in 1938 another Crash came, the US economy fell back. The declaration of World War II stopped the 1929 Crisis that might have continued for many years to come.[85]

The debate over the causes that have caused it, is still ongoing. According to Olivier Blanchard the Great Depression was not caused by the 1929 stock market Crash. The recession had actually begun before the Crash occurred, which however was important.[86] For Monetarists, Milton Friedman[87] and Ben Bernanke,[88] the Great Depression was caused by the FED's restrictive policy (especially after the burst of the stock market "bubble"), the cause of which was its commitment to cover 40% of the banknotes with gold, and by the fact that it allowed the collapse of the banking system. On the contrary, the Austrian School attributes the causes to the overly expansive policy of the FED, which it has applied since the early 1920s. This policy allowed for speculation and wrong investments. For J.M. Keynes, the reason for the Great Depression was the great fall in demand. Economist I. Fisher identifies the cause of the Crisis in over-indebtedness, which in turn caused the stock market "bubble" and the collapse of the banks. Finally, Marxists argue that the Crisis was systemic, that is the consequence of the operation of the capitalist system, characterized by the unequal distribution of income in favor of profits and at the expense of wages, resulting in

[83] Slumps that the homeless unemployed who lost their mortgaged houses, have built up for themselves. More about the hoovervilles in: Varoufakis Yanis, Crisis Vocabulary

[84] A set of programs (institutional changes and economic policies) by the Roosevelt government to bring the US economy out of the Great Depression. More about New Deal in : Blanchard Olivier such as footnote 78, and also in : Varoufakis Yanis, Crisis Vocabulary, ibid

[85] Varoufakis Yanis, Crisis Vocabulary, ibid

[86] Blanchard Olivier, ibid

[87] American economist, statistician and writer. He was awarded the Nobel Prize for Economic Sciences. He is Keynes's theoretical opponent. More in: Varoufakis Yanis, Crisis Vocabulary, ibid

[88] American economist and former FED president for two terms since 2006. Subject of his doctorate at MIT : The Crisis of 1929. He accepts the theories of Friedman. His nickname : Helicopter Ben, because in a related speech to tackle a recession, he used Friedman's phrase: "The problem can always be tackled with a helicopter throwing money…". The resume in Varoufakis Yanis, Crisis Vocabulary, where more details.

overproduction on the one hand and under-consumption on the other.[89]

Figure 1 : Phases of the 1929 Stock Market Crash

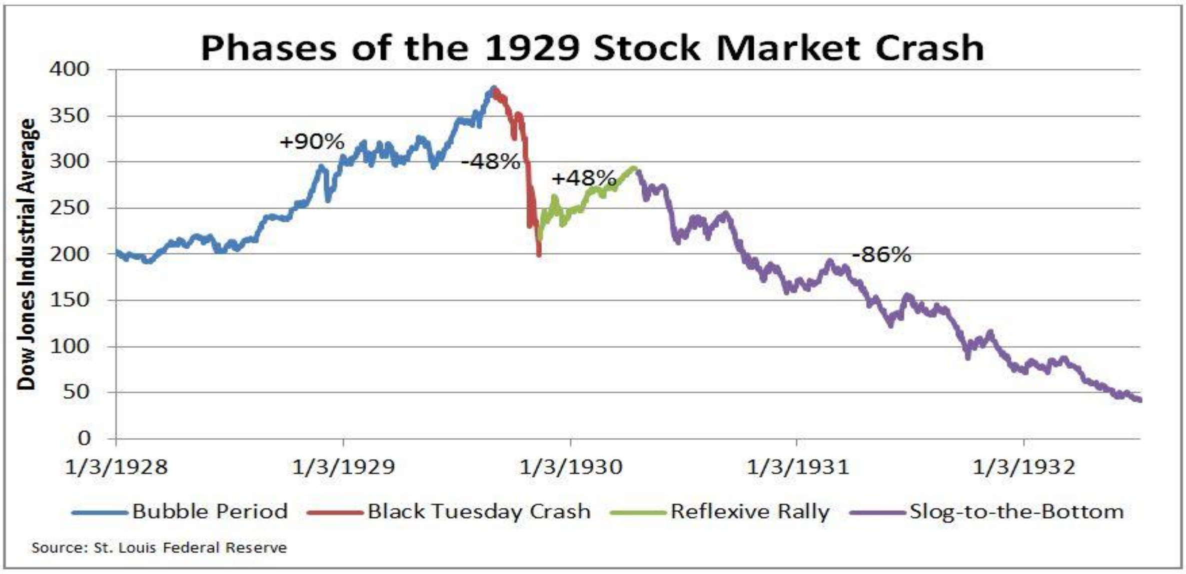
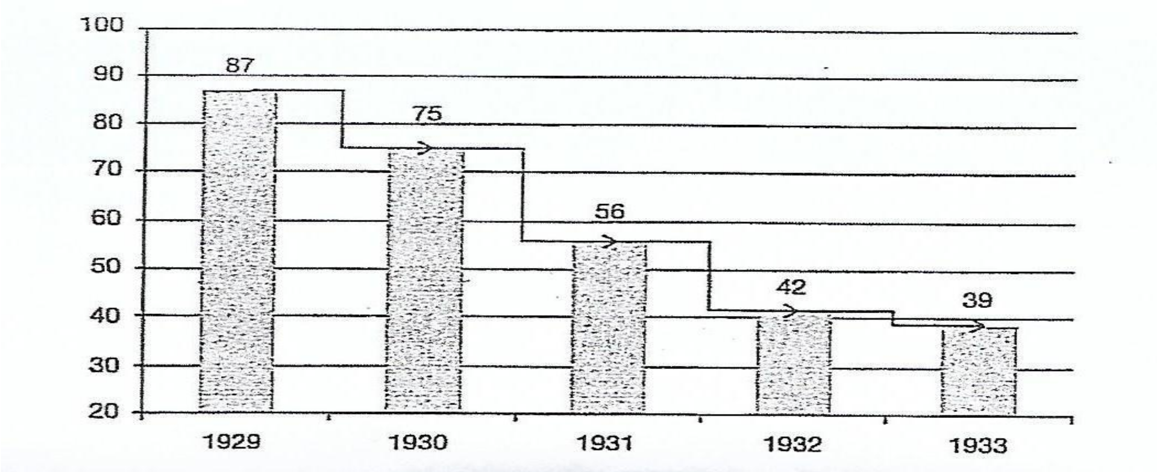


Figure 2 : US national income (GDP in $ billions)



Source : Varoufakis Yanis, The Global Minotaur

[89] Kotios Aggelos - Pavlidis Georg. , ibid

2.3 The Global Economic Crisis of 2008

2.3.1 Introduction

The financial crisis of 2008, which was transformed into a global economic Crisis of 2008, shocked the world economy fundamentally, as it did not leave almost no country unaffected. Financial researchers for over a decade since the outbreak of the Crisis, are dealing with the causes of the Crisis. They are looking for what was wrong and humanity was hit by yet another crisis, worse and more intense than that of 1929.

Before proceeding to the development of this subsection, we consider useful for its completeness to briefly refer to the climate that prevailed internationally before the Crash of 2008. In this effort, we will attempt to present the answers that experts have given at times on key questions that the Crisis has created for all mankind, from the simple citizen to the prominent economists. The questions that arose were : How has this crisis been caused? Was it expected? Was it predicted by some? Why did it touch the whole world? What steps did the decision makers take to prevent it?

2.3.2 The climate before the Crisis

In the first twenty years after the end of the World War II, the whole of mankind experienced a period of economic growth and stability. The oil crises of 1973 and 1979-1980 did not break this stability. In 2003-2007 the steady growth rate of global GDP was around 5%. The global economy continued until 2007 to move within an environment of excessive bliss and unlimited optimism.[90] The optimism in the financial sector was even greater. This optimism arose because the memories of the 1929 disastrous Crisis erupted very quickly, and the majority of analysts became convinced that the economic cycle was completed and that no longer crises would arise, or whether they appear, will be treated with insignificant losses. In 2007 and early 2008, when the recession clouds appeared above the US economy, economists questioning whether it was likely to have a new crisis, most instinctively responded that it was excluded.[91] They gave this answer because the global economy absorbed the shocks brought by the recent (for the time being the latest) dot-com “bubble” and reasoning concluded that it will endure again, if any crisis occurs. Thus, economists have necessarily been placed on this issue. Some argued that the deterrence of the Great

[90] O’ Neill Jim, Crisis and Economic cycle. The market’s view. In : From the International Crisis to the Crisis of the Eurozone and Greece. What the future hold for us. Livani Publications, 2011

[91] Stiglitz E. Joseph, Freefall, For the Greek language The Triumph of Greed, Papadopoulos Publications, 2011

Depression was a problem already solved. To them belongs Robert Lucas, who in his speech in 2003 as President of the American Economic Association, argued that the economic cycle has been put under control and there was nothing else to do.[92] He was convinced that if the state does not intervene in the markets and confine itself to a supervisor of economic activity, the crises phenomenon will be past.[93] The same views with R. Lucas on this issue has also Ben Bernanke.[94]

This excess optimism which lasted until early 2007,[95] as mentioned above, dominated as well in spring of 2000, when the dot-com "bubble" burst.[96] At that point, while dot-com shares fell by 78% between March 2000 and October 2002, there was still the optimism that the wider economy would not be affected, but eventually it was influenced. Afterwards, Alan Greenspan[97] applying his healing antidote to easy treatment with liquidity injections, flooded the market with liquidity, lowering interest rates initially from 6.5% to 3.5% and then to 1%.[98] However with this liquidity no new investments were made for factories. Instead, the rise in consumption and the booming of the real estate came in.[99] But the cheap money brought the housing "bubble"[100] which was fueled by low interest rates and the looseness of lending criteria.[101]

The deregulation[102] of the financial system helped to this effect. The financial sector putting pressure on the politicians, led to the retreat of the regulatory framework in the US, which had been established after the 1929 disastrous Crisis. The Glass-Steagall Act of 1932, which forbade bankers to "gamble with depositors' money", was abolished by the Gramm-

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92 Krugman Paul, The return of Depression Economics and the Crisis of 2008. For the Greek language Kastaniotioti Publications, 2009. Robert Lucas, professor at the University of Chicago, was awarded the Nobel Prize in Economics in 1995.

93 Varoufakis Yanis, Crisis Vocabulary, ibid

94 Krugman Paul, such as footnote 92

95 Hardouvelis Gikas A. , The Chronicle of the International and Consequent Greek and European Crisis. Reasons, Reactions, Impact, Perspective. In the book : From the International Crisis to the Crisis of Eurozone and Greece, What the future hold for us. Livani Publications, 2011

96 More about the dot-com "bubble" in : J. E. Stiglitz, Roaring Nineties : A New History of the World's Most Prosperous Decade, New York, W.W. Norton 2003. The reference from : J.E. Stiglitz The Triumph of Greed, ibid

97 President of the FED from 1987 to 2006. Fanatic Monetarist. His doctrine : Markets " know" better and a market economy that "produces" crises from an economy regulated and run by an interventionist state is preferable. Source: Varoufakis Yanis, Crisis Vocabulary, where more about A. Greenspan.

98 Soros George, The New Paradigm for Financial Markets. For the Greek language : The Crisis of 2008 and What it means. Livani Publications, 2008

99 Stiglitz E. Joseph, ibid

100 Soros George. , ibid

101 Stiglitz E. Joseph, ibid

102 By "deregulation" we mean the change of institutional framework, in order to make the rules and regulations concerning the financial system more flexible or abolished.

Leach-Bliley Act in 1999.[103] The deregulation of the financial system which began in the 1980s and continued in the next decade, had preceded in Great Britain. The Thatcher Government radically changed the banking system by abolishing several restrictions on the financing of banks.

The deregulation brought new innovations. All innovations aimed to maximize the commissions of the banks and the fees of the Golden Boys. The American financial institutions, moving into this logic and within the liquidity that Greenspan gave, created a wide variety of subprime mortgages. These loans were addressed to borrowers who did not actually have the credit standards because their incomes were low or uncertain.[104] These were floating rate loans, low at the beginning, with high transaction costs and installments that could suddenly increase and did not provide for any protection of the borrower from the risk of a property's loss of value or any loss of his work.[105] These subprime mortgages were granted with the knowledge of banks and supervisors and often covered 100% of the value of the property. The reason lenders "loosed" the criteria with which they lent, was because they believed that the real estate prices would rise constantly[106] (the over-optimism continues after the dot-com "bubble" of 2000 !!!), but also because they were not interested in repaying them, as they were not held by them but were bought by the banks, that securitized them by the known method of "securitization" and then sold them to careless investors who did not know what they were buying.[107]

The securitization was aimed at transferring from banks to buyers of the securities, the risk of not repaying the loan. It is an old tactic and its pioneer is Fannie Mae.[108] However it should be noted that until the housing "bubble" of 2008, the securitization was almost exclusively of "high creditworthiness" mortgages.[109] Throughout the process until the securitization, the credit rating agencies actively participated, who approved these "toxic" media with their rating, thus encouraging other unsuspecting people (for the toxicity of the

[103] The Law of 1932 laid down compulsory the separation of banks into regular banks that would only accept deposits and investment banks that would not accept deposits, but could on behalf of the banks themselves or their clients bet on shares, futures etc. (The reference from : Varoufakis Yanis, The Global Minotaur (2011), ibid).

[104] More about the types of these loans (including "liar loans" for which the borrower was not required to prove his income in order to obtain the loan) in : Stiglitz E. Joseph, ibid

[105] Kotios Aggelos - Pavlidis Georg. , ibid

[106] Krugman Paul, such as footnote 92

[107] More about securitization and its contribution to the 2008 Crisis in: Stiglitz E. Joseph ibid and Varoufakis Yanis, Crisis Vocabulary ibid and Krugman Paul ibid

[108] For its function and role during the 2008 Crash, an extensive reference is made in : Varoufakis Yanis, Crisis Vocabulary, ibid

[109] Krugman Paul, such as footnote 92

securitized mortgages) to buy them in the US and other countries as well. Among these unsuspecting, they were insurance and pension funds seeking secure placements of their insurers' sweat.[110]

The easy borrowing, due to the looseness of lending criteria and the attractive interest rate, as well as the overall structure of the loan process and terms (lending up to 100% of the value of the property), caused an unjustified price increase in the real estate market ("bubble").[111] From 2000 to mid-2005, the market value of real estate increased by more than 50%, while the increase in real income of the American worker, was from anemic to nil. The continuing rise in property prices prompted borrowers to reassess the value of their property and refinance mortgages. The amount of the refinancing was used by the borrower for his immediate consumer needs (car purchase, etc.), while his income remained stable. It should be noted that 40% of the purchased property was not intended for the permanent residence of the borrowers, but it was for investment or for the purchase of a second residence.[112] So much was the deceptive expectation of the investment profit!!!

2.3.3 The Crash of 2008

In this climate we briefly described, the Crash of 2008 was incubated, which then brought the 2008 Crisis. What happened and the "bubble", that had been created, burst and so the Crash arose?

As the property prices rose until the mid-2006,[113] the pyramid continued to operate. At some point, prices had risen to such an extent that it was unfeasible for many Americans to buy a home, even with loans that covered 100% of the value of the property.[114] Then sales declined. This resulted in a fall in the price of real estate in the US, due to the lack of buyer demand, slowly at the beginning and then in form of avalanche,[115] causing disastrous consequences. The lenders who had estimated that the liquidation of the mortgaged property would cover the value of the outstanding installments of the loan, deceived themselves. At the same time, the market conditions changed and lending rates rose (from 1% to 5.25%) and

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[110] Stiglitz E. Joseph, ibid

[111] The definition of the "bubble" is given by Yanis Varoufakis in : Crisis Vocabulary, defining it as the upward trend in the price of a good or property title which is self-sustaining, without however being based on a physiological-real increase in the value of the particular good.

[112] Soros George, ibid

[113] Hardouvelis Gikas, ibid

[114] Krugman Paul, such as footnote 92

[115] Kotios Aggelos - Pavlidis Georg. , ibid

because the loans granted, as we mentioned above, were floating rate loans, a surge of non-performing loans was caused. Even those who had a loan originally able to repay it, now with the increase in interest rates, were faced with payments that exceeded their income potential. The Crash in the real estate market had come!!! But that did not stop here. It expanded and turned into a stock market Crash.

Banks, which had kept some of the toxic securitized loans, were faced with a number of non-performing mortgages. The reduced value of mortgaged property was not sufficient to cover the principal of the original loan. A liquidity problem arose. The banks refused to borrow one another,[116] as the trust and loyalty that is the foundation of the banking system were eroded. The international financial markets have gone the way for the collapse. The interbank market "froze". This worrying situation ("freezing" of interbank market), which the financial press called credit crunch, was the precursor of the 2008 Crisis.[117] Thus, the financial instruments, that the banks and co-operating lenders used at the expense of poor borrowers, led at the same time to their own destruction.[118]

At the beginning of 2007, the signs of worry around the world, began to multiply and intensify. Then, continued breakdowns of financial institutions followed in the US and Europe. Thus, in the US, on 9 March 2007 the largest US construction firm DR Horton announced huge losses due to the subprime mortgages.[119] Other banks followed to report losses and be led either to the acquisition by others or to bankruptcy. Bear Stearns, the fifth largest bank in the US, which faced with liquidity problem, rescued from the collapse thanks to the intervention of the FED and JP Morgan Chase, which eventually bought it. Lehman Brothers' bankruptcy (Black Monday), one of the world's largest banks (the fourth largest US investment bank and the first major bank which was bankrupt)[120], on Monday 15 September 2008, affected the stock markets that reacted with panic, as the Dow Jones dropped that day by 500 points. The stock markets suffered the shock of massive and simultaneous withdrawal of funds. The next day the stock markets of the whole world make huge dives. The values of quoted shares dropped dramatically. So, the stock market Crash came!!! Ten days later, Washington Mutual, a bank colossus, had the fate of Lehman Brothers. In the same month, Merrill Lynch, an investment bank, avoided bankruptcy with Bank of America's offer to acquire it, which eventually acquired it in January 2009. Followed by a huge wave of

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116 Stiglitz E. Joseph, ibid
117 Varoufakis Yanis, Crisis Vocabulary ibid p.37 and The Global Minotaur . Greek edition, Livani Publications, Athens 2012
118 Stiglitz E. Joseph, ibid
119 Soros George, ibid
120 Hardouvelis Gikas, ibid

bankruptcies that the Federal Deposit Insurance Corporation (FDIC) raises to 140 in 2009 and to 157 in 2010. [121]

The same panic climate prevails at the same time in Europe. In particular, in Britain, on 22 February 2007, the British HSBC sacked the head of mortgage department and reported losses of tens of billions from these loans. At the beginning of September 2007, depositors are running to withdraw their deposits from Bank Northern Rock, which had granted many mortgages and the government nationalizes the bank. The bank's obligations are added to the national debt, with the result that the United Kingdom exceeds the debt limits provided for in the Maastricht Treaty.[122] On 8 October 2008, the British government is partially nationalizing the largest banks in the country and provides a rescue package. In Germany on 5 October 2008, the German government provides rescue assistance to Hypo Real Estate and announces that it guarantees bank deposits and a week later announces a rescue package for the country's banks. One month later it decides to support the real economy with a package of measures of several billion euro.[123] The German Finance Minister Peer Steinbrueck admits that Europe "was on the brink of the abyss".[124] In Ireland, in September 2008 it is announced that the government guarantees all deposits in Irish banks, while in the first months of 2009 the Anglo Irish Bank, the third largest bank of the country, is nationalized.[125] At the level of EU institutions on 15-16 October 2008 at the summit of the member states of the European Union, measures for the salvation of the Eurozone countries are approved.

The financial crisis passed to the real US economy due to rising unemployment and declining activity in many sectors, particularly in the real estate market. It was transmitted to all the countries of the planet. It became a global crisis and the largest after 1929.[126] The decoupling theory was disproved.[127] The 2008 Crisis was a fact!!!

[121] Kotios Aggelos - Pavlidis Georg. , ibid
[122] Soros George, ibid
[123] Kotios Aggelos - Pavlidis Georg. , ibid
[124] Roubini Nouriel - Mihm Stephen, Crisis Economics. A crash course in the future of finance. For Greek language Pataki Publications, 2010
[125] Hardouvelis Gikas, ibid
[126] Varoufakis Yanis, The Economic Crisis in Greece and Europe in 2011, Labor Institute, General Confederation of Greek Workers, Study 17
[127] Roubini Nouriel - Mihm Stephen, ibid p.207 and Hardouvelis Gikas ibid

2.3.4 The causes of the 2008 Crisis

The 2008 Crisis started in the US in September 2008 as a banking crisis,[128] and eventually turned into a more general crisis of the American economy and spread around the world.[129]

Looking back at the climate that prevailed until the outbreak of the Crash, as summarized above, we can easily identify the causes of the recent Crisis. Economists around the world were not indifferent to looking for the main causes of this Crisis. Regardless of their individual differences, as to the extent to which each of the causes contributed to the Crisis, all the researchers conclude that the 2008 Crisis was not a simple event in the financial markets. It was a human creation caused by Wall Street itself, under conditions that have been carefully formulated many years ago. On the contrary, the US financial system defenders insist that this is a "simple event". In fact, they are building a first line of defense in their attempt to put the blame for the Crisis on others and they claim that the state has forced them to do so, by encouraging housing and borrowing the poor.[130]

The dominant and most common view of the causes of the Crisis focuses on the US housing market with subprime mortgages and the inability of many borrowers to repay them. This weakness was manifested because the floating interest rate increased (which at first was attractive, and thus the repayment installment) and because at the same time the value of the real estate declined (due to lack of buyers, as mentioned above), while the borrowers' income either remained stable or decreased,[131] but it certainly did not increase.

Of course, the rise in US property prices that lasted until mid-2006 (on which the construction of the "bubble" was based), is not the only factor that eventually caused the Crisis. At the same period, the house prices increased much more in Spain, Ireland, Britain, but the Crisis did not start from these countries, because there were no other additional factors as in the case of the United States. Thus, many other factors influenced the emergence of the Crisis, multiplying[132] each other and created the ideal conditions for the outbreak of the Crash and the Crisis afterwards.

These factors include the deregulation of the US mortgage market, the lack of bank control by the supervisory authority for the process and terms of borrowing, the securitization of

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[128] Calomiris W. Charles, Causes of the Crisis in the subprime mortgage market. In : From the International Crisis to the Crisis of the Eurozone and Greece. What the future hold for us. Livani Publications, Athens 2011

[129] Kotios Aggelos - Pavlidis Georg. , ibid

[130] Stiglitz E. Joseph, ibid

[131] In the last 40 years, the real wages in the US had fallen. Vaitsos Kostis, Greek and Global Economic Crisis. Developmental dimensions in an international context of interdependence. In: Economic Crisis and Greece, Gutenberg Publications, 2011

[132] Hardouvelis Gikas, ibid

subprime mortgages and their sale on world markets, as well as the non-objective evaluation of derivatives by credit rating agencies. There is also the view[133] that the excessively loose monetary policy prevailing in the US and internationally contributed to the Crisis. This policy, which kept deposit rates at abnormally low levels, guided (according to the supportive view) investors in the real estate market, which they considered most lucrative. In this view there is a contradiction, that low deposit rates resulted from the increase in global savings and was not a conscious choice by the US authorities.

Another view argues, that the demand for US mortgages by foreigners contributed to the housing "bubble" and this is part of the causes of the Crisis. Stiglitz is against this point of view, who points out that the Americans should be grateful to foreign borrowers, because if they did not buy so many US mortgages, the US financial system would have collapsed earlier and with more painful consequences.[134] Stiglitz, adds another factor that contributed to the 2008 Crisis. He claims that the 2008 Crisis is the inevitable consequence of all political orientations that had shaped specific interests and had been implemented in the years preceding the Crisis.[135] These political orientations encouraged the granting of subprime mortgages.[136] He supports and analyses in his work "Freefall" (Greek edition "The Triumph of Greed"), that the erroneous dogmatic perceptions that prevailed for over a quarter of a century, led to the 2008 Crisis. According to these misconceptions, the free and unbundled markets operate effectively and if they make mistakes, they correct them themselves and the state is a mere observer and intervenes only when the markets fail. Also, Stiglitz attributes a share of the causes of the Crisis to bankers' greed. (Is this why he gave the title in his work "The Triumph of Greed"?). He combines it with the complex process of mortgage securitization, which was not known by the trapped borrowers, as they did not know its painful consequences. Finally, the causes of the Crisis also include the behavior of the regulatory authority and the credit rating agencies. A behavior in favor of the interests of banks, without at all ensuring unsuspecting borrowers from floating interest rates and investors from overvalued ratings of securitized loans.

Charles Calomiris, professor at Columbia University in New York, is differentiated from most analysts about the causes of the Crisis. He asserts, as almost everyone else, that the 2008 global Crisis is primarily a banking crisis and that it is mainly due to the "bubble" of the US real estate, which came from the creation of subprime mortgages, which the banks

133 Kotios Aggelos - Pavlidis Georg. , ibid
134 Stiglitz E. Joseph, ibid
135 Stiglitz E. Joseph, ibid
136 Calomiris Charles, ibid

devised. He does not accept, however, that low interest rates are the deepest cause of the Crisis, but that they only affected the moment when the Crisis occurred. He also does not accept the securitization of mortgages and the deregulation as the cause of the Crisis. About deregulation, he even claims that not only did it not contribute to the Crisis, but also it helped the banks deal with the problems that the Crisis itself created. He recognizes the lack of supervision of banks as the cause of the Crisis.[137]

Jim O' Neill, Chairman of Goldman Sachs Asset Management, accepts as does Calomiris, that the direct cause of the Crisis is the fall in property prices purchased with subprime mortgages. He argues, however, that the banking crisis was not global, but the economic crisis became global. Differentiated from Calomiris, he argues that the main cause of the Crisis was the "excessive prosperity" that prevailed in the private sector before its occurrence, which had led many to believe that the crises phenomenon will not occur again.[138]

Finally, another view put forward by Yanis Varoufakis, argues that what happened in the real estate and financial sector (as briefly mentioned above) are closely linked to the 2008 Crisis, but are the main symptoms of the Crisis and not its main causes. The underlying causes are identified in the early 1970s and linked to the abolition of Bretton Woods system and the mechanism by which the US absorbed the trade surpluses of Europe and Asia.[139]

2.3.5 The effects of the Crisis of 2008

The 2008 Crisis, as described above, started from a banking crisis, turned into a financial and ended up in a general crisis of the economy. What distinguishes it from the many previous ones, over the last thirty years, is that this Crisis was labeled "Made in the USA",[140] as it had its starting point exclusively in the US. Unlikely all previous crises (such as when the dot com "bubble" burst in 2000, the Japanese crisis in 1991, the stock market Crisis on 19 October 1987 when the world stock market recorded the biggest daily losses in its history, etc.), the recent Crisis had no limits. We would say that previous crises were "local" in character. The 2008 Crisis was not limited to a geographical region or a certain social class or a particular sector of the economy.[141] It influenced the whole planet and won the title of the global crisis. This was a necessary consequence to affect it, as about a quarter of US

[137] Calomiris Charles, ibid
[138] Jim O' Neill, ibid
[139] Varoufakis Yanis, The Economic Crisis in Greece and Europe in 2011. More about the causes of the 2008 Crisis in : Yanis Varoufakis, The Global Minotaur.
[140] Stiglitz E. Joseph, ibid
[141] Varoufakis Yanis, The Global Minotaur (2011), ibid

mortgages had ended up due to securitization, abroad.[142] Its consequences were disastrous.

The day after the Crisis, the whole of mankind was in panic. Capitalism once again touched the limit of its collapse. But again it was saved, thanks to the rescue programs implemented by those states that until the Crisis were saying “the state funds can not withstand even the minimum increase in social benefits to their citizens”.[143] Worldwide, there has been a decline in the liquidity of the economy, a decline in investments, a decline in the value of business and privet assets, a fall in stock prices and an increase in unemployment.

At the end of 2008, after the collapse of Lehman Brothers (the 2008 Crisis did not start from Lehman, although its collapse shocked the entire world [144]),the international trade collapsed almost immediately. The lack of credit and the decline in the consumer confidence led to its collapse and because the economies are internationalized, all countries affected irrespective of the economic policy they had pursued in the past. Worldwide, for the first time since the 1929 Crisis, the growth rate of the economy was negative. (-1.9%).[145]

As a consequence of the Crisis, banks were tightening credit criteria and curtailing lending. However the limitation of credit necessarily led to shrinking business activities, reducing staff, rising unemployment and lowering incomes. It was such a degree that the Crisis affected the banks, whose bankruptcies continued after the outbreak of the Crisis. In 2009, Bank United, United Commercial Bank, Corus Bank, Colonial Bancgroup etc. were bankrupt. Altogether in 2009 the financial institutions that closed were 140 and in 2010 were 157. [146]

In the USA, at the same time as the economic tragedy, a social tragedy prevailed. Millions of poor Americans whose homes were auctioned, were experiencing dramatic moments, as most of them were affected at the same time by unemployment. At the end of 2008, the US automobile industry was virtually bankrupt, due to a lack of credit and a fall in consumption.[147] This bankruptcy led to an increase in unemployment also in the automobile sector.

In Europe the consequences of the Crisis also emerged. This was expected to happen as a result of the collapse of the banking system, as many European countries until the outbreak of the Crisis, guaranteed not only the deposits but also the debt of the banks!!! [148] Thus, in just

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[142] Stiglitz E. Joseph, ibid
[143] Varoufakis Yanis, Crisis Vocabulary, ibid
[144] Varoufakis Yanis, The Economic Crisis in Greece and Europe in 2011 , ibid
[145] Hardouvelis Gikas, ibid
[146] Kotios Aggelos - Pavlidis Georg. , ibid
[147] Hardouvelis Gikas, such as footnote 145
[148] Roubini Nouriel - Mihm Stephen, ibid

one year (2008-2009), Germany's GDP fell by 5%, France by 2.5%, Ireland by 7.1%. [149] In particular, in Britain is the first crisis in its recent history from which the wealthy South and the poorest North were affected to the same degree.[150]

The leaders of the countries in the US and in Europe, at the same time decided drastic government intervention to rescue their banks, paving the way for the socialization of banks' failures. These programs to rescue banks and businesses or to stimulate the market, that have been internationally implemented after the Crisis, needed huge sums that were provided by government budgets. The European Central Bank was forced to spend 95 billion euro to financial markets to prevent credit crunch, when BNP Paribas, a French bank faced with a liquidity problem. It then gave another 109 billion euro to boost the markets.[151] Overall the European governments gave $5.3 trillion to rescue their banks, while the US initially provided $787 billion to support their own banks. In the US in particular, the state budget was charged only for rescuing Goldman Sachs and J.P Morgan - Chase with $20 billion. This astronomical amount of trillions of dollars eventually burdened the taxpayers of each country and soared the public debt of these countries. In Italy for example, for this reason, public debt reached 119% of GDP, in France at 81.7% of GDP, in Germany at 83.2% of GDP. Ultimately, while these huge sums burdened the taxpayers of the countries, the rescued banks announced profits.[152]

2.3.6 Was the Crisis predictable?

Economics and analysts, as well as the supervisors, were surprised by the outbreak and magnitude of the recent Crisis.[153] The excessive optimism that prevailed internationally due to the global economic growth up to the beginning of 2007, as we mentioned above, led some analysts to believe that the crises are over. Those who adopted this view, certainly did not predict the Crisis. To them belongs Robert Lucas and Ben Bernanke. We can safely include the chairman of FED Alan Greenspan, as he was not worried about the market efficiency. However the Crisis was predictable and even many years earlier.[154] Indeed the Crisis was

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[149] Varoufakis Yanis, The Economic Crisis in Greece and Europe in 2011, ibid

[150] Varoufakis Yanis, The Global Minotaur (Greek edition 2012), ibid

[151] Varoufakis Yanis, The Global Minotaur (2011), ibid , where a detailed reference to the banks and the sums distributed for their rescue.

[152] Marias Notis, The Memorandum of Bankruptcy and the Other Road. "Experiment with Greece", Livani Publications, Athens 2011

[153] Hardouvelis Gikas, ibid

[154] Soros George, ibid

eventually predicted,[155] but by a few, because it was not due to an exclusive factor that brought this effect, but was due to a combination of more factors.[156] Keynesian economists, who claimed that the market were not self-repairing, had predicted that the US economy would collapse and that it would have global repercussions. To them include[157] the economist Joseph Stiglitz, the economist professor at Princeton University and columnist in New York Times Paul Krugman, the chief economist at Morgan Stanley Stephen S. Roach, the great investor George Soros and the economist professor at New York University Nouriel Roubini.[158] All of them had highlighted the imminent danger and had warned for the evolution of the global economy. Most were worried about the housing “bubble”. Indeed N. Roubini, since 2006, had predicted the Crisis,[159] while Charles Kindleberger, economist and “bubble expert” has warned about the housing “bubble” [160] since 2002. In Greece, Yanis Varoufakis, as he mentions in his book “The Global Minotaur”, had predicted at an event in December 2006 the imminent Crisis in the US mortgage market, that would negatively affect Wall Street and cause a European and Greek Crisis.[161]

In contrast to Keynesians, were those who actively contributed to the creation of the housing “bubble”.They remained faithful to the view that markets are capable of being repaired. They even believed it when the Crisis broke out. However they were forced to finally admit the mistake of their ideology. Alan Greenspan admitted this mistake, confessing he had misinterpreted capitalism. In particular, on 23 October 2008, he submitted to the Congressional Committee for Oversight and Government Reform for the 2008 Crash and admitted that “I was wrong in my assessment that the private interest of the agencies, in particular banks and others, was such that would lead in the best possible way to the protection of the shareholders and the share value of their companies…”. [162]

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155 Stiglitz E. Joseph, ibid
156 Hardouvelis Gikas, such as footnote 153
157 Stiglitz E. Joseph, ibid
158 Roubini had pointed out through his company, RGE, the dangers to economy before the Crisis. The result was to develop his company and become himself famous during the Crisis. He continued to be pessimistic after the Crisis, and so, because of the Greek crisis, he became known in Greece. (The information was obtained from: Hardouvelis Gikas, ibid).
159 Marias Notis, ibid,
160 Soros George, ibid
161 Varoufakis Yanis, The Global Minotaur (Greek edition 2012), ibid.
162 Varoufakis Yanis, The Global Minotaur (2011) , ibid and Crisis Vocabulary ibid where part of Greenspan’s dialogue with Senate Committee Chairman Henry Waxman, as well as in : Hardouvelis Gikas ibid, where the above part of the dialogue was taken.

CHAPTER 3 : THE CRISIS OF 2008 IN THE EUROZONE

3.1 The Chronicle of the establishment of the Eurozone

The tribulations and disasters caused by World War II quickly created the right political climate for the unification of Europe. After the end of the War, the leaders of most European countries saw the unification of Europe as the only solution to avoid future conflicts between them. The start was given by Winston Churchill [163] in his speech in 1946 at the University of Zurich, proposing "to rebuild the European family…and to provide it with a structure within which a kind of United States of Europe can live in peace, security and freedom".[164]

Thus, the unification of European states at the economic and political level began in 1950 with the sole purpose of securing peace. "There will be no peace for Europe, if states continue to rely on national sovereignty… The states of Europe should choose cooperation and the federal form…" said the architect of European construction Robert Schuman, a French politician, eminent lawyer and Minister of Foreign Affairs from 1948-1950. [165]

Initially, on 5 May 1949, the Treaty of London established the Council of Europe as the central core[166] of this idea with the aim of "achieving closer unity among its members, in order to safeguard and promote common ideals and principles and to promote their economic progress".[167] However with the establishment of the Council by ten states, there was neither a union nor a federation, as the leaders of pan-European movements envisioned, but a kind of "club" of countries that respected democracy and pluralism.[168]

A year later Jean Monnet [169] was inspired and devised a plan for the rapprochement of European states and the creation of the future "United States of Europe".[170] It was a plan for the unified management of european carbon and steel stocks, which he eventually proposed to Robert Schuman, and later became known as "Schuman Plan". The aim of the plan was to strengthen the economic cooperation of the industrialized countries of Europe, with the view

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[163] Prime Minister of the United Kingdom from 1940-45 and from 1951-55. British politician, military, journalist and writer.

[164] Mousis Nikos, European Union. Law. Economy Policy, Papazisis Publications, 13th edition

[165] http://www.europedirect.acci.gr

[166] Heraklides Alexis, International Society. History, Law, Institutions, Armed Violence Management, Sideris Publications 2005

[167] http://www.mfa.gr>exoteriki-politiki

[168] Berstein Serge, Milza Pierre, History of Europe. Breaking down and rebuilding the Europe 1919 to the present (translation from French by Mich. Kokolakis), For Greek language Alexandria Publications 1997, Volume 3

[169] French "Europeanist", economic and political adviser who since 1946 has been leading the economic planning of France. (More on Berstein S. - Milza P. ibid)

[170] Berstein S. - Milza P. ibid

that their trade would minimize the potential for conflict. The Schuman Plan was published on 9 May 1950, a day which is now indicated in the European Union birth certificate.[171] Schuman's proposal was welcomed by Germany, Belgium, Netherlands, Luxembourg and Italy. These six founding countries signed the Treaty of Paris on 18 April 1951, thus establishing the European Coal and Steel Community (ECSC). Robert Schuman believed that the ECSC would be "the first stage of the European Federation".[172]

The success of the ECSC led the six co-founding countries to expand their cooperation and the signing of the Treaty of Rome on 25 March 1957, establishing the European Economic Community (EEC) or Common Market and the European Atomic Energy Community (EAEC).

The Treaty of Merger of these three Communities (ECSC, EEC, EAEC) signed on 8 April 1965 (valid from 1 July 1967), resulted in the enlargement of the European Community with the participation of other states. In 1973 the membership became nine with the accession of Britain, Denmark and Ireland. In 1981 there were ten with the accession of Greece, in 1986 twelve with the accession of Spain and Portugal. On 7 February 1992, these twelve countries sign the Treaty of Maastricht (in the homonymous city of the Netherlands) by which the European Community (EC) is renamed to European Union (EU). After ratification by the parliaments of these countries, it entered into force on 1 November 1993. This Treaty laid the foundations for a single currency- the euro – and at the same time established the European Central Bank (ECB). It was amended and supplemented by the Treaty of Amsterdam on 2 November 1997.[173]

In 1995 the membership became fifteen, when Austria, Finland and Sweden joined. In 2004 they reached 25 with the accession of three Baltic States, the Czech Republic, Slovakia, Hungary, Poland, Slovenia, Malta and the Republic of Cyprus. Today they are 28, following the accession of Bulgaria and Romania in 2007 and Croatia in 2013. [174]

In the process of integrating EU economies, the Economic Monetary Union (EMU) was established in 1992. All member states of the European Union (EU) participate in EMU and formulate their economic policy in support of the EU's economic objectives. However, some member states, nineteen, have taken a step forward and replaced their national currency with the single, the euro. These 19 countries constitute the euro area or the Eurozone. These are

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[171] http://europedirect.acci.gr

[172] Freymond Jacques, Western Europe since the War. N.York 1964, p.80. On the position of French General Charles de Gaulle on the establishment of the ECSC which he considered an American creation that would serve the US interests in the future, see: Varoufakis Yianis, The Global Minotaur

[173] More about the European Treaties and their arrangements at Mousis Nikos.

[174] http://www.europa.eu

Austria, Belgium, France, Germany, Greece, Estonia, Ireland, Spain, Italy, the Netherlands, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Portugal, Slovakia, Slovenia and Finland.[175]

The euro[176] was first introduced in 1999 as “bookkeeping” money and for the first three years it was an “invisible” currency, used only for bookkeeping and electronic payments. In this first euro area, 11 out of the then 15 member states participated. Greece joined in 2001. In physical form (coins and banknotes) the euro was launched on 1 January 2002 in twelve EU countries.[177]

175 http://www.europa.eu

176 Mousis Nikos ibid about the euro and its management

177 http://www.europa.eu>info.euro-area

3.2 The Crisis in the Eurozone

3.2.1 General view of the Crisis in the Eurozone and in Europe in general

With the outbreak of the global financial Crisis in 2007-2008, the international environment changed. The internationalization of the American crisis hit almost all states. Starting from the US as a mortgage crisis, as we discussed in the previous chapter, the 2008 Crisis spread to Europe as well. The transmission to Europe has been inevitable because of the global nature of the crisis. Despite the Europeans' claims that the 2008 Crisis was transient and would not affect Europe and that European banks were resilient to the crisis, it soon became clear that exactly the opposite was true.[178]

In the Eurozone, the crisis was a necessary consequence of the huge global financial turmoil that erupted in 2007. Here (in the Eurozone) it manifested itself and "lived" with the features of real GDP decline and for a prolonged period (case of backwardness).[179] Thus, within a few months of the end of 2009, the certainty that fastening in the European Union's chariot was a safe harbor for protection against economic and financial shocks disappeared.

The crisis in Europe emerged when its banks' liquidity problems arose, because most of the US ¼ mortgage loans that had ended up being securitized abroad, [180] were in the portfolio of European banks. Banks in countries with closer ties to the US banking system have been hit hardest (Ireland, Germany, United Kingdom). Thus, the Crisis first hit France in August 2007. The French bank BNP Paribas, on 9 August 2007, became the first major bank to recognize the impact of its exposure to US subprime loan markets.[181] It suspended the operation of three of its € 2 billion worth of investment capital, citing the problems of these loans. In particular, it claimed that it could not assess the value of these assets, because the mortgage market had ceased to exist.[182]

The following month, September 2007, the British Northern Rock Bank requested and received emergency funding from the Bank of England because the interbank market from which it was financed was discontinued. In October of that year, Swiss UBS announced $ 3.4 billion in losses from its investment in subprime products and its management resigned.

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[178] Labor Institute – General Confederation of Greek Workers. The Economic Crisis in Greece and in Europe in 2011. Study 17

[179] About the distinction between backwardness and recession in the book: Kotios Aggelos – Pavlidis Georg. , ibid and in Mourmouras I. , The Double Bank Debt Crisis, Volume A', Germanos Publications 2015.

[180] Stiglitz E. Joseph, ibid

[181] European Commission Press Release 9-8-2017 on the 10th anniversary of the crisis.

[182] Soros George, ibid

At the end of September of the following year (2008), three major Icelandic banks, Kaupthing, Glitnir and Landsbanki went bankrupt. It should be noted that these Icelandic banks had offshore subsidiaries and had attracted high interest rate deposits from competing domestic banks in the Netherlands, the United Kingdom and Scandinavia. The crisis continues with the nationalization of the Royal Bank of Scotland in the United Kingdom, in the same month with 60% falling into the state, as did 40% of HBOS.[183]

The financial crisis has also prompted a recession in the real Eurozone economy. The recession began in the second quarter of 2008 and was marked by a decline in demand, a decline in investment and foreign trade, as well as a decline in the value of business and household assets. In the same year, a significant economic slowdown occurred in all eurozone countries (except Malta). The following year, 2009, the crisis worsened. Then, the recession affected all EU member states which showed negative indicators. Outward looking countries, such as Estonia, Ireland, Germany, Italy and Austria, have been hit hardest by the fall in the international trade.[184]

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[183] Chardouvelis Gikas, ibid and Mourmouras I. The Double Debt-Banking Crisis, Volume A', Germanos Publications, 2th Edition 2015

[184] Kotios Agg. – Pavlidis Geor. ibid

The following Table 4, which shows the evolution of GDP in the euro area between 2002 and 2009 is revealing.

TABLE 4 : GDP GROWTH IN THE EUROZONE (% year-on-year change)						
	2002-2006 Average	2007	2008	2009	2010	2011 Forecast
Belgium	2.0	2.9	1.0	-2.8	2.2	2.41
Germany	1.0	2.7	1.0	-4.7	3.6	2.6
Estonia	8.5	6.9	-5.1	-13.9	3.1	4.9
Ireland	5.4	5.6	-3.5	-7.6	-1.0	0.6
Greece	4.2	4.3	1.0	-2.0	-4.5	-3.5
Spain	3.3	3.6	0.9	-3.7	-0.1	0.8
France	1.7	2.4	0.2	-2.6	1.6	1.8
Italy	0.9	1.5	-1.3	-5.2	1.3	1.0
Cyprus	3.3	5.1	3.6	-1.7	1.0	1.5
Luxembourg	4.1	6.6	1.4	-3.6	3.5	3.4
Malta	2.0	4.4	5.3	-3.4	3.7	2.0
Netherlands	1.6	3.9	1.9	-3.9	1.8	1.9
Austria	2.2	3.7	2.2	-3.9	2.0	2.4
Portugal	0.7	2.4	0.0	-2.5	1.3	-2.2
Slovenian	4.3	6.9	3.7	-8.1	1.2	1.9
Slovakia	5.9	10.5	5.8	-4.8	4.0	3.5
Finland	3.0	5.3	0.9	-8.2	3.1	3.7
Eurozone	1.7	2.9	0.4	-4.1	1.8	1.6

Source : European Economy Forecast Spring 2011
(It was taken from Kotios Agg. – Pavlidis Geor., International Financial Crises)

All the Eurozone countries, in their efforts to cope with the crisis, necessarily increased their fiscal deficits. The result was an increase in their public debt. This in turn triggered a new crisis throughout the Eurozone. The new crisis was the debt crisis. The highest deficits, of course, were recorded by the countries of the Eurozone (Greece, Ireland, Spain, Portugal), as shown in Table 5.

TABLE 5: DEFICIT - SURPLUS DEVELOPMENT OF THE GENERAL GOVERNMENT BUDGET (% OF GDP)

	2002-2006 Average	2007	2008	2009	2010	2011 Forecast
Belgium	-0.6	-0.3	-1.3	-5.9	-4.1	-3.7
Germany	-3.3	0.3	0.1	-3.0	-3.3	-2.0
Estonia	1.5	2.5	-2.8	-1.7	0.1	-0.6
Ireland	1.2	0.1	-7.3	-14.3	-32.4	-10.5
Greece	-5.8	-6.4	-9.8	-15.4	-10.5	-9.5
Spain	0.4	1.9	-4.2	-11.1	-9.2	-6.3
France	-3.2	-2.7	-3.3	-7.5	-7.0	-5.8
Italy	-3.5	-1.5	-2.7	-5.4	-4.6	-4.0
Cyprus	-3.7	3.4	0.9	-6.0	-5.3	-5.1
Luxembourg	0.6	3.7	3.0	-0.9	-1.7	-1.0
Malta	-5.2	-2.4	4.5	-3.7	-3.6	-3.0
Netherlands	-1.3	0.2	0.6	-5.5	-5.4	-3.7
Austria	-2.0	0.9	-0.9	-4.1	-4.6	-3.7
Portugal	-3.9	-3.1	-3.5	-10.1	-9.1	-5.9
Slovenian	-2.0	-0.1	-1.8	-6.0	-5.6	-5.8
Slovakia	-3.9	-1.8	-2.1	-8.0	-7.9	-5.1
Finland	3.1	5.2	4.2	-2.6	-2.5	-1.0
Eurozone	-2.5	-0.7	-2.0	-6.3	-6.0	-4.3

Source: European Economy Forecast Spring 2011. By Kotios Agg – Pavlidis ibid

Concerning primary deficits (public expenditure, excluding interest) in the euro area countries a significant increase was also observed due to the Crisis, which contributed to the increase in public debt.

Table 6 illustrates the changes in the primary deficit 2002- 2011

TABLE 6: PRIMARY DEFICIT – SURPLUS OF THE GENERAL GOVERNMENT BUDGET (% OF GDP)

	2002-2006 Average	2007	2008	2009	2010	2011 Forecast
Belgium	4.1	3.5	2.5	-2.3	-0.7	-0.4
Germany	-0.4	3.0	2.8	-0.4	-0.9	0.4
Estonia	1.7	2.7	-2.6	-1.4	0.3	-0.4
Ireland	2.4	1.1	-6.0	-12.2	-29.2	-6.8
Greece	-0.9	-2.0	-4.8	-10.3	-4.9	-2.8
Spain	2.5	3.5	-2.6	-9.4	-7.3	-4.1
France	-0.5	0.0	-0.4	-5.1	-4.5	-3.1
Italy	1.4	3.5	2.5	-0.7	-0.1	0.8
Cyprus	-0.4	6.4	3.7	-3.4	-3.1	-2.7
Luxembourg	0.8	3.9	3.3	-0.5	-1.3	-0.5
Malta	-1.6	1.0	-1.4	-0.6	-0.6	-0.0
Netherlands	1.1	2.4	2.8	-3.3	-3.4	-1.6
Austria	-0.9	1.9	1.7	-1.3	-2.0	-0.9
Portugal	-1.3	-0.2	-0.5	-7.2	-6.1	-1.7
Slovenian	-0.3	1.2	-0.7	-4.6	-4.0	-4.1
Slovakia	-1.6	-0.4	-0.8	-6.5	-6.6	-3.6
Finland	4.8	6.7	5.6	-1.5	-1.4	0.2
Eurozone	-0.6	2.3	1.0	-3.5	-3.2	-1.3

Source: European Economy Forecast Spring 2011. By Kotios Agg. – Pavlidis, ibid

Public debt in the Eurozone rose by an average of about 20 points in 2007-2010, from 66.2% to 85.4% of GDP in 2010. In Greece, Ireland, Italy and Portugal, growth was too large, as can be seen from Table 7.

TABLE 7 : GROSS DEBT OF THE GENERAL GOVERNMENT (% OF GDP)

	2006	2007	2008	2009	2010	2011 Forecast
Belgium	88.1	84.2	89.6	96.2	96.8	97.0
Germany	67.6	64.9	66.3	73.5	83.2	82.4
Estonia	4.4	3.7	4.6	7.2	6.6	6.1
Ireland	24.8	25.0	44.4	65.6	96.2	112.0
Greece	106.1	105.4	110.7	127.1	142.8	157.7
Spain	39,6	36.1	39.8	53.3	60.1	68.1
France	63.7	63.9	67.7	78.3	81.7	84.7
Italy	106.6	103.6	106.3	116.1	119.0	120.3
Cyprus	64.6	58.3	48.3	58.0	60.8	62.3
Luxembourg	6.7	6.7	13.6	14.6	18.4	17.2
Malta	64.2	62.0	61.5	67.6	68.0	68.0
Netherlands	47.4	45.3	58.2	60.8	62.7	63.9
Austria	62.1	60.7	63.8	69.6	72.3	73.8
Portugal	63.9	68.3	71.6	83.0	93.0	101.7
Slovenian	26.4	23.1	21.9	35.2	38.0	42.8
Slovakia	30.5	29.6	27.8	35.4	41.0	44.8
Finland	39.7	35.2	34.1	43.8	48.4	50.6
Eurozone	68.4	66.2	69.9	79.3	85.4	87.7

Source: European Economy Forecast Spring 2011. By Kotios Agg. – Pavlidis, ibid

3.2.2 Factors that have allowed the crisis to expand in the Eurozone and in Europe in general

In the previous chapter we mentioned the causes of the global Crisis. Since the crisis did not start from Europe, but moved to Europe, in this subsection we will present those factors that have contributed to the Crisis's transmission to the Eurozone and to Europe in general.

As with the onset of any crisis, its causes and effects are the subject of study and research by experts. Investigating the reasons that contributed to the transmission of the Crisis from the US to Europe, as we have described in previous chapters, the researcher will primarily identify them in the general rules of transmission of any crisis. Based on the rule that, the stronger (national or regional) economy that "generates" the crisis, the stronger the international transmission and its impact, one would conclude that it was inevitable to transfer the crisis to Europe, since the US had a strong economy. After all, how would the well-known saying about financial markets confirm that "When the US sneezes, the rest of the world colludes"? [185]

Beyond that it is necessary, from the outset, to emphasize what is commonly accepted: that the globalized environment in which the international economy operates, plays a crucial role in transmitting crises. In an environment where foreign trade, foreign direct investment, foreign public and private lending are constantly increasing, the crises transmission is impossible to enclose on the borders of a country, let alone of a continent. Modern technology of direct communication and information contributes to this, without undermining the "market psychology" factor. Of course, it is not excluded that all this network of crises transmission will bring to the global economic and geopolitical environment, serious issues of democracy, respect for human existence and dignity in the way the world economy operates. We will not, of course, deal with this last point, because it is outside the scope of this work.

In general, the key factors in transmitting the Crisis to the Eurozone are the ones that have contributed to its transmission worldwide, although J. Stiglitz, as well as N. Roubini identify in the case of Europe and endogenous factors, to which reference is made subsequently.

There are, therefore, many views that converge at least to the key factor driving the crisis in the Eurozone. This is the problematic structure of the Eurozone, which has also been dealt with extensively by researchers - analysts.

[185] Roubini Nouriel – Mihm Stephen, Crisis Economics, ibid

Particularly:

A. The Eurozone problematic structure – Key factor.

The Eurozone's architecture has been criticized and questioned by supporters of the principle that the currency reflects the power of the state that prints it. Based on this principle, they argue that the architecture of the Eurozone was designed with a fundamental weakness. Papadimitriou Dimitris[186] and Wray Randall[187] use the term "original sin" to emphasize the magnitude of the Eurozone's institutional deficit. They even take the view that "EMU was originally created to fail" (!!!), because member states are users of the euro and not issuers of the euro. This was due to the fact that they renounced their monetary independence when they adopted a "foreign" currency - the euro - and at the same time maintained responsibility for their national fiscal policy. This quirk, coupled with the absence of a federal budgetary authority that would act as a "lender of last resort", has led national governments to cover their borrowing needs from private capital markets and to convert them into subordinates. The same analysts argue that the Eurozone's introduction of the TARGET 2 payment system (Trans-European Automated Real-time Gross settlement Express Transfer system) [188] increased the inability of national governments to manage a potential financial volatility.

This is followed by the prophetic marking of Stephanie Kelton,[189] a decate before the Crisis, that the Eurozone member states would not be able to manage a financial crisis because of EMU architecture.[190]

B. Others factors driving the Crisis in Europe and the Eurozone

1. The macroeconomic imbalances created in the pre-crisis decades in the European Union were natural to highlight some countries whose economies had a surplus in the current account balance. These are the "surplus" countries of Germany and the Netherlands. The national interest of the surplus countries forced their surpluses to be "exploited" and become a source of funding for the rest of the countries. This was done by the flow of borrowing funds from the surplus countries of the center (Germany etc.) to the deficit countries in the south. The implementation of this plan was undertaken by the big banks of the center. By

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186 President at the Levy Institute of Economics, Professor of Economics at Bard College.

187 Papadimitriou Dim. – Wray Randall, "Euroland's original sin" Policy Note 8, Levy Economics Institute of Bard College 2012/8 at http://ideas.repec.org>pwr20

188 This system essentially allows bank depositors to transfer their deposits anywhere in the Eurozone banking system. But this institutional development weakens the region's banking system and increases its volatility. Downloaded from : http://www.ecb.europa.eu>html

189 American Economist, Professor of Public Policy and Economics at Stony Brook University, Head up to 2015 at the US Senate Budget Committee. Downloaded from http://www.levyinstitute.org

190 Bell A. Stephanie – Nell J. Edward, The State, the Market and the Euro : Chartalism versus Metallism in Theory of Money, Edward Elgar Publishing, Cheltenham 2003.

following the example of American banking policy, these banks implemented a low interest rate policy and thus encouraged public and private lending. At the same time, they created debt securities which then turned them into toxic derivatives and private money. All this mix of low interest rates, easy and widespread over-indebtedness (intended for consumer spending rather than investment!!!), public and private indebtedness, the “investment” in high-risk financial derivatives, was a “existential” bomb on the foundations of Europe. This “explosive mechanism”, which was in hypnosis until the outbreak of the Crisis, became a transmission lever for the crisis in Europe and the Eurozone. In addition, it was the main reason that the European South was hit harder by the Crisis than the rest of the Eurozone. (see 3.2.3 section)

2. The research of Gioka P. – Taclis E. ,[191] identified as key factors driving the Crisis both anthropogenic and factors rooted in the structure of the global economy. In anthropogenic factors they classify the behavior of the heads of the major financial institutions, which was expressed by the withdrawal of significant funds held by institutions in third countries. This withdrawal was decided due to the financial contraction of the financial institutions and the need to increase their capital base in view of the Crisis. Other factors include the sharp and steady decline in exports from developing countries. This decline is justified by the decline in demand, which followed the contraction of consumer income. It is even justified by psychological reasons, which have to do with the feeling of financial security demanded by consumers and markets in general. In addition, the collapse of the banking system in the US has led to a lack of confidence among banks to such an extent that they do not lend to one another. This has resulted in shrinking financial markets and, consequently, reduced capital flows. Research also identifies a factor related to the phenomenon of globalization. That is, the ease of moving human labor, services, goods and capital has had a major impact on the Crisis in the Eurozone. All of these have served as channels for either bringing prosperity or disrupting the economic balance in the Eurozone from the countries of the now globalized economy. Finally, inevitably, the same researchers include in factors the bank’s close and extensive dependence on various and destructive toxic products. These are products that the banks greedily created in order to increase their profits, but in the end they themselves drowned in their toxicity, as we have mentioned extensively in other chapter.

[191] Giokas P. – Tagli E. “The context of the global economic Crisis” in : Greek Political Economy 2000-2010. From EMU to the Support Mechanism. Edited by Spir. Roukanas – Pant. Sklias, Livanis Publications, Athens 2014

3. According to Kotios – Pavlidis [192] the main transmission factor of the Crisis in the Eurozone lies in the systemic convergence of states and their integration into the international economy. In the systemic convergence the external openness of economies, the interdependence of policies and markets, the movement of capital, the international trade, protectionist policies and foreign direct investment are classified. The same researchers "blame" to the same extent for the Crisis transmission the mechanisms of international Crisis transmission too. They acknowledge that the transmission was initially made through multinational credit institutions that were facing severe financial difficulties (falling profits, liquidation problems, etc.).

4. Another approach is taken by Daniel Gros[193] - Cinzia Alcidi[194] who point out two main mechanisms of transmission of the Crisis: the international interdependence of the financial markets and the sharp decline in demand. They even point out that the transfer of the Crisis became easier and faster at European level. They justify this because the interdependence of the financial markets and distribution networks is stronger between the EU member states, based on its operating rules.[195]

5. J. Stiglitz attributes the transmission of the Crisis in a global scale and therefore in Europe to many factors. First of all, in the deregulation philosophy that the US had successfully exported[196] to all countries and Europe of course. Without this export, many countries, including the Eurozone, may not have bought so many american subprime loans. To this export came and then added the export of the American recession. An equally important factor is the dynamic of the American economy, which could not leave the Eurozone unaffected. The Crisis would not have been transmitted to the Eurozone, according to the same researcher, if the close link between the global financial markets was missing. Defending the significant contribution of this factor (the close link), he points out that two of the three beneficiaries of the AIG [197] rescue operation organized by the US government were foreign banks. In addition, Stiglitz also identifies endogenous factors in the Eurozone that were also involved in transmitting the Crisis to its countries. Indeed, he characterizes these factors-problems of the Eurozone countries as "problems of their own cutting". Well about

[192] Kotios Agg. – Pavlidis Geor. , ibid
[193] German Economist, Director of the Center for European Policy Studies (CEPS).
[194] Italian CEPS Senior Associate (Their views in : Kotios – Pavlidis).
[195] Kotios Agg. – Pavlidis Geor. ibid
[196] According to Stiglitz, the United Kingdom had adopted, on Thatcher's own terms, the philosophy of deregulation. However, deregulation has again been affected, since the subsequent United Kingdom governments have used "soft regulation" as a countermeasure to attracting financial corporations as counterbalance to "American deregulation". (Information from J. Stiglitz, ibid).
[197] About its rescue operation in : Kathimerini 18-11-2009 "AIG rescue cost very expensive".

these factors, he claims that the United Kingdom allowed the creation of its own "bubble" in the real estate market, as did Spain. In these countries, although the regulatory framework for their banking industry was stricter than that of the United States, however their regulatory framework did not prevent the Crisis from moving to these countries, but instead helped it to cross the European border. Last but not least, he considers the political directions that the IMF and the US Treasury had imposed on the liberalization of financial markets in developing countries as an equally important factor in spreading the Crisis. These guidelines were based on the ideology of the free market, "which had troubled the United States".[198]

6. Nouriel Roubini and Stephen Mihm also find an endogenous factor in the transmission of the Crisis in the Eurozone. They argue that the contracting of subrime loans from the Banks in Romania, Hungary, Ukraine and the Baltic countries contributed to transmit the Crisis in Europe. They attribute this fact to the fact that the economies of "emerging Europe" (countries that were formerly under Soviet control) were extremely vulnerable. This was because they depended heavily on overpriced currencies to continue their prosperity.[199]

7. The Research Team of the Economic and Social Development Observatory of Labor Institute of the General Confederation of Greek Workers, concluded that two major factors contributed to the expansion of the Crisis in Europe : the problematic structure of the Eurozone (mentioned in previous paragraph) and the problematic mechanism of the European Financial Stability Fund (EFSF) in which Europe has sought to "cure" the symptoms of the Crisis due to the troubled Eurozone structure.[200]

As for the EFSF, Yanis Varoufakis [201] claims that the aim of the EFSF was to (a) "stop the evil in Greece" and (b) send the message to the markets that there is no reason to bet against the bonds of the member states (such as Ireland), as Europe was ready to help the states, with amounts exceeding 750 billion euro. But he is critical of the Fund's structure. In fact, because of the distorted structure of the Fund, he considers that it would be preferable to call it European Financial Instability Fund, not Stability. Explaining his assessment, he acknowledges that the idea behind the EFSF was "catastrophic". He identifies the disastrous mantle of the Fund in the fact that the EFSF would issue toxic Eurobonds to lend to states that fall into bankruptcy. He defends his position by further analyzing the toxic process of issuing Eurobonds. So, in summary (not to go beyond the scope of this paper), we list the

198 Stiglitz J. ibid
199 Roubini Nouriel – Mihm Stephen ibid
200 Varoufakis Yanis, Patokos Tasos, Tserkezis Elefth., Koutsopetros Chr. , The Economic Crisis in Greece and Europe in 2011, Labor Institute, Study 17
201 Varoufakis Yanis, Crisis Vocabulary, The financial terms that are undermining us, ibid

structural defect of EFSF. Thus, according to the procedure for issuing a Eurobond, each Eurozone country participating in its issuance (not of course the insolvent country) participates in the amount of the Eurobond's nominal value at a different rate, depending on its GDP. Each country also commits itself differently to the interest it will pay for its rate, as the rate of interest for each country varies according to its solvency in the eyes of the market. Therefore, the closer a country gets to the bankrupt club, the more interest it has to pay on the Fund's loans to the already bankrupt countries. In the event that a country goes bankrupt, the Eurobond issued by that country will lose part of its value as much as its share (the "slice"), plus the interest that that country had pledged to pay. At this stage, a borrowing state, by the guarantor of the EFSF's toxic bonds (after participating in the issuance of Eurobonds), is converted as soon as it goes into bankruptcy to borrow from the Fund itself. This whole structure of the EFSF Eurobond, introduces a negative dynamic into the foundations of the Eurozone, with the result that the EFSF, instead of preventing betting against the states on the verge of bankruptcy, provokes betting. For this simple reason, in his view, the spreads never dropped after the establishment of EFSF.[202]

3.2.3 The Crisis in the European South

The Eurozone crisis was not confined to individual Euroregion countries, but took on a wider European dimension.[203] In the new conditions created by the Crisis, the countries with the greatest structural imbalances suffered the most severe blow.[204]

Especially in the Eurozone, the countries of the periphery (of which Greece also belongs) were more (by the crisis) tested, as the Eurozone options were determined by the countries of the center. Various assessments have been made by analysts in their attempt to explain the reasons for this harsh test of the region. Almost all analysts accept the deeper structural distortions of the Eurozone as a key factor, which played a decisive role when the crisis shifted to the public sector.

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[202] More detailed analysis of the structure and operation of the EFSF with examples, in : Varoufakis Yanis, Crisis Vocabulary, ibid

[203] Mourmouras I. , The Double Debt- Banking Crisis, Volume A' ibid

[204] Bank of Greece. The chronicle of the Great Crisis. The Bank of Greece 2008-2013. Publication of a Research and Documentation Culture Center, April 2014. (Bank Governor's Foreword).

The Network of Research of Money and Finance (RMF), in which radical economists participate, as Lord Robert Skiddelsky [205] (among them Kostas Lapavitsas, George Lambrinides etc. who are mentioned in the next reference) , attempted a relevant analysis. According to this analysis, the inability of the peripheral countries to compete and the structural deficits in their current transactions constitute structural distortions.[206] Justifying the reason for the hardship of the region, this research argues that the countries of the region, being trapped in these structural weaknesses, were forced to choose, as the only suitable solution, the stimulation of domestic demand through borrowing. The result was high consumption, based on private lending (mainly in Greece and Portugal) and huge speculation in the real estate market (mainly in Spain and Ireland), again based on private lending. Thus, the region (Spain, Portugal and Greece), unable to compete with the center, recorded current account deficits, which are surpluses in the current account balance of the center and mainly in Germany. The image of temporary prosperity shown by the region, as is usually the case with such “bubbles”, quickly disappeared and the weakness of the region was revealed. Finally, the same analysis, making a general assessment of the European Union on the occasion of the Crisis, expresses the view that the European Crisis has shown that both the European Union and the Eurozone are mechanisms that produce instability, insecurity and inequality and do not promote the convergence of its member countries, that is why they are divided into a center and a region.

Another approach taken by Professor Notis Marias explains the reasons for the harsh test of the European South. According to him, the increase in debt in the European South is due to Germany’s economic model and how it operates within the Eurozone. Further highlighting the elements of the German model, he points out that German products have become competitive with those of the European South because of wage fixing in Germany. In addition to “the black funds” of German companies, the unions of workers who accepted wage cuts and increased part-time employment also contributed to this. As a consequence of stagnant wages in Germany, there has been a decline in domestic demand in this country, an increase in its exports and a decrease in exports from the rest of the Eurozone to Germany. Thus it is explained, according to this analysis that (a) the European North and especially Germany became the largest creditor of the European region by buying government bonds of

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[205] British financial historian, author of the award-winning biography of British economist John Maynard Keynes.

[206] Lapavitsas C. , Kaltenbrunner A, Lambrinides G, Lindo D, Meadway J, Michell J, Painceira P, Pires E, Powell J, Stenfors A, Teles N, The Eurozone between austerity and non-payment. Livanis Publications, 2010.

Greece, Spain, Portugal and Ireland, and (b) cheap lending led to Southern households and businesses into over-indebtedness.[207] Of course, this policy of Germany was also criticized by France and other member states of the Eurozone. Also, several economists, such as P. Krugman and G. Soros criticized it. The latter, in fact, called Germany "a key player in the European debt crisis" and N. Marias called it "China of Europe".[208] Finally, the analyst himself does not fail to attribute the fiscal problems of the European South to the neoliberal turn of the European Economic Community (EEC) after June 1984. [209]

3.2.4 Measures to deal with the crisis in the Eurozone – Establishment of the EFSF

The EU's response to the sovereign debt crisis in Europe has been slow to unfold. It occurred with about six months delay compared to US reflexes. However, the delayed reaction and reluctance of the EU in the immediate response to the Crisis, showed that "the country first, then the Europe" [210] was preferred. When the risk of a total collapse in financial transactions increased, because the crisis was now rooted in bond markets, then the EU reacted. So the leaders of Europe decided to prevent this collapse. Under pressure from the US and the IMF, they followed the inevitable path. An agreement was reached between the Eurozone countries to rescue the bankrupt Eurozone countries.[211] They set up the European Financial Stability Fund (EFSF). The Fund was established on 9 May 2010, a few days after the 1st Memorandum Loan Agreement between Greece and the IMF. It was established as a temporary crises resolution mechanism. The mission was to ensure financial stability in Europe by providing financial assistance to euro area countries, headquartered in Luxembourg. It had an initial capital of € 60 billion coming from the EU and the IMF budget and was able to borrow up to € 440 billion from financial markets and institutions. The Eurozone countries would borrow as a whole, issuing their own bonds, guaranteed by all Eurozone countries, depending on the size of their economy. The duration of its mission was

[207] Marias Notis, The Memorandum of Bankruptcy and the Other Way, ibid

[208] Krugman P. "European Crass Warfare", New York Times 15-11-2008 (Received, as well as characterizations by N. Marias ibid).

[209] For a detailed presentation of neoliberalism in : Giddens Anthony, The Third Press, for Greek language Polis Publications 1998.

[210] Kotios Agg. – Pavlidis Geor. ibid

[211] Labor Institute – General Confederation of Greek Workers, ibid

until 2012, because in 2013 it was replaced by a permanent corresponding mechanism, the European Stability Mechanism (ESM). Today, while it does not provide financial assistance, since its mission is solely performed by the ESM, it still works for repayments of loans from the countries borrowed (Ireland, Portugal, Greece).[212]

[212] http://www.europa.eu.efsf

CHAPTER 4 : EUROZONE COUNTRIES IN AUSTERITY PROGRAMS

4.1 Greece

4.1.1 The Greek economy before the Crisis

The crisis in the Eurozone, and above all the international crisis of 2007-2008, was, of course, a matter of historical importance for Greece, as perceptions and assumptions that had existed until then about the Eurozone and the European Union were shaken.[213] Therefore, before proceeding with the presentation of the Crisis in Greece, we considered it appropriate to briefly refer to the situation of the Greek economy before the Crisis. In fact, we divided the entire period 1993- 2007, into a period before joining the euro (1993-1999) and a period after joining the euro (2000-2007).

a. Before joining the euro (Period 1993-1999)

As we mentioned in a previous Chapter, Greece joined the European Community in 1981 and became its tenth member. Greece's attempt to meet the criteria[214] of the Maastricht Treaty, in order to be admitted to the Eurozone, marked a new course. This course was the course of its fiscal adjustment and lasted from 1993 to 1999. 1999 was the year in which based on its fiscal figures, Greece's entry into the Eurozone was judged. During the 1990s, the public deficit fell. In particular, in the period 1993-1999, the general government deficit decreased from 13.6% of GDP in 1993 to 3.2% of GDG in 1999 [215] (see below Figure 3). The reduction in the deficit resulted mainly from the increase in tax revenues, while the reduction in expenditures came, for the most part, from the reduction of payments for interest on public debt service. At the same time, the upward trend so far of public debt was reversed.[216] Specifically, the public debt was 110.1% of GDP in 1993. Then it stabilized for some time, and later it fell to 105.5% of GDP in 1998 and to 104.6% of GDP in 1999,

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[213] Lapavitsas K. , ibid

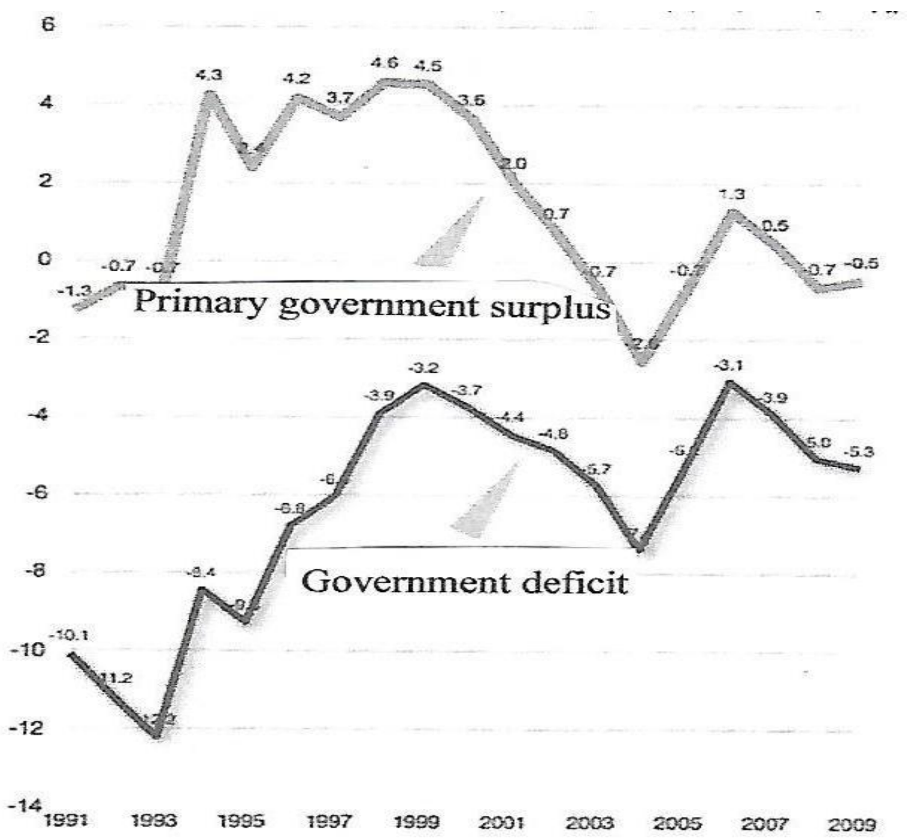
[214] The criteria were two and concerned the budget deficit and public debt which should not exceed 3% and 60% of GDP respectively and alternatively to show a constant downward trend towards these limits. More about the criteria, their control process and the definitions of the criteria in : Mousis Nikos ibid, as well as EU Regulations 3605/93 and 479/2009

[215] According to the Bank of Greece, initially the 1999 deficit amounted to 1.8% of GDP, but after the "fiscal census" of 2004 it was revised to 3.4% and finally with the recent revision of the data it was reduced to 3.1% of GDP (see Bank of Greece, ibid).

[216] Rapanos Vassilios – Kaplanoglou Georgia, Economic Crisis and Fiscal Policy : The case of Greece, in : From the international crisis to the crisis of the Eurozone and Greece : What does the future hold for us? , Livanis Publications 2011

meeting the second fiscal criterion of Maastricht Treaty.[217] In fact, the economic performance of the Greek economy at this time (1993-1999) was among the best in the EU countries.[218]

Figure 3 : Government deficit % of GDP (2009 European Commission forecast)



Source: Labor Institute, General Confederation of Greek Workers. The Greek economy and employment. Annual Report 2009

b. After joining the euro (Period 2000-2007)

This period is characterized (a) by an unprecedented- favorable environment for the Greek economy, (b) by rapid growth of the economy based on domestic demand and (c) by the country's (and other Eurozone countries) inclusion to the Excessive Deficit Procedure (EDP). We will then briefly refer to each of these features.

(a) Unprecedented environment

In June 2000, Greece became the 12th member of the EMU, after the European Council, in

[217] Bank of Greece ibid p. 12 (Debt figures have been revised several times. The most recent review raises debt to 94.5% of GDP in 1998 and to 100.3% in 1999. This label was drawn from Bank of Greece, ibid).

[218] Rapanos Vas. – Kaplanoglou Geor. ibid

its 2000/427 decision, ruled that the criteria of the Maastricht Treaty had been met,[219] while from 1 January 2001, it participated in the single currency in accounting form,[220] of course. With the adoption of the single currency, the Greek economy began to operate in a stabilizing macroeconomic environment. This environment was unprecedented for Greece, because it provided conditions for long-term economic growth. First and foremost, it ensured exchange rate stability, given that the Greek economy had a long history of currency crises and ineffective drachma devaluations. The new environment was also unprecedented, as inflation fell from double digits in 1999 to an average of 3.3% in 2001-2007 (see Table 8). Equally unprecedented were the interest rates on public loans, businesses and households, as they fell and formed at such low levels that they did not exist until the country joined the EMU. At the same time, the access of companies and consumers to low-interest bank loans became easier in terms of procedure, compared to any other previous period.[221]

(b) Rapid growth based on domestic demand

In the period 2001-2007, the Greek economy grew at an average annual rate of 4.2% which was reduced to 3.6% on average in the eight years 2001-2008, due to the recession observed in 2008. In particular, during the two years 2005-2006, the Greek economy maintains its GDP growth rates at high levels.[222] However this growth was based on growing domestic demand and private consumption at a rate of 4.2%, as much as GDP. Private consumption aided by rising incomes and ease of borrowing, along with investment in housing, has essentially been the driving force behind the country's rapid economic growth in 2001-2007. Inflation remained low for Greek data at this time and stood at an average of 3.3% per year. However, it was consistently higher than the Eurozone average, which resulted in a continuous loss of competitiveness of the Greek economy. The unemployment rate remained at non-worrying levels following a downward trend from 2004 onwards [223] (see Table 8). However, domestic production could not respond qualitatively and quantitatively to the development of domestic demand. This gap was filled by imports. Imports of goods and services increased during this period (2001-2007) at an average annual rate of 4.5%. These imports, however, resulted in an increase in the current account deficit over the same period, by 8.5%. In 2007, the current

219 Greece was admitted to the Eurozone with a budget deficit of more than 3% of GDP, which was the upper limit set by the Maastricht Treaty. More at : Rapanos Vas. – Kaplanoglou Geor. ibid

220 In "physical" form, as mentioned in a previous section, the single currency was issued simultaneously in twelve countries on 1 January 2002.

221 Bank of Greece. The Chronicle of the Great Crisis, ibid

222 Labor Institute- General Confederation of Greek Workers. The Greek economy and employment. Annual Report 2007

223 Labor Institute Study 17

account deficit exceeded 10% and in 2008 it reached 14.9% of GDP.[224] At the same time, exports of goods and services in 2007 were lower than in other countries in the European region. Specifically, it reached 23.8% of GDP, compared to 26.9% in Spain, 32.2% in Portugal and 28.9% in Italy. It is worth noting that a large part of the commercial activities concerned imported consumer goods and permanent consumer goods. It is characteristic that the imported passenger cars that were circulating for the first time in Greece, increased from 148,100 on average in the period 1990-1998, to 270,200 on average in the period 1999-2008.[225]

[224] Bank of Greece. The Chronicle of the Great Crisis, ibid
[225] Bank of Greece. The Chronicle of the Great Crisis, ibid

TABLE 8 : ANNUAL PERCENTAGE CHANGES IN MACROECONOMIC VARIABLES

2001-2008

YEAR	GDP	PRIVATE CONSUMPTION	PUBLIC CONSUMPTION	INFLATION	UNEMPLOYMENT (%WORKFORCE)
2001	4.2	5.0	0.7	3.4	10.8
2002	3.4	4.7	7.2	3.6	10.3
2003	5.9	3.3	-0.9	3.5	9.7
2004	4.4	3.8	3.5	2.9	10.5
2005	2.3	4.5	1.1	3.5	9.9
2006	5.5	4.4	3.1	3.2	8.9
2007	3.5	3,6	7,1	2,9	7,3
2008	-0.2	4,3	-2,6	4,2	7,6
Average Annual Rate :					
2001-2007	4.2	4.2	3.1	3.3	9.8
2001-2008	3.6	4.2	2.4	3.4	9.5

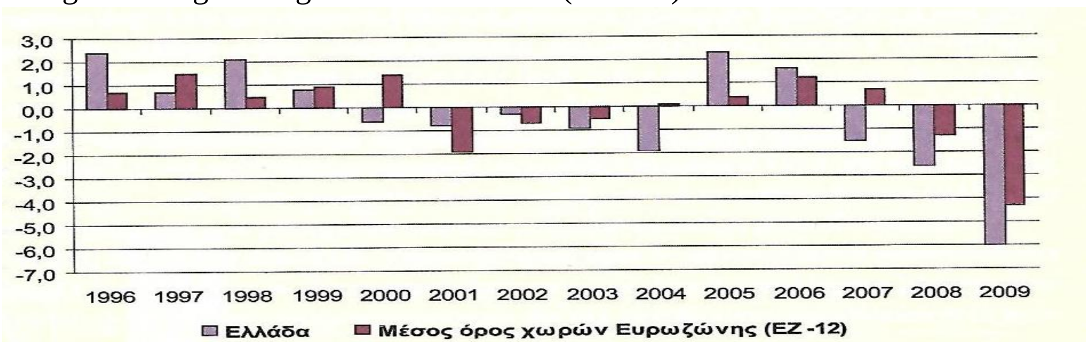
Source: Greek Statistical Authority and Bank of Greece. Received from Bank of Greece, ibid

(c) Inclusion of Excessive Deficit Procedure

The first decade of the 21st century began for Greece with auspicious omens. The euro created the objective conditions for the general consolidation of the Greek economy. However, Greece, while accepting and enjoying the benefits of the single currency of EMU, did not comply with the terms associated with its participation in it. These terms provided for the reduction of the budget deficit below 3% of GDP and the gradual reduction of public debt in a decade, below 60% of GDP.[226] Thus, after the introduction of the single currency, the euro, there was a relaxation of the effort for fiscal adjustment and for achieving the objectives provided for in the Stability and Growth Pact.[227] This phenomenon, of course, was observed not only in Greece, but in almost all countries that joined the Eurozone (see Figure 4).

Figure 4 : Changes in the general government balance (% GDP) 2000-2009

Annual change as % of GDP



Source : European Commission, General Government Data, DG ECFIN April 2010
Received from : Rapanos Vas. – Kaplanoglou Geor.

As a result of this relaxation, the deficits increased both in Greece and in other Eurozone countries in the period 2001-2003. The relaxation was reflected in Greece's expansionary fiscal policy until the end of 2004, despite the fact that it had been subject to the Excessive Deficit Procedure since May 2004. In particular, in the first period after joining the euro area, the general government deficit continued to grow until 2004 (7.4 of GDP, from 3.1% in 1999). Respectively, the primary surplus, which in 1999 amounted to 4.3% of GDP, began to decline gradually in 2000 and in 2003 it became a primary deficit of 0.8% of GDP. The steady increase in deficits until 2004 was due to both the constant excesses of the primary budget expenditures and the slowdown in revenues. According to a survey by the Observatory for Economic and Social Developments of Labor Institute of General Confederation of Greek Workers, the increase in deficits during the period 2000-2005 is due to a decrease in revenues and secondarily to an increase in expenditures.[228] Thus, this rise in the deficit above the reference value (3%) of the Maastricht Treaty led Greece in 2004 to join the Excessive Deficit Procedure (EDP).[229] Due to its membership in EDP and in order to get

[226] For this obligation of Greece, the President of ECB Jean-Claude Trichet, in an interview with the German magazine Focus, after the manifestation of the Greek crisis (19-1-2010) and when asked if France and Germany should help Greece, he commented "All countries owe to their Eurozone partners to behave responsibly and correct their imbalances." (Taken from the Bank of Greece, ibid).

[227] The Stability and Growth Pact (SGP) was adopted in 1997 to ensure fiscal discipline in the Eurozone. More in : Kotios Agg. – Papastamkos G. : "The Eurozone Crisis. System or policy crisis?" , NAFTEMPORIKI 11 July 2011.

[228] Labor Institute- General Confederation of Greek Workers, The Greek Economy and Employment, Annual Report 2008

[229] Bank of Greece ibid

rid of sanctions,[230] Greece has partially changed its fiscal policy. From 2005 to the third quarter of 2007, Greece's fiscal policy became slightly restrictive. This policy, known as the "mild adjustment" policy, paid off when the deficit was reduced to 2.6% of GDP in 2006 and the country managed to exit from the EDP in June 2007 by a decision of the Council of Finance Ministers on 6-6-2007. However, despite assurances, even from the European Commission, that the deficit will remain stable below 3% of GDP, in the same year (2007) it returned to levels above 3% (reached 5%), because again Greece's fiscal policy has returned with characteristics of expansionary policy (see Figure 3). The early elections of September 2007, as well as the devastating fires in the Peloponnese, contributed to this development (expansionary policy). Of course, since the beginning of 2007, the Agricultural Insurance pensions have increased by 21.7%, the Social Security Benefit for Pensioners has increased by 21.9% and the Unemployment benefit has increased by 18.1%. All this contributed to the rise in primary spending.[231]

It is noted that several Eurozone countries whose deficit exceeded the limit of 3% of GDP, also joined in the EDP in 2004. The same countries also, in order to get rid of the sanctions, took measures and succeeded in getting out of the Excessive Deficit Procedure.[232] It is noted that for all Eurozone countries budget deficits have been "derailed" again since 2008. This time it was due to the manifestation of the financial Crisis. It is noteworthy, however, that in 2009 only Luxembourg, Finland and Estonia had a deficit below 3% of GDP (see Table 5).[233]

It is worth noting that the big problem that arose for Greece during this period and which was to take enormous proportions in the coming years. This is a question of the reliability of the fiscal data, due to their repeated revisions.[234] The negative effects of this challenge were immediate and with long-term consequences. We limit ourselves to mentioning a) the unilateral review by Eurostat of all data for the three years 1997-1999, [235] which showed that Greece had not fulfilled in 1999 the criterion of the budget deficit (less than 3% of GDP), as required by the Maastricht Treaty (and other countries at the time had not met the criteria, for example Portugal in 1997) and b) the creation of an unwavering impression on Eurostat and the other EMU bodies that the 2004 "fiscal census" indicates a discontinuity of the state in

[230] Details of the provided sanctions in : Mousis N. ibid
[231] Bank of Greece, ibid
[232] The Excessive Deficit Procedure has been in motion many times since 2002, particularly with regard to Portugal, Germany, France, Greece, the United Kingdom . More in : Mousis N. ibid
[233] Rapanos Vas. – Kaplanoglou Geor. , ibid
[234] The great revision of the Greek data took place in 2004 and is known as the "fiscal census".
[235] Eurostat, Report by Eurostat on the Revision of the Greek Government Deficit and Debt Figures, 22 Novemb. 2004.

Greece.[236]

From the above, it follows that during the period since the country's accession in the euro until the Global Crisis (2000-2007), the fiscal policy of Greece did not take advantage of the favorable conditions created by its membership in EMU and rapid growth in order to address the chronic problems of deficits and debt.[237] This position is also expressed by the late professor Manolis Drettakis arguing that post-government governments instead of using community and national resources for the modernization and competitiveness of the economy, implemented the policy of consumption with loans and the policy of benefits. But this policy, brought the increase of deficits and the expansion of the public debt.[238] In 2007 the Center for Economic Reform (CER) found that Greece "wasted many opportunities offered by its EU membership for more than 20 years". Kazakos Panos [239] characterizes as a historical failure of Greece, what occurred after joining EMU, despite some progress in various areas.

4.1.2 The Greek economy during the Crisis

In this section we will refer to the situation of the Greek economy as it was formed before the beginning of the Global Crisis until its manifestation in Greece and as it subsequently evolved with the imposition of adjustment programs. The reference to the financial figures will be made per year, starting from 2007, (because the Global Crisis occurred in August 2007), in order to make the comparison between the years easier, especially between the pre-memorandum and post-memorandum years.

1. Pre-memorandum period

2007 Year

Unfavorable international developments were next to affect the Greek economy as well. The end of the Olympic Games was the starting point of the slowdown in the Greek economy. Thus, the growth rate of the Greek economy was affected negatively during the period 2007-2008. However, despite the negative impact on the Greek economy, the GDP growth rate was maintained at a satisfactory level compared to the performance of other European countries. During this period, it was observed rising inflation. Prices have risen

[236] Bank of Greece, ibid

[237] Bank of Greece, ibid

[238] Drettakis Manolis, " The fiscal dimensions of the crisis in Greece" in : Economic Crisis and Greece (Edited by Vlachou A, Theocharakis N, Mylonakis D.) , Athens 2011

[239] Kazakos Panos, "National Crises. Controlled Bankruptcies. Financial Crisis and Memoranda 2009-2019" , Kathimerini – Kathimerines Publications 2019

significantly in the last months of 2007 and in 2008. This emerged from the business response to the increase in oil and raw materials prices that appeared during this period. Businesses' aspiration to increase their revenue share sparked the expensiveness. During 2007, the level of productivity in Greece increased compared to 2000, by 12% more than in the European Union of 15, by 10% than in the 23 most developed countries and by 7% than in the 35 most developed countries in the world. The country's foreign trade had a negative contribution to GDP for the third consecutive year. The balance of goods and services in Greece, as a percentage GDP amounted to -14% and was the worst performance of the Greek economy between the 15 EU member states. The gross real wages in Greece increased by 3.9% in 2007. The average monthly earnings during this year (2007) in Greece amounted to 1,668 euro for full-time employees, compared to an average of € 2,366 in the EU member states of 15. The corresponding size in Portugal amounted to 1.207 euro. The percentage of part-time employment in Greece in 2007, amounted to 5.8% of employees, while the percentage of temporary employment amounted to 11.15% of employees. Greece with a percentage of 21% of the population living below the poverty line was included among the countries with the highest poverty rates in the EU in 2007 and only Latvia showed a higher percentage (23%). The factors that slowed down the economy in 2007, in addition to the expensiveness mentioned above, include the lack of liquidity, the consequent rise in interest rates that hit businesses and households and the decline in construction activity.[240]

2008 Year

In 2008, GDP increased in Greece more than it did in the EU on average. Specifically, it increased by 2.9% compared to 0.9% in the EU. These performances of the Greek economy are a continuation of the long-term upward trends of GDP in Greece at rates even faster than in the 35 most developed countries of the world (see Figure 5). The large increase in GDP per capita in Greece is due to the increase in labor productivity. The level of productivity increased dramatically compared to the corresponding level of 35 developed countries, with which Greece made most of the exchanges (with the exception of oil). The rise in prices that began in the last months of 2007, continued in 2008. The rate of change of prices on an annual basis amounted to 4.25 compared to 3% in 2007. However, since December it fell to

[240] Labor Institute, The Greek economy and employment, Annual Report 2008.

2% and continued to decline in the first quarter of the following year. It was observed great decline in investment effort in 2008. Business investment in equipment showed a decline. Public investments increased slightly, while in the previous year they had increased by 2%. Private consumption although gradually slowing down, increased however compared to the previous year by 2.2%. Despite the slowing down private consumption, it remained the main engine of economic growth in Greece this year as well. The average real wages per employee increased by 3.2% and this resulted in further convergence of wages in Greece against the corresponding average of the 15 most advanced EU countries. As far as unemployment is concerned, it was formed during 2008 to 7.2% of the country's workforce, according to Labor Force Survey.[241]

It is certain, however, that the global financial crisis negatively affected the Greek economy, from October 2008 onwards, when the crisis worsened dramatically.[242] Thus, in 2008 the general government deficit exceeded 4% of GDP. This resulted in the inclusion of Greece for the second time [243] in Excessive Deficit Procedure (ECP) on 27 April 2009, by 2009/415/EC decision of the Council of the European Union.[244] About government debt, this increased, approaching 97% of GDP, which was eventually revised to 112.9% of GDP. [245]

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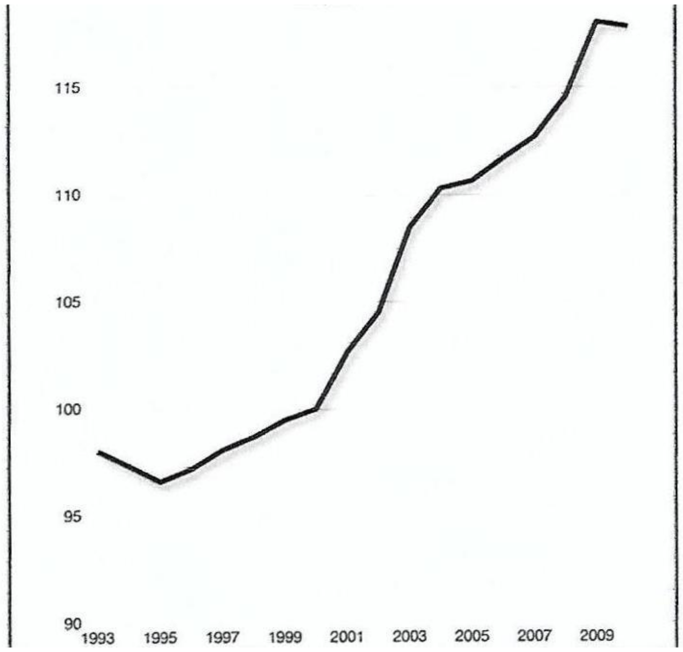
[241] Labor Institute- General Confederation of Greek Workers, The Greek economy and employment, Annual Report 2009.
[242] Bank of Greece, ibid
[243] It was preceded by accession to the EDP in May 2004 and its exit from the process in June 2007, as mentioned above in par. 4.1.1 b (c) of this Chapter
[244] http://data.Europa.eu/eli/dec/2009/415/oj
[245] Bank of Greece, ibid

Figure 5 : Greece's GDP at constant prices, relative to the GDP of 35 advanced countries

Year 2000 = 100



Source: Annual Macroeconomic Database, European Commission. It was taken from Labor Institute - General Confederation of Geek Workers, Annual report 2009.

2009 Year

2009 was a particularly crucial year for Greece, as the crisis took place in the country in the autumn of 2009. With the outbreak of the Crisis, the problems of the pre-existing economy came to the surface. Until then, these problems were overlooked in the climate of complacency that the development had brought the previous years. The developments of 2008 mentioned above, clearly showed that the economy was heading towards deterioration, which was dramatically confirmed in 2009. The continuous warnings[246] from abroad throughout 2008, were not able to prevent the deterioration of the economic situation. On the contrary in fact, the continuous period of rapid growth that had preceded, supported the "naive forecast" [247] that the same would continue in the coming years. Thus, in 2009 the Greek economy appears exhausted and weakened, because of the economic policy implemented. The Greek economy is affected by the effects of the international financial Crisis and is entering a recession. Of course, subsequent estimates place the beginning of the

[246] Trichet Jean-Claude, President of the European Central Bank, At a press conference on 8-5-2008, described the high yields of Greek, Portuguese and Spanish bonds as a "wake-up call", (received from the Bank of Greece, ibid).

[247] It is the prediction that anticipates that an existing situation will continue in the future (no change).

recession in 2008. [248]

According to the 2009 Report of the Labor Institute of General Confederation for Greek Workers for Greek economy and employment, the Crisis in Greece pre-existed and worsened quantitatively and qualitatively from the international Crisis. In Greece the economic crisis was more serious than in other EU countries because the three main dimensions of the Greek economy were affected : a) the economic (zero GDP growth, reduction of investments, increase in unemployment etc.) , b) fiscal (increase in public deficits, public debt and public borrowing) and c) the social dimension (increase in private health expenditure, underfunding of the social protection system etc.).[249]

According to the Bank of Greece, 2009 is characterized by the derailment of fiscal figures, perhaps because (according to the Bank of Greece) it was the year of two elections in the spring for the European Parliament and in October for the Greek Parliament (and as it almost always happens in an election year, it is observed this phenomenon).

GDP, after fifteen years (1994-2008) of continuous growth, declined in 2009 by 3.2%. The public deficit reached 15,7% of GDP and the public debt 129.7% of GDP, from 112.9% in the previous year.[250]

These developments dramatically increased uncertainty about the future of the Greek economy and created a deficit of confidence. Already, since January 2009, the Standard & Poor's downgraded Greece's credit rating from A to A- , due to loss of competitiveness of the Greek economy. On 27 April 2009, the Council of the European Union, openly expressed concerns about the fiscal situation and, as noted above, placed Greece under surveillance in the context of the Excessive Deficit Procedure. It even set a deadline of 22 October 2009 for measures to be taken to stop the economic downturn.[251] On October 4 of the same year national elections were held. The political scene has changed, but in the meantime the measures set by the Council have not been taken. The climate worsened further when the Greek authorities announced on 22 October 2009 (after the national elections) that the budget deficit in 2009 was more than double (12.5% of GDP) compared to initially projected 3.7% and that the 2008 deficit was significantly higher than previously estimated. Following this announcement of the deficit, ECOFIN, on 2 December, confirmed in a relevant

[248] Bank of Greece, ibid

[249] Labor Institute – General Confederation of Greek Workers, The Greek economy and employment, Annual Report 2009

[250] Bank of Greece, ibid . According to the Bank of Greece these data are revised and definitively. In April 2010 the deficit was estimated at 13,6% of GDP and the debt at 115,1% of GDP.

[251] On 26-9-2017 with the 2017/1789 decision of the EU Council, ended the second accession to the EDP, http://data.europa.eu/eli/dec/2017/1789/oj

announcement that Greece had not taken the measures indicated to it in April 2009. This resulted the negative assessment of the Greek economy at the end of 2009. It is characteristic that the largest downgrades of Greece's creditworthiness, from the three main rating agencies,[252] took place after the above announcement of ECOFIN. It is worth noting, that the main factor that contributed to the loss of trust, was the questioning of the validity of Greek statistics elements. This dispute was reflected in EUROSTAT reports and created a serious issue which took on enormous proportions within Greece and mainly abroad.

At the same time, articles in the international media continued to question Greece's ability to achieve the necessary fiscal adjustment and to coexist with other Eurozone member states. This negative climate, cultivated by the international media, intensified due to the delay shown by Greece to take effective fiscal adjustment measures, but also due to the delayed "willingness" [253] or due to the deliberate reluctance of the EU to adopt a framework to support the Greek economy. This "reluctance" reinforced the internationally held belief that there was a danger to extend the crisis to other member states and even to disintegrate the Eurozone. Thus, at the end of 2009, the Greek crisis was now a fact and was the catalyst for the course of the international economy.

2. Memorandum period - How Greece led to the Memoranda

In the first part of this section we will refer to the financial situation of Greece from manifestation of the crisis in the Greek economy until the imposition of the Memoranda (end 2009- May 2010).

The negative developments of 2009 mentioned above, continued and intensified in the first months of 2010. The financial crisis turned into a public debt crisis in 2010 for some Eurozone countries. This development directly threatened the stability of EMU. Greece was in the spotlight, as the weakest economy in the euro area with large budget deficits and severe structural deficits problems.

The continuing and escalating pressures on the bond market and the dramatic increase in borrowing costs, characterize the first months of 2010. In order to prevent further

[252] Fitch, Standard & Poor's and Moody's have successively downgraded Greece's creditworthiness on December 8, 2009 from A- to BBB+ , on 16 Decenber from A- to BBB+ and on 22 December from A1 to A2. (Received from the Bank of Greece, ibid).

[253] In the EU there was no mechanism for financial support to Eurozone countries, while there was for EU countries outside the Eurozone (!!!) and had to be created. Finally a relevant decision for creation was received on 25-3-2010, a fact which many analysts believe was done with great delay. (Received from the Bank of Greece, ibid).

deterioration of trust in the Greek economy, the Greek government revised its fiscal targets in January 2010. The new goals were the Update of the Hellenic Stability and Growth Program 2010-2013. This program, in relation to the budget that was voted a few weeks ago, was a more drastic fiscal adjustment. Again, the markets continued to react negatively, as did the international press.

Additional measures were taken in the following months, February and March. With Law 3833/2010 passed on 15 March 2010, cuts were imposed on the public expenses. Then the reluctance of the Eurozone to support Greece begins to bend, but only in words. Despite the positive comments from the heads of the EU institutions for these movements of Greece, borrowing costs were rising. Already, by February 2010 Greek bonds had been downgraded to a level of a "junk bonds". Essentially, Greece was excluded from the bond markets.[254] In April, the yield on ten-year bonds reached 430 basis points.[255] The Table below is characteristic.

TABLE : 9 Yield difference between the Greek and German 10-year government bond (in base points)

Date	Yield difference
31.12.2009	229
29. 1. 2010	377
26. 2. 2010	351
31. 3. 2010	331
27. 4. 2010	654
31. 5. 2010	508
30. 6. 2010	789
30. 7. 2010	756
31. 8. 2010	937
30. 9. 2010	824
29.10.2010	820
30.11.2010	930
31.12.2010	960

Source : Bank of Greece, The Chronicle of the Great Crisis, ibid

[254] Kazakos Panos, ibid
[255] Bank of Greece, ibid

The reluctance of the Eurozone to face the problems of Greece in practice continues, based on the "smuggler" theory.[256] Its support is limited to favorable comments on the measures taken by Greece. Even on 25 March 2010, when the Eurozone member states finally decided[257] to set up a Support Mechanism for assistance to Greece, the creation was connected only for in case Greece is excluded from the markets, (while in fact it had already excluded) and if the IMF would also participate in this assistance. So the Eurozone threw Greece into the arms of the IMF.

A) 1st Memorandum

About a month later, on 23 April 2010, the Greek government formally requested financial support from the Eurozone countries. The Greek Prime Minister from Kastelorizo requested the activation of the Support Mechanism for the Greek economy, that had just been established. On 2 May 2010, the finance Ministers of the Eurozone countries reached an agreement to support Greece with a loan of 80 billion euro (110 billion together with the IMF). At the same time they approved the package (Economic Adjustment Program), which had been jointly drafted by the European Commission, the European Central Bank, the IMF and the Greek authorities since 12 April 2010. [258]

The next day, on 3 May 2010,Greece submitted a request for assistance to the IMF, as the Eurozone countries had recently demanded with their decision a few days ago, on 25 March 2010. The request was submitted in the form of a "letter of intent".[259] The aforementioned economic adjustment draft was attached to the letter, ie the "Memorandum of Economic and Financial Policy" (MEFP) and the "Memorandum of Understanding on Specific Economic Policy Conditions".

Two days later, on 5 May 2010, the Greek Parliament passed the 1st Memorandum Law 3845/2010 "Measures for the implementation of the Support Mechanism for Greek economy by the member states of the Eurozone and the IMF". Four Annexes were incorporated into this Law. The Statements by the Heads of State and Government of the Eurozone on 25-3-

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[256] Kazakos Panos , ibid . This is the argument of the European North that dominated at that time, that a hasty financing of Greece without the prior assurance that it would change its economic policy (ie Memorandum !!!), would be seen as a reward for "smuggling".

[257] The relevant "statement" of the Heads of State and Government of the Eurozone for the creation of Support Mechanism, which took place that day 25-3-2010, was attached as Annex I to the 1st Memorandum Law 3845/2010, as explicitly mentioned in Article 1 of the Law.

[258] The agreement was formalized by the Heads of State and Government of the euro area on 7-5-2010

[259] The text of the "letter" in : Glavinas Panagiotis. The Memorandum of Greece in the European, international and national legal order. Sakkoulas Publications 2010 and at http://www.imf.org>2010

2010 for the creation of the Support Mechanism were incorporated as Annex I. The statements of themselves on 11-4-2010 for the activation of the Support Mechanism with the creation of a joint program by the European Commission in cooperation with the European Central Bank and by the International Monetary Fund and the Greek authorities were incorporated as Annex II. Also, the aforementioned Memoranda attached to the letter to the IMF are the Annex III and IV.[260]

Then, on 8 May 2010, Greece signed the loan agreement[261] with Eurozone member states, except Germany. On behalf of Germany, the contract was signed by the State Bank for Reconstruction, the KfW, [262] acting in the public interest of the Federal Republic of Germany. In this loan agreement, called the Loan Facility Agreement,[263] member states were represented by the European Commission (except Germany of course). The Greek State was represented by the Bank of Greece. The IMF also responded to Greece's request and officially decided on 9 May 2010 [264] the granting of a loan of 30 billion euro, lasting three years. With this decision of the IMF completed the process of including Greece in the economic programs adaptation- Memoranda.

Thus, on 8 May 2010, the birth certificate of Memorandum Greece was signed, which had long ago and diligently been drawn up by its creditors.

Provisions and directions of the 1st Memorandum

The first Economic Adjustment Program (Memorandum hereinafter), codified and at the same time updated the ongoing recommendations for reforms made in past to the Greek governments. But now with the Memorandum, these recommendations of the past, had to be implemented with stricter surveillance, because the terms of the IMF were added, and within constantly deteriorating economic conditions. Thus, the huge timeless problems of the Greek economy emerged.[265]

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260 Letter, signed by the Greek Minister of Finance and the Governor of the Bank of Greece (as well as the one sent to the IMF) together with the draft program (Memoranda) was also sent on 3 May 2010 from Greece to the President of the Council of Finance Ministers of the Eurozone (Eurogroup) to the European Commission and to the European Central Bank. Its text in : Glavinas P. , ibid and in : http://www.imf.org>2010

261 For the full text of the Agreement at Memorandum- The Loan Agreement between Greek government – EU- IMF, Epikaira Publications, Athens 10-6-2010

262 This bank is subject to the instructions, is under guarantee and acts in the public interest of the Federal Republic of Germany. Marias Epam. The Memorandum of Bankruptcy and the Other Way, ibid

263 According to the professor Marias Ep., it is called "Facilitation Agreement" : Marias Ep. The Loan Agreement between Greece and the Eurozone countries in the light of the institutions and EU Law, Nomiko Vima , Vol. 58, July – August 2010 .

264 A detailed timeline of decisions of the euro area institutions and the IMF up to the signing of the Memoranda in : Bank of Greece ibid from which the dates mentioned above.

265 Kazakos P. , ibid

The Memorandum covered a period of three years (2010-2012). [266] It originally provided for a total loan of 110 billion euros (80 billion European loans and 30 billion from the IMF). The loan was intended to cover financial needs of the Greek economy and to support the banking system.[267] The initial agreement provided for its repayment in installments and over a period of two years, which would begin after a three-year grace period from its grant. Its quarterly repayment installments, were eight and equivalent. The interest rate of the loan was high, over 5%, which was much higher than the average borrowing rates of euro area countries. The loan would be disbursed, in accordance with Annex IV of the Memorandum Law 3845/2010 on a quarterly basis after evaluation by the lenders, ie. by the European Commission, the ECB and the IMF (hereinafter referred to as the Troika). The object of the evaluation was to determine whether Greece had implemented, in the meantime, the fiscal consolidation and structural reforms Program (Conditionality) for the three years 2010-2012, as provided for in the Memorandum.

The whole philosophy of the 1st Memorandum aimed at three purposes : in fiscal adjustment, structural reforms and financial sector stability. Fiscal adjustment was considered the cornerstone.[268] The fiscal adjustment provided for horizontal austerity measures, in addition to those decided by Greece in the previous months, until the signing of the Memorandum. According to the fiscal part, Greece had to reduce its deficits below 3% of GDP or a total of 30 billion euro by 2013. This reduction would be achieved by cutting public spending by 5.3% of GDP, mainly on public sector wages and pensions (abolition of the 13th and 14th salaries, reduction the number of civil servants etc.), by increasing revenues by 4% of GDP, mainly from VAT and Excise Duty etc.[269] The program provided for additional measures amounting to 2.5 percentage points of GDP for 2010, in addition to those taken in January, February and March. The additional measures were aimed at deficit reduction by 5.5 points of GDP.[270] In total the amount of measures taken in 2010 (before and after the signing of the first Memorandum) reached 15.5 billion euros or 7% of GDP.[271]

266 Law 3845/2010, Annex II (Government Gazette 65, Issue A).
267 Law 3845/2010, Annex III par. IV . 23
268 Bank of Greece, ibid
269 Kazakos Panagiotis ibid
270 Bank of Greece ibid
271 Mourmouras Ioan. Ibid

For the next phase, from 2011 onwards, the Memorandum provided for structural reforms in the functioning of the state, so that the deficit be further reduced and at the end of 2014 be limited to 2.6% of GDP. The main[272] structural reforms envisaged, were the fight against tax evasion and corruption, the labor market, the liberalization of closed occupations, the privatizations, the liberalization of product markets, the mergers or the abolition of public bodies, the insurance system in order to withhold the grants of the funds from the state budget.

In order to safeguard financial stability, the Program provided for the establishment of a Financial Stability Fund and its strengthening with 10 billion euro of the 110 billion euro of the loan. This Fund was established in early 2011.

Finally, for the public debt, the Program did not provide for immediate actions. In all parts of the program, however, the public debt was reported as the result of a deficit reduction and the achievement of primary surplus.[273]

In short, the First Memorandum raised issues of fiscal institutions and targets, issues of banking system, insurance system, labor relations, independent authorities, Public Utility Services (DEKO), privatizations, public administration, Public Power Corporation- PPC etc.

Implementation of the 1st Memorandum

In the first months of implementation of the Program, the Program was implemented with relative consistency and had visible results. This is what the Troika found out during the first assessment and published in August 2010 (concerned in the quarter May- August 2010). The “utilization” of the first installment of the loan (14.5 billion euros) received by Greece ten days after the signing of the loan, was evaluated encouragingly.[274] Almost all the budgetary targets set for the end of June 2010 had been achieved. In fact, the implementation of some reforms took place earlier than the deadlines set.[275] The pace of compliance with the Program was faster in the budgetary measures.[276]

Since the fall of 2010, however, there has been a relaxation in the implementation of the Program on structural reforms. Thus, in the second evaluation published in December 2010 (for the quarter September- November), despite the overall positive picture of the previous evaluation, the chronic weaknesses of the public sector were confirmed. However, the overall picture of the Troika was that the Program remains within the goals, but for the recovery of

[272] The measures envisaged for the fiscal adjustment and the structural reforms of the first Memorandum in Annex IV of the Law 3845/2010.
[273] Bank of Greece, ibid
[274] Bank of Greece, ibid
[275] IMF Greece : First Review Under the Stand-by Arrangement 26-8-2010 3-4
[276] Kazakos Pan, ibid

the economy is necessary to promote structural reforms. These reforms were related to the liberalization of the closed professions, retail trade and the strengthening of tourism. In the third evaluation report in February 2011, the fatigue of the Greek economy and the loose of implementation began to appear, as found a backlog of revenues and an excess of expenditures. In order to achieve the “Performance criteria”, the Troika proposed a further reduction in public spending.[277]

In mid-2011 the Program was derailed. It was deemed necessary to impose additional interventions. These were the Medium-Term Budgetary Framework (MTBF). The main goal of the Framework[278] was to achieve primary surpluses, accelerate privatizations and utilize public property. All together “aimed” at controlling the dynamics of the Greek debt. The measures of MTBF covered the period 2011-2015. These were voted by the Greek Parliament with Law 3985/ 1.7.2011 entitled “Medium-Term Budgetary Framework 2012-2015”. At the same time, on the same day[279] the executive law of these measures was also passed. This is the Law 3986/1.7.2011 entitled “Urgent Measures for the Implementation of the Medium-Term Budgetary Framework 2012-2015”, which established among other things the Hellenic Republic Asset Development Fund (HRADF). Its vote brought the disbursement of the fifth installment of the loan. Markets, however, continued to react negative, despite the adoption of the large fiscal package of the Medium-Term Program. The public debt which in March 2011 had exceeded 150% of GDP, recorded a significant increase after the adoption of the measures. With these developments, Greece was forced to take new measures, beyond of what was provided by the aforementioned executive Law 3986/2011. So, in October 2011 with the Law 4021/2011, an extraordinary special fee is imposed on electrified properties. With all these measures, at the end of 2011, the deficit decreased by only 1.3 percentage points of GDP, while the primary deficit by 2.6 percentage points and was limited to 2.3% of GDP. [280]

B) 2nd Memorandum

The postponements and delays in the implementation of the measures of the First Adjustment Program, each time led to revisions of the agreements with the Troika and the imposition of new measures. The main thing, however, was the uncertainty that was cultivated in the EU, but also internationally for the implementation of measures by Greece.

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[277] IMF Greece : Third Review Under the Stand-by Arrangement 28-2-2011 6

[278] All the sub-objectives and assumptions of the MTBF for financial figures, in the explanatory Memorandum of the draft Law 3985/1.7.2011

[279] Detailed chronology of the developments of the period of the 1st Memorandum at : Bank of Greece, ibid

[280] Bank of Greece, ibid

The Troika itself saw the reactions of Greek society to the measures (indignant movement) and the reason for the delay (political cost). In order to remove this uncertainty, the Prime Minister of Greece suggested to the partners to hold a referendum on Greece's stay in the Eurozone and the implementation of a new Adjustment Program. The proposal was rejected after a strong reaction of the hard core of the Eurozone. The Greek government resigned and on 11 November 2011 a new Transnational Government was formed in Greece with Prime Minister Loukas Papadimos.[281]

The new government has undertaken to conclude the negotiations with the Troika on a new Program (Memorandum). Two issues dominated the negotiations. The restructuring of the Greek debt and the implementation of new austerity measures and reforms. From the Troika, it was set as a prerequisite for the completion of the debt restructuring, the signing of a new agreement on the "necessary" interventions in the economy. Negotiations were completed in early February 2012. The new agreed arrangements were reflected in the "Memorandum of Economic and Financial Policies" , in the " Memorandum of Understanding on Specific Economic Policy Conditionality", as was done with the 1st Memorandum and in the "Technical Memorandum of Understanding" , as well as in their Annexes. The new agreement was voted by the Greek Parliament on 12 February 2012, with Law 4046/2012. So came the 2nd Memorandum. It is the Law 4046/2012. [282]

Forecasts - Directions of the 2nd Memorandum

The new agreement on economic adjustment did not differ in terms of general direction and economic philosophy from the previous Memorandum agreement. The only additional element included (in terms of its general direction) is the closet oversight of the implementation of the Memorandum. It was obviously added in order to ensure its faithful implementation and to remove any uncertainty that had existed until then in European and international circles about the implementation of the new measures.

The 2nd Memorandum was accompanied by a new financial support package, amounting to 130 billion euros. Together with the rest of the first Program, the total unpaid aid, then reached about 167 billion euros.[283] The loan covered the financial needs of Greece until 2015 for the restructuring of the banking system, the coverage of the budget deficit and the support of PSI. By signing of the second Memorandum the Greek economy underwent a second

[281] Kazakos Pan. , ibid
[282] Bank of Greece, ibid
[283] European Commission, The second Economic Adjustment Program for Greece, March 2012

round of fiscal austerity, worth 28 billion euros for the period 2012-2015. The measures[284] of this Memorandum concerned for the most part cut spending.[285] Its most important measure was to enforce the write-off part of the debt by reducing lending rates and extending the debt repayment time. This setting was combined with voluntary exchange of Greek bonds held by the private sector with new bonds. But the nominal value of the new bonds would be reduced by 50% due to "haircut". It again provided for tax measures, cutting public spending of 19 billion euros in order to eliminate the deficit by 2013 and achieve primary surpluses. Also this Memorandum did not lack reforms. The Insurance System Support Fund was established for the utilization of the private property of the public. All this was accompanied by extended technical assistance to Greece.[286]

Implementation of the 2nd Memorandum

The enactment of the executive laws for the implementation of the second Program delayed. The reason for the delay was the electoral contests that took place on 5-6-2012 and on 17-6-2012. The Program was directed outside the objectives, especially in revenue part. The IMF's assessment, published in December 2012, found significant delays in the privatizations, control of public expenditure, improvement of the tax collection mechanism, faster administration of justice and in the opening of closed professions.[287] This finding led to a revision of the objectives of the second Program, despite the strong assurances of the Greek authorities that they will continue in the direction of the faithful implementation of the Program. The new goal was to reduce the public debt to 175% of GDP in 2016, to 124% in 2020 and significantly below 110% in 2022. [288]

Under stricter surveillance in November 2012, the Eurogroup decided on new harder measures. Thus, Greece was forced to transfer to the frozen account created specifically for its debt service, all revenues from the privatizations and even on a quarterly basis. It was also forced to transfer to the same account the primary surplus, that would be achieved based on the set goals, as well as 30% of the excess of the primary surplus, in case the primary surplus exceeded the targets.

During 2013, Greece selected actions aimed at strengthening tax revenues. These actions include the imposition of the Uniform Tax on Real Estate Property (ENFIA), the reform of

284 Detailed measures provided in Annexes of Law 4046/2012
285 Mourmouras I. , Vol. A', ibid
286 Kazakos P. , ibid
287 IMF, Greece : First and Second Reviews under the extended arrangement, under the extended Fund facility, January 2013, 7, 9-10, 15-17 and Bank of Greece ibid
288 Bank of Greece ibid

the tax system, the establishment of mechanisms for monitoring the proper implementation of the general government budgets, but also of Public Utility Services (DEKO) and Legal Persons governed by Private Law.[289]

In the field of social policy, as the date (1-1-2015) of implementation of the new insurance system that had been voted on in 2010 was approaching, it was decided to abolish the financing of all supplementary pensions from community resources and to merge the Auxiliary Funds into one Fund, the Single Auxiliary Insurance Fund for Employees (ETEAM).

In the field of public administration the Troika's recommendations led to a reduction in the number of contractors, a freeze of public recruitment, a reduction in the number of substitute teachers and an increase in teaching hours, the abolition of the municipal police and school guards, the closure of Hellenic Broadcasting Corporation (ERT) etc. The number of civil servants decreased from 943.000 in 2009 to 675.000 in 2013.

In the field of privatization, the whole implementation process, as in the first Memorandum, continued to move with obstacles, despite the Troika's suffocating pressure to reduce the debt. It is characteristic that the main body of the privatization program, the Hellenic Republic Asset Development Fund- HRADF (TAIPED) which was established in 2011 at the request of the Troika, managed to complete only 20 privatizations by 2015. However, the whole privatization program had structural problems and the biggest "political failure" is found in the privatization of Public Power Corporation- PPC.[290] The recapitalization of banks was an important measure of fiscal adjustment.

It is worth noting that an independent assessment of the progress of the Adjustment Program until 2014, ranks Greece as a country with the best reform performance in the Eurozone,[291] despite the fact that in the last quarter of 2014 negative (-0.4%) growth rates were recorded, in contrast to what happened in the rest of the year which were positive. The elimination of the uncertainty created by the whole course of the implementation of the Program, allowed the trial exit of Greece in the markets in 2014. [292]

An approach[293] to the implementation of the reforms showed that a different degree of

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289 Bank of Greece, ibid

290 Kazakos P. ibid where a more extensive report on the privatization of PPC.

291 Lisbon Council and Berenberg Bank, The Euro Plus Monitor, Spring 2013 update, Hamburg and Brussels.

292 Kazakos P. , ibid

293 Katsikas Dim. (Coordinator), Anastasatou Marianthi, Nitsi Elissavet, Petralias Athanasios, Filinis Kyriakos : Structural reforms in Greece during the crisis 2010-2014, Bank of Greece and The Hellenic Foundation for European and Foreign Policy- Crisis Observatory, Athens 2018. The Hellenic Foundation for European and Foreign Policy was founded in 1988 in Athens as an independent non-profit organization producing research, ideas and policy proposals.

implementation of the programs was observed. The first Program was implemented at a rate of 80%, while the second was implemented at a lower rate of 67% with several reforms not being implemented at all (13%) and many remaining pending, as the second Program was not completed either. Although the implementation percentage of the second Program was reduced, the number of actions that implemented was much higher than in the first.

The non-implementation of the other reforms is due, according to a research by the Crisis Observatory, to the non-completion of the Program due to the political and economic developments of that period. The same investigation[294] showed that the degree of difficulty in implementing the reforms increased over time, due to the "reform fatigue" and the weakening of the relevant political will for implementation. However the highest rates of non-implementation were observed in pension, fiscal and tax reforms, perhaps because of the great financial losses that had occurred from the implementation of the first Memorandum.

C) 3rd Memorandum

The political climate that formed in Greece at the end of 2014, in view of the election of the President of the Hellenic Republic and the holding of national elections on 25 January 2015, did not allow the completion of the second Program. The new government was called upon to handle its completion. Until then the fiscal situation was balanced, as a primary surplus had been achieved and the banks had been recapitalized.

The Troika demanded from the outset an agreement on the prerequisites included an evaluation in order to disburse the planned installments. It linked this agreement to debt relief, as committed to the Eurogroup in 2012. At the same time, however, it made clear to the Greek side not to back down from the measures that had already been agreed in the second Memorandum and had been partially implemented. The Troika would consider any withdrawal as the so-called "moral hazard".

The Greek Government rejected the fiscal and economic policy of the two Memoranda and the surveillance by the Troika, moving in the pre-election announcements for their abolition "with a law and an article". At the same time it demanded the cancellation of the debt within a new international process and the continuation of the payment of the installments of the loan agreement. It insisted that its goal was to return to growth with less austerity and rejection of reforms.[295] In general, its position was summed up in lenders getting their money back when Greece would start to grow, thus wanting to turn Greece's creditors into partners

[294] The research was based on MONA database of the IMF (Monitoring of Fund Arrangements).
[295] Kazakos P. , ibid

in its economic development,[296] as it considered the "toxic" program part of the problem and not its solution.[297] On February 20, 2015 a compromise was reached in the Eurogroup extending the second Memorandum for 4 months, in order for Greece to submit its own proposals regarding the implementation of the Program. The proposals were submitted to "institutions" (thus renamed the hitherto Troika), in March 2015, as "text work". With these proposals the Greek side was committed to some privatizations and to increase tax revenues, while it was not expressed at all about the other insurance measures etc. that the Troika considered equally important. Because the negotiations so far did not reach an agreement, fears of a sharp bankruptcy or even exit from the Eurozone returned. Meanwhile, the Minister of Finance, Yanis Varoufakis, elaborated with a large group of foreign experts and his consultants [298] an Anti-Memorandum draft, which he named "Policy Framework for fiscal consolidation, recovery and development of Greece". The Greek Prime Minister who received the plan on 11-5-2015 did not forward it to Eurogroup. He said characteristically to the Minister, when he received the plan, "Now is not the time to provoke her", referring to the German Chancellor Merkel.[299]

One last proposal from the President of the European Commission on 25-6-2015, was rejected by the Greek side, although convergence of the two sides had been achieved by 90%. The Greek Government, two days later (27-6-2015), announced the holding of a referendum on 5-7-2015 for the approval or not of the rejected Juncker Plan. The next day, 28-6-2015, the ECB (European Central Bank) announced that it would not increase the amount of liquidity in Hellenic Banks and a bank holiday was declared in Greece. The banks remained closed from 29-6-2015 to 6-7-2015. The Greek society reacted by forming queues for withdrawals, as the Government imposed capital controls on 29-6-2015.

In the referendum, the Greek voters voted at a rate of 61.3% NO to the Juncker Plan. But a few hours later, after the official announcement of the result of the referendum, the Greek Prime Minister decided not to implement the result of the referendum. This led the Greek Minister of Finance in resignation. For many analysts, he fortunately worked this way, because the consequences would be even worse.[300] At the first European Council after the

[296] Varoufakis Yanis. The Genesis of Memorandum Greece. A chronicle of the crisis. ibid
[297] Kazakos P. , ibid
[298] Their names in Varoufakis Yanis, Invincible Losers. For a Greek Spring after endless memorandum winters. Patakis Publications 2017 . Title of the original English edition: Adults in the Room: My Battle with Europe's Deep Establishment, Bodley Head, London 2017.
[299] Varoufakis Yanis, Invincible Losers, ibid
[300] Kazakos P. , ibid, where the reasons that according to Professor Kazakos explain the reshuffle of the Prime Minister.

referendum, the Greek Prime Minister received a harsh and offensive [301] attack. The negotiations, which included all the pending issues of the previous Memoranda, reached an agreement in August 2015. A new Memorandum and a new loan agreement were agreed, which were voted by the Greek Parliament and constituted the Law 4336/14.8.2015. This Law along with its Annexes is now the 3rd Memorandum.

Forecasts – Directions and Implementation of the 3rd Memorandum

The economic philosophy of the 3rd Memorandum did not differ from that of the previous ones. In essence, the 3rd Memorandum codified the measures of the two previous Memoranda that had not been implemented until then and added new ones. Its content was harsher from the final proposal submitted by the partners before the referendum and it had been rejected by Greece. The degree of surveillance that from the previous Memorandum was already strict, remained strict, with an emphatic indication from the “institutions” “first the measures and then the disbursements of installments”. The amount of 86 billion euros of the loan agreement, was intended mainly to service the debt and the recapitalization of the banks.

The aim in the financial sector was to achieve a surplus of 3.5% of GDP. That is why it included a series of tax measures, such as the continuation of Uniform Tax on Real Estate Property (ENFIA), VAT rate increases, taxes on farmers etc. The reduction of the grant of the insurance system from the state budget would also serve a fiscal target. It provided for the establishment of a “Super-fund” for management of public property. Its income would come from the privatizations and a significant part of them would be intended for repayment of loans. This Fund was established with Law 4389/2016. It’s about the Hellenic Corporation of Assets and Participations- HCAP with operating duration 99 years!!! Of course, its operating structure is a blatant case of foreign intervention in the Greek political and economic system, as the selection of the members of the Supervisory Board of the Fund, should be agreed by European Commission and the European Stability Mechanism!!!

For the implementation of the agreed measures in the pension, the Law 4387/12.5.2016 was passed, which contains elements of continuity and discontinuity in relation to the pension law of the first Memorandum.[302] Thus it restored the distinction between basic pension and compensatory, renaming the basic to national pension. It consolidated all Social Security

[301] Dijsselbloem Jeroen (President of the Eurogroup at the time) De Eurocrisis, Economia Publishing 2018. Title of Greek edition : The Eurocrisis. The story from the inside, in Europe, Greece and Cyprus. Translated by Kourmentala – Dambaraki Giota, Politia Publications 2018 , describing the offensive by the President of Lithuania (reference received from Kazakos P. ibid).

[302] Kazakos P. , ibid

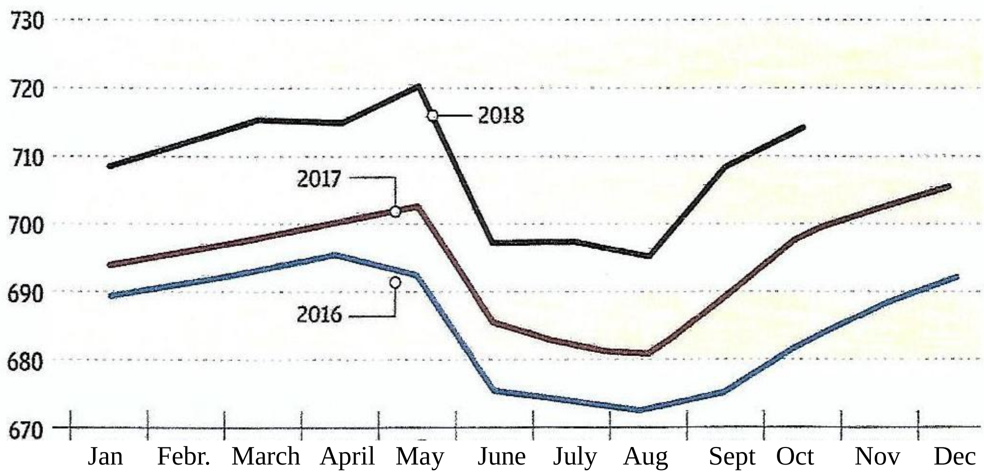
Funds into one super-fund called Single Social Security Entity (EFKA). It cut pensions further, 10% the lower pensions and up to 50% the higher pensions, it increased the insurance contributions especially of self-employed and abolished the Social Solidarity Fund for Pensioners (EKAS). The constitutionality of many regulations of the pension law, occupied the Greek Justice, which declared unconstitutional several of its provisions.

In the field of privatization, the privatization policy continued, with the completion of the privatization of the Piraeus Port Authority, with the transfer of 100% of the shares of the railways to an Italian company, with the assignment of selected regional airports in Germany Fraport etc. However by the end of 2018, not all the agreed privatizations were completed. The Public Power Corporation- PPC, Hellenic Petroleum, Egnatia Road etc. remained pending then.

In the field of labor reforms, the Greek side committed itself in June 2016 to examine the most effective practices of other European countries in matters of collective redundancies, strikes and trade union action.

In public administration, the goal of all Memoranda was to reduce the number of civil servants, by initially applying the rule 1 recruitment for 4 departures, which then became 1 recruitment for 3 departures. During the period of the 3rd Memorandum this rule was not observed, as after 2016 the state "grew" again,[303] as shown in Figure 6.

Figure 6 : Employment in the Greek State (in thousands) 2016-2018



Source : IMF 2019. Received from Kazakos ibid

However, in the endless negotiations that took place on how to implement the 3rd Memorandum, the Greek side tried to maintain a defensive stance at such a point that it ended

[303] Kazakos P. , ibid

up modifying what was agreed, insisting on the doctrine "we remain but we do not implement the agreements to the letter". However, this attitude led to two "Supplementary Memoranda", in June 2016 and July 2017, to convince the "institutions" that the 3rd Memorandum was implemented grosso modo.[304]

The 3rd Memorandum was completed in June 2018 and the loan agreement in August 2018 with the disbursement of the last installment. At the end of the 3rd Memorandum, it was replaced by a new "policy framework" agreed with the "institutions" for the period 2019 until 2022 and for some issues until 2060!!! This is essentially the 4th simplified Memorandum, that is not called Memorandum, but it binds Greece in fiscal and economic policy in various ways.[305]

However, the Eurogroup on 22-6-2018 paved the way for the sustainability of the public sector debt by 2032, as it specialized in the medium-term relief measures (extension of EFSF loans, deferral of interest payments etc.)

D) Impact of Programs

With the signing of the 1st Memorandum in May 2010, the Greek economy launched a huge effort to consolidate its budget and implement structural reforms. All measures of the financial Adjustment Programs mentioned above, as well as their implementation to whatever extent was achieved, had, of course, effects on the economic and business activity of Greece. The programs of the IMF and of the "institutions" in general have left an indelible mark on macroeconomic figures, due to the harsh measures that have hit and continue to affect large social groups. Their effects appeared on all fundamentals of the economy. The most characteristic of this effort was the significant and continuous decline of the country's GDP. This dramatic reduction brought a series of negative effects on key economic figures, such as in unemployment, debt, investment etc.[306] In a previous section a general picture of the Greek economy was captured through the developments of key macroeconomic figures in the period before the imposition of the Memoranda. In the following sections there will be a presentation of the evolution of the respective figures in the period of the Memoranda and a reference to the pre-Memoranda era, in order to make it easier to compare the evolution of macroeconomic figures in these two time periods (before and after the Memoranda) and to see the effects of the Programs.

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304 Kazakos P. , ibid
305 These commitments are detailed in : Kazakos P. , ibid
306 Mourmouras I. , The Double Debt-Banking Crisis, Vol. A', ibid

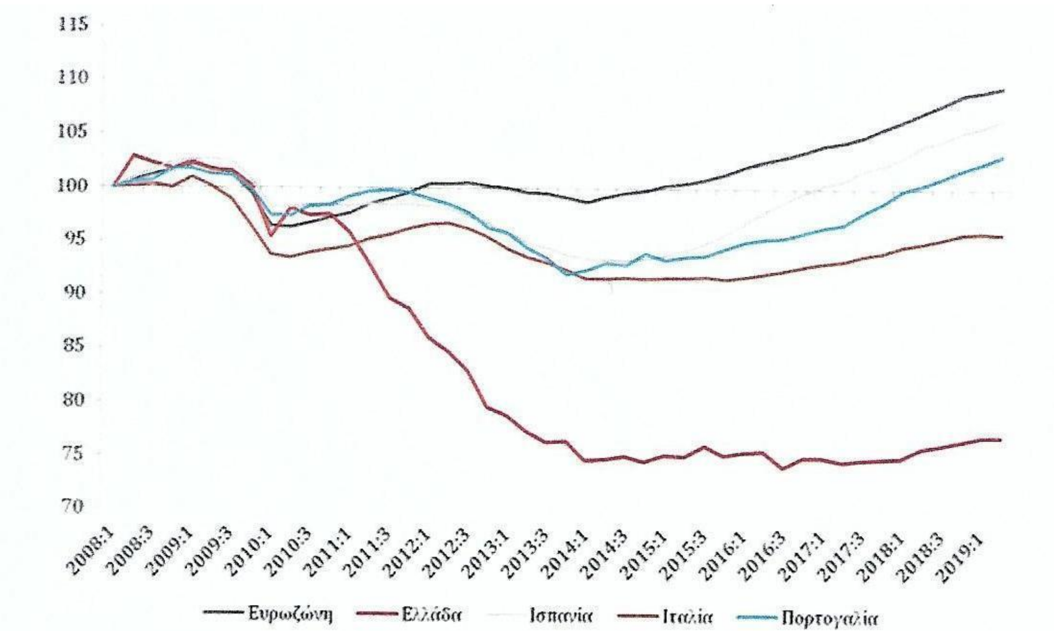
1. Impact on GDP

From 1995 to 2008, Greece's GDP was constantly growing. This was helped by the fiscal easing after the country entered the Eurozone, the cheap borrowing, as well as the organization of the Olympic Game, as we mentioned in a relevant section. In fact, in 2007 it reached a maximum level, as within a decade, it had a growth of 47%, while in the EU and the Eurozone the growth was 29% and 27% respectively. GDP growth in the EU and the Eurozone stopped for the first time in 2008 with the transmission of the Crisis in Europe, which brought growth at a rate of less than 0.5%, while in Greece in the same year for the first time there was a negative sign. In 2009 there was a serious decline (4.3% - 4.5%) in both EU, as well as in Greece. The next year 2010, which is the starting point of the Memorandum period for Greece, while Europe seems to be returning to low growth rates, a rapid contraction of GDP begins in Greece. In the three years 2010-2012, when Greece was trying to implement the first Adjustment Program, its annual GDP decline ranged between 5% - 10%. Since 2014, the reduction seems to stop and the country for the first time since the imposition of the Memorandum, is moving at a positive rate. However in 2015 and 2016, due to the political instability that followed, there was a marginal negative change of GDP. 2017 was the first year after a decade of Crisis that GDP growth in Greece showed a significant positive sign (1.5%), despite the fact that the growth rate continued for 2017 to be lower than the average of the EU and Europe.[307] In 2018 (year of Greece's exit from the strict economic adjustment and surveillance Programs), the rate of change of the GDP of Greece, but also of the Eurozone, was 1.9% on an annual basis, while in the previous year (2017) it was 1.5% for Greece and 2.4% for the Eurozone. Consequently, the Greek economy was not affected by the global slowdown. The reason why the Greek economy showed this relative resilience to the deceleration trends shown by the Eurozone, is the dependence of its economic activity on the domestic consumption. Using as a comparison year 2014, which was the first year of stabilization of the Greek economy, it appears that its growth potential in 2018 was limited. Figure 7 below shows that Greece's real GDP growth is significantly lower than that of Spain, Portugal and the Eurozone. It was closer to Italy's GDP apparently due to a slowdown in Italy's economic activity.[308]

[307] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs), April 2019

[308] Labor Institute- General Confederation of Greek Workers. The Greek economy and employment. Annual Report 2019

Figure 7 : Development of real GDP of Greece, of selected Member states and of the average of the Eurozone. 2008 : 1 - 2019 : 1 (2008 : 1 = 100)



Eurozone Greece Spain Italy Portugal

Source : Eurostat. Received from Labor Institute- General Confederation of Greek Workers. Interim Report 2019

In the first half of 2019 the rate of change of real GDP was positive (1.5%), however clearly lower than the corresponding half of 2008. It is worth noting that the development gap of the Greek economy, as well as the welfare deficit maintained at a high level compared to that of the pre-Crisis period. It also remained high compared to the Eurozone. From the above Figure 7, it appears that the Greek GDP lags behind compared to the level of 2008 by 23%. On the contrary, the Eurozone seems to have recovered since 2015, with the exception of Spain which recovered in 2017 and Portugal in 2018. [309]

2. Impact on GDP per capita and per capita and per capita consumption.

Examining the change in real GDP per capita (see Figure 8), we observe that between 2008 and 2018 the per capita GDP decreased in Greece by 4770 euro, while in Italy by 1470 euro. On the contrary in the Eurozone it increased by EUR 1580, in Spain it increased by EUR 680 and in Portugal by EUR 850. [310] In relation to the EU, the difference of the per capita GDP of Greece with that of EU in 2000 was 30.11%, while in 2017 the gap doubled, reaching

[309] Labor Institute- General Confederation of Greek Workers. The Greek economy and employment. Interim Report 4, December 2019.

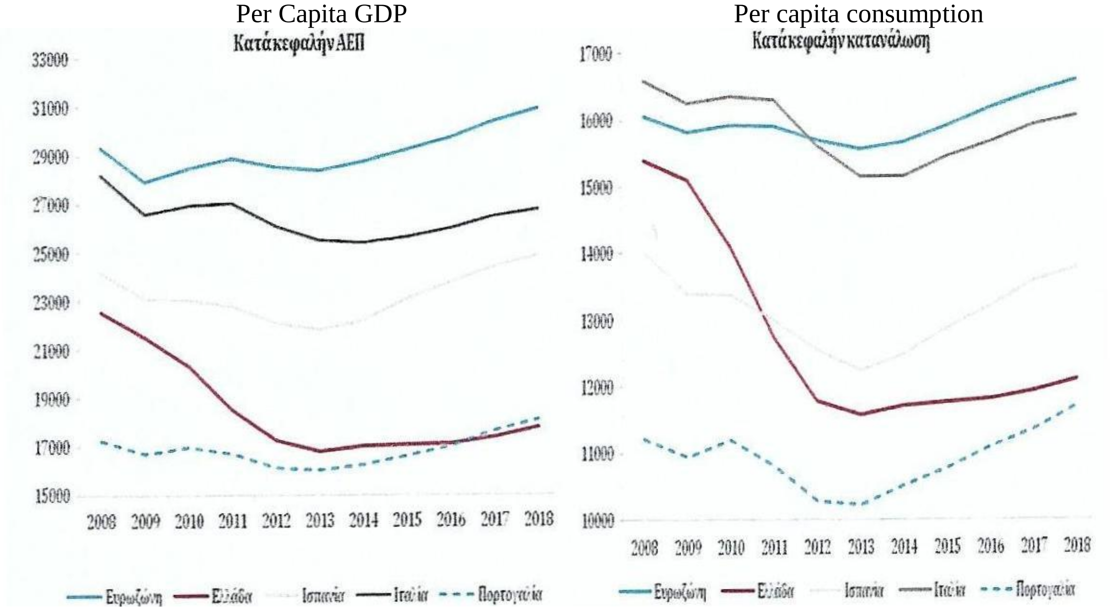
[310] Labor Institute- General Confederation of Greek Workers. The Greek economy and employment. Interim Report 4.

59.2%.[311] Regarding the real per capita consumption (see Figure 8) in Greece, it decreased for the same period (2008-2018) by EUR 3300, while in Italy and Spain the per capita consumption in 2018 is lower than the level of 2008 by EUR 520 and EUR 230 respectively. At the same time, the per capita consumption in the Eurozone as whole increased by EUR 540 and in Portugal by EUR 500.

From the above it appears that the living standard of the country has deteriorated with a large deviation from the Eurozone average. In particular, the relevant figures prove that after 2014, the living standard of Greeks is almost unchanged, despite the growth rates of real GDP.[312]

Figure 8 : Real GDP per capita and real consumption per capita in Greece, in selected member states and in Eurozone average in 2008-2018

Per Capita GDP　　　　　　　　Per capita consumption



Eurozone　Greece　Spain　Italy　Portugal　　Eurozone　Greece　Spain　Italy　Portugal

Source : Eurostat. Received from Labor Institute- General Confederation of Greek Workers. The Greek economy and employment. Interim Report 2019

3. Impact on private consumption

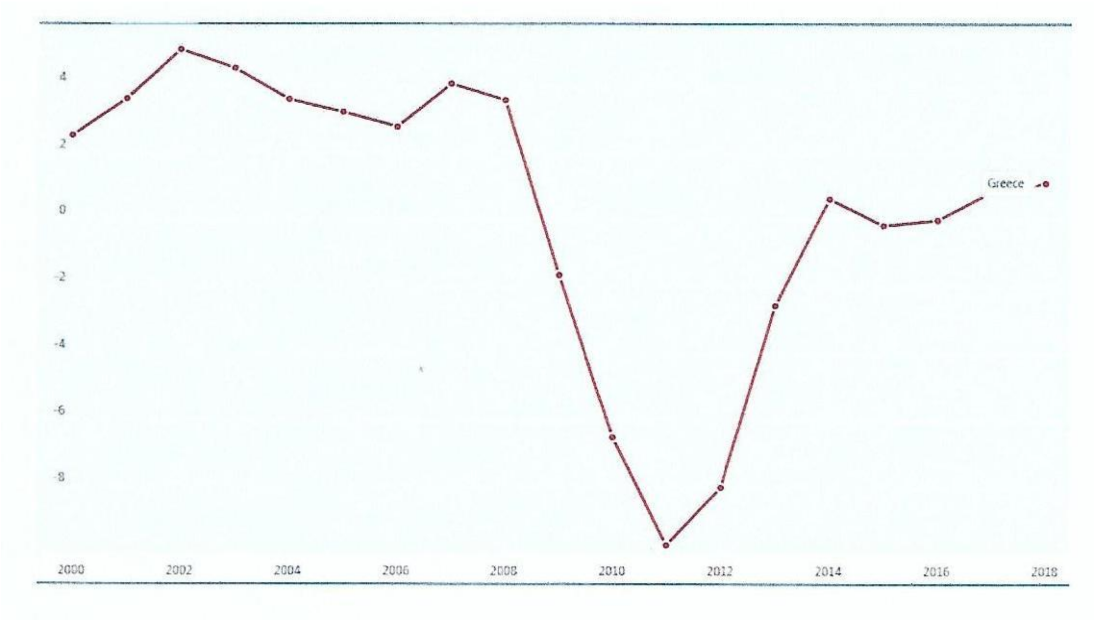
As we mentioned in a previous section, the private consumption was the lever of the Greek economy and participated with the largest percentage in the country's GDP in the period before the Memoranda. However, with the onset of the Crisis and the implementation of

[311] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

[312] Labor Institute- General Confederation of Greek Workers. The Greek economy and employment. Interim Report 4

Austerity Programs, the private consumption fell sharply. In 2011 a decrease of 10% is observed. Overall by 2017 it decreased by 25%. [313] Especially during the period 2010-2012 it was reduced by 21.6% percentage points,[314] as shown in Figure 9 below.

Figure 9 : Rate of change in domestic consumption 2000-2018



Source : Organization for Economic Cooperation and Development- OECD, 2019

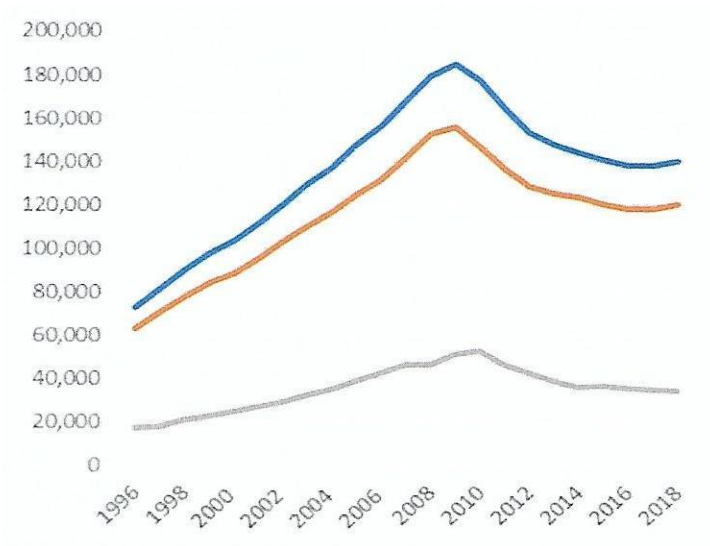
Household consumption peaked in 2009 and then followed a downward trend (Figure 10). The reduction is directly related to the reduction of salaries in the private sector, as well as to the reduction of funds for salary expenditures of the public and the wider public sector, due to the implementation of Austerity Programs. In 2017 the private consumption began to recover. However, despite the relative improvement that occurred since mid-2017, the savings rate of households remained negative, at around - 4% in mid-2018. [315]

[313] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE) Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

[314] Mourmouras I. , Vol. A' ibid

[315] European Commission. Commission Staff Working Document., Country Report Greece 2019. Brussels 27 2-2019. SWD (2019) 1007 final

Figure 10: Actual individual consumption, household consumption and General Government consumption 1996- 2018.



Actual individual consumption
Households
General Government

Source : Hellenic Statistical Authority

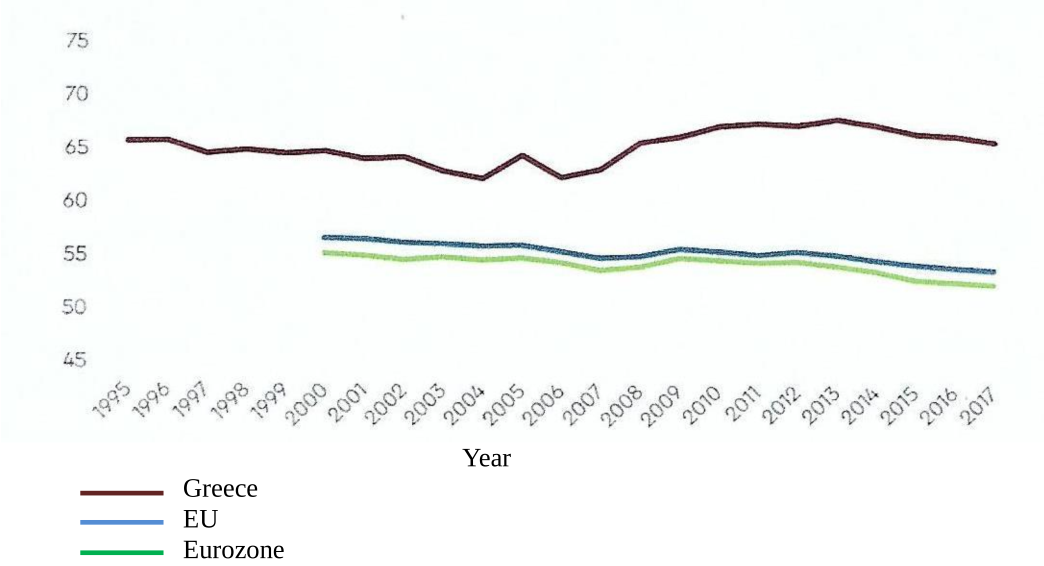
As a percentage of GDP compared to the EU, the private consumption in Greece, as shown in Figure 11 below, throughout 1995-2017, is significantly above (60-65%) than the corresponding percentage of its partners, where their percentage was about 55%. Of course, until 2004 there was a tendency for the percentage to decrease, but paradoxically it increases with the onset of the Crisis and thus the deviation from the EU average is growing. Eventually, the share of the private consumption declines only after the implementation of the Austerity Programs. It should be noted that from the beginning the high percentage (compared to the rest of Europe) of consumer spending, was considered to be to blame for Greece's fiscal divergences and to a large extent the root cause of the Crisis.[316]

For the third and the fourth quarter of 2018, the private consumption was relatively stable, corresponded to 68% of GDP and in real terms increased by 350 million euros per quarter.[317]

[316] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

[317] Labor Institute- General Confederation of Greek Workers. The Greek economy and employment. Report 2019 , ibid

Figure 11 : Private consumption in Greece, as a percentage of GDP 1995-2017.



Source : Eurostat. Received from Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

4. Impact on investment

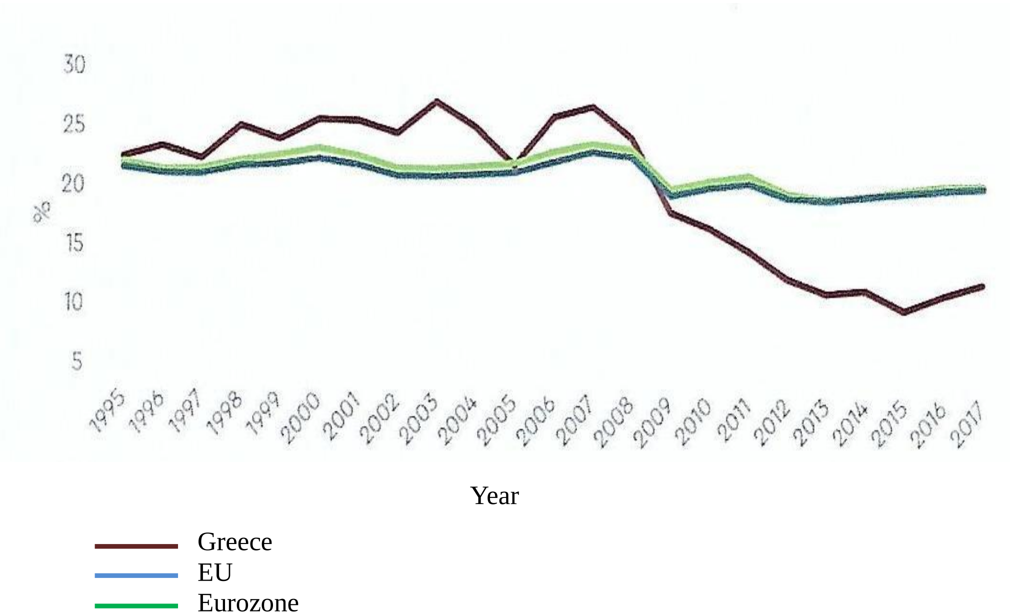
Investments in Greece are the component of the domestic product that has been hit hardest by the Crisis, and even more than that which private consumption and public spending were hit. Already, since 2008 the size of investments was changing at a negative pace. During the period 2010-2012, it declined by 39%. This is the greatest decline of all the components of GDP in the first years of implemention of the Adjustment Programs. In total, from 2008 to 2017, the investments decreased by 62%, while in the period before the Crisis, 1995 – 2008, they had increased by 184%. [318]

As a percentage of GDP before the Crisis, investments accounted for 25% or more of GDP, while in 2015 they reached only 10% of GDP, mainly due to the reduction of investments in housing (see Figure 12). In absolute numbers, while in 2007 the investments amounted to 63.1 billion euros, in 2015 they decreased by 70% and reached just 18.1 billion euros. It is estimated that the investments that were not made during the period of Memoranda, exceed a total of 200 billion euros. Thus, Greece ended up having during the implementation of the Memoranda the lowest percentage of investments in terms of GDP

318 Mourmouras I. , Vol. A' ibid

in relation to the EU. This also shows the size of the disinvestment and the downgrading of the country's capital.[319]

Figure 12 : Investments in Greece as a percentage of GDP 1995-2017



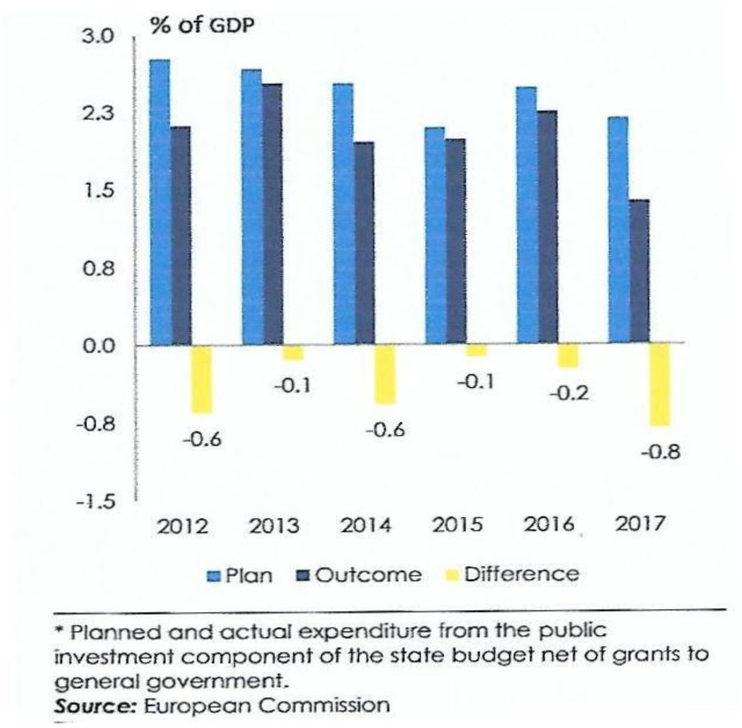
Source : Eurostat. Received from Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs), ibid.

The reasons that contributed to this decrease in investments are primarily the decrease in demand that led to the contraction of the profits of Greek and foreign companies during the Crisis and the Memorandum period. Also the increased risk that had investments in Greece, due to the continuous deterioration of the economy by Rating Agencies, led foreign and domestic companies to a standstill, until the stabilization of the economy. An equally important reason is the reduction in the construction activity during the implementation of the Adjustment Programs. This activity has been the development lever for the Greek economy for the last 50 years. The excessive lending of bank loans before the Crisis, in particular for the acquisition of housing, gave the construction activity the characterization of the growth lever. Large contribution to the reduction of investments had the exclusion of financing of companies from the financial sector after the Crisis and for the entire period of implementation of the Memoranda. To all these reasons concerning private investments, we should add the reduction of public investments by € 1.5 billion per year for the period 2010-

[319] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

2016, compared to in the period 2000-2008. [320] Public investments, which over time have affected both the total investment and the country's GDP are an important factor in mobilizing private investment. In this respect they are included in the reasons for the reduction of private investment in the period after the implementation of the Memoranda. It is worth noting that between 2012-2017, 83% of the amounts budgeted for public investment, were spent.[321] The Figure 13 illustrates this development.

Figure 13 : Underspending from the public investment budget, 2012-2017



Source : European Commission Staff Working Document (SWD) 27-2-2019

Although the public investments have partially recovered in 2019, from the slowdown that occurred during the Crisis and the implementation of the Memoranda, the country's investment needs are still high. Investments in sectors such as health, are still significantly below the euro area average. In Greece in 2016 the percentage of the investments in the health sector amounted to 0.05% of GDP and in the Eurozone to 0.18% of GDP.[322]

[320] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

[321] European Commission. Commission Staff Working Document., Country Report Greece 2019, ibid

[322] European Commission. Commission Staff Working Document, ibid

5. Impact on Foreign Direct Investment (FDI)

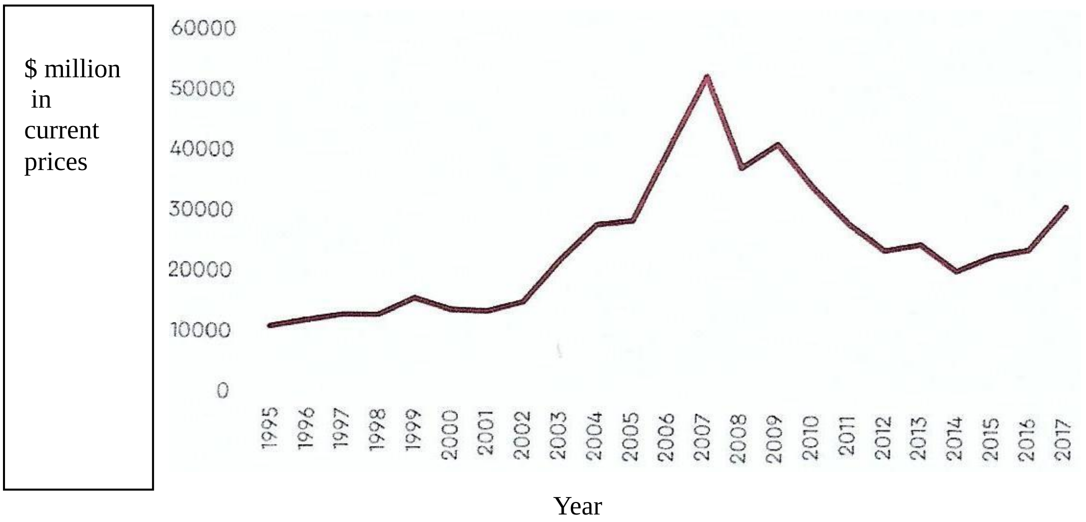
It is logical that foreign investment in Greece was a small percentage of GDP, as mentioned above, investments as a whole constitute a small part of GDP. This is also one of the characteristics of the Greek economy which over time does not attract capital from abroad and is based mainly on domestic sources of funding. Thus, during the implementation of the Adjustment Programs, the FDI covered only 10% of total investments in the country. This percentage is vasty lower than the European average and still continues to deviate from the European average.

In 2000 the stock of Foreign Direct Investment was at 14.1 billion euros, in 2007 it jumped to 563.2 billion euros, while upward trends were recorded in the Eurozone and Europe in the corresponding period. However, with the onset of the Crisis, something unprecedented was observed. While the stock of FDI in the EU and in the Eurozone after a small decrease in 2008, continued to grow at a small rate of course, the corresponding stock in Greece decreased dramatically, reaching in 2014 to 21.5 billion euros (see Figures 14 and 15). This shows the unprecedented reduction of foreign capital in Greece which is due to the decision of foreign companies to leave the country, due to the measures in force during the Adjustment Programs period and the uncertainty of the economic situation in Greece at that time.[323] Of course, the overall reduction in investments had a direct impact on productivity of the economy, as human resources are combined with lower quality capital equipment and infrastructure. It is worth mentioning that according to Eurostat data, the productivity in Greece per employee during the period of the Crisis, decreased by more than 15% compared to the EU.[324]

[323] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

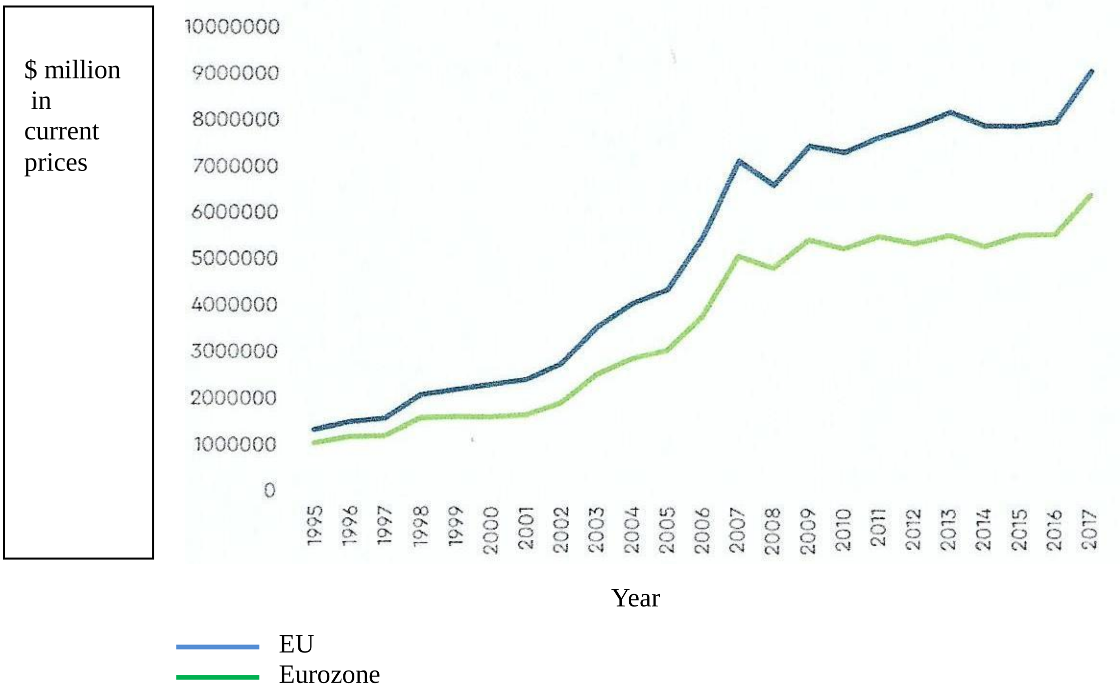
[324] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), ibid

Figure 14 : Foreign Direct Investment Stock in Greece 1995-2017



Source : UNCTADstat (United Nations Conference on Trade and Development). Received from Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), ibid

Figure 15 : Foreign Direct Investment Stock in the EU and in the Eurozone 1995-2017



Source : UNCTADstat. Received from Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), ibid

6. Impact on public expenditure

In the pre-Crisis period (1995-2008), public expenditure increased faster (189%) than the private consumption and investments. This fact shows that a large part of the consumption and investments[325] was funded by public expenditure. After the onset of the Crisis and the implementation of the Memoranda (2008-2017) public spending decreased by 25%, ie. as much as private consumption.

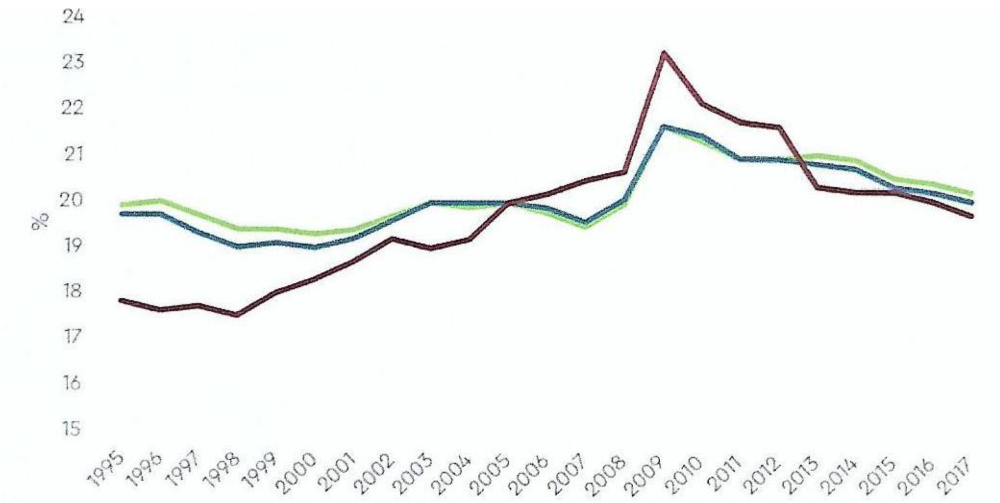
As a percentage of GDP, the public expenditure in Greece until 2005, was consistently below the corresponding average of the EU and the Euro area. This fact dispels the myth that Greece had a huge and expensive public sector compared to the other EU countries. Since 2005, the public spending has been growing as a percentage of GDP and is above the European average. The trend of divergence of public spending in Greece from that of the Eurozone continued until 2009. From 2009 onwards, as shown in Figure 16, there is a collapse of public expenditure in Greece, to such an extent that after 2013 it was again below the European average. This collapse and to this extent, was the result of the harsh measures of the Adjustment Programs implemented.[326] In 2008 the public expenditure in Greece continued to decline in real terms and as a percentage of GDP. Specifically, the third and fourth quarter of 2018 it decreased by 460 million euros and by 140 million euros respectively, compared to those of 2017. [327]

[325] This is the reason why we have included this component of GDP in the presentation in general of the effects of the economic Adjustment Programs in Greece.

[326] Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE) Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

[327] Labor Institute- General Confederation of Greek Workers. The Greek economy and employment. Annual Report 2019 , ibid

Figure 16 : General Government Expenditure as a percentage of GDP



Year

Greece
EU
Eurozone

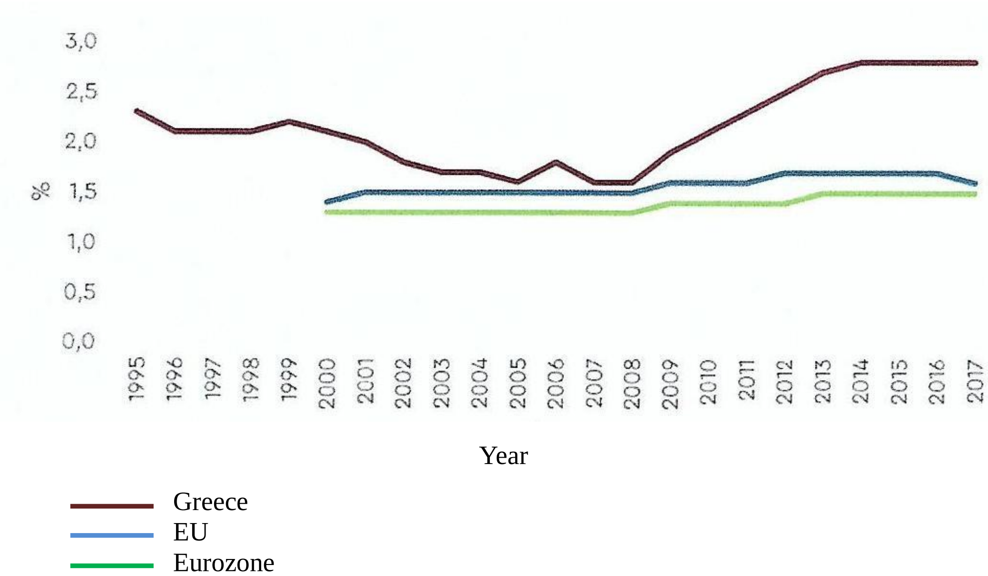
Source : Eurostat. Received from Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs)

About Non-Profit Institutions Serving Households, [328] the percentage of their expenditure in relation to GDP, until 2005 recorded a downward trend and convergence with that of the EU. However, after the onset of the Crisis, this percentage jumped and already in 2018 it doubled compared to the percentage in the EU, while in 2017 Greece was the country with the highest public expenditure on Non-Profit Institutions Serving Households, as a percentage of GDP, in Europe, as shown in Figure 17. This increase is due to the decrease in GDP, but also to the real increase in this expenditure during the Crisis period that the aid organizations provided for the refugees.[329] All of the above show the extent to which the level of public spending has been affected and consequently show the impact on the living standard in Greece during the period of Austerity Programs.

[328] According to the definition of the European System of Accounts (ESA 2010) used by Hellenic Statistical Authority, the Non-Profit Institutions Serving Households include non-profit Institutions that provide goods and services in households, free or at low prices that are not freely formed in the market. Such are the trade unions, professional organizations, consumer associations, charities organizations, church etc.

[329] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), Report 2019, ibid

Figure 17 : Expenditure of Non-Profit Institutions Serving Households as a percentage of GDP



Source : Eurostat. Received from Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs)

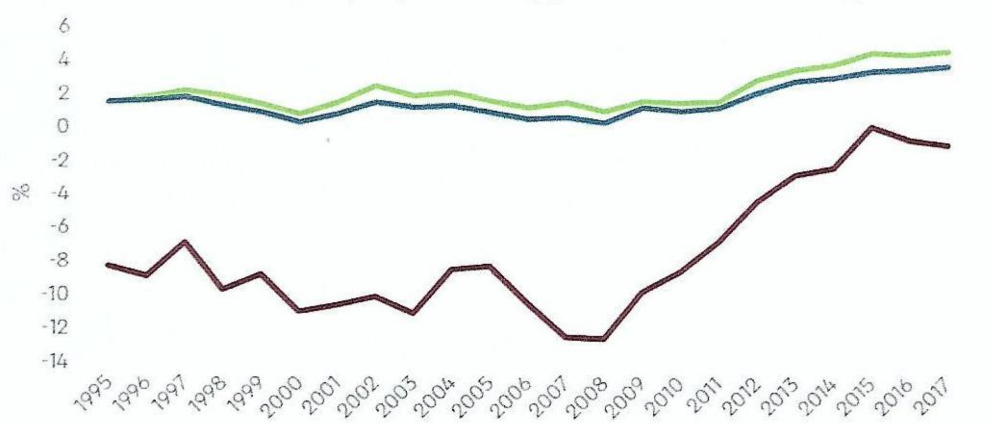
7. Impact on trade balance

The only component of GDP that seems to have improved during the Crisis, is the trade balance. During the period 1995-2008 the trade deficit of Greece, increased by 297%. From this we conclude that a large part of the fiscal expansion and consumption growth directed at imported goods and services. In the period 2008-2015 there was an impressive reduction of the trade balance by 94%. This means that the country regained 1/3 of the competitiveness that it had lost in the previous period. The decrease is almost exclusively due to the large reduction in imports (-30%), due to limited income during the Adjustment Programs, while the exports increased by only 5%.

As a percentage of GDP (see Figure 18 below), the trade deficit which in 2008 amounted to 12.6%, in 2017 it reached 1%, while in 2015 it was balanced.

In terms of comparison with the trade balance of the EU and the Eurozone, before the Crisis, in Greece its trade deficit had reached enormous heights and was the highest in the Eurozone. During the Crisis, it was also the highest in Europe almost all years of implementation of the Adjustment Programs. It was fluctuating in levels that often exceeded the deficits of the countries of the former Eastern Bloc.[330]

Figure 18 : Greece’s trade balance as a percentage of GDP (1995-2017)



Year

Greece
EU
Eurozone

Source : Eurostat. Received from Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE). Report 2019 for Small and Medium sized Enterprises (SMEs)

8. Impact on competitiveness

The World Economic Forum (WEF) has been publishing since 2004 the Global Competitiveness Report (GCR) with which calibrates countries on the basis of a competitiveness index (Global Competitiveness Index – GCI) and on scale of 1-7. [331] Source for creation of the twelve sub-indexes that make up the GCI are the statistics of internationally recognized organizations (IMF, World Health Organization, etc.).

Greece, according to the Annual Reports of WEF [332] for the years 2008-2018, in 2008 recordered the highest competitiveness index ranking the 65th position among 131 countries

[330] Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), ibid

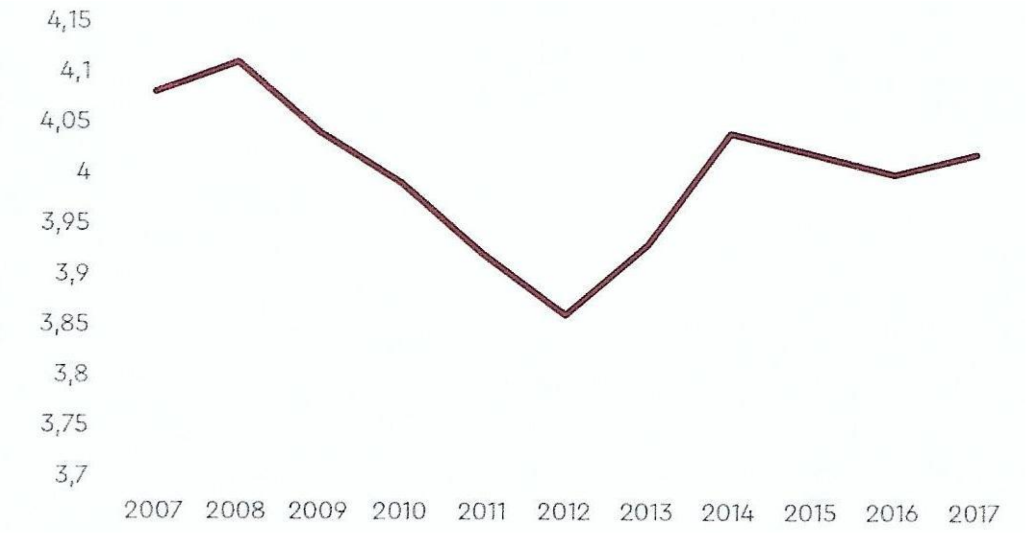
[331] From 2017-2018 the index is measured on a scale of 1-100. Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE)

[332] World Economic Forum The Global Competitiveness Report 2008-2009
World Economic Forum The Global Competitiveness Report 2009-2010
World Economic Forum The Global Competitiveness Report 2010-2011
World Economic Forum The Global Competitiveness Report 2011-2012
World Economic Forum The Global Competitiveness Report 2015-2016
World Economic Forum The Global Competitiveness Report 2016-2017
World Economic Forum The Global Competitiveness Report 2017-2018
World Economic Forum The Global Competitiveness Report 2019

and a score of 4.1 on a scale of 1-7. But then the index was deteriorating. In 2009 it was ranked 71st, in 2010 it was ranked 83rd and in 2011 90th among 142 countries. By 2015 it ranged between 96th and 81st position in a total of 144 countries. In the period 2017-2018 it is ranked 87th among 137 countries with a score of 4.1 on a scale of 1-7 and in 2019 it occupied the 59th position[333] among 141 countries with a score of 62.5 on the scale of 1-100. These figures show the magnitude of the decline in the competitiveness, given that Albania in 2011 held the 78th position and Turkey the 59th position. The following Figure 19 is revealing of this change.

In relation to the EU, Greece since 2009 with the enforcement of Adjustment Programs has consistently recorded lower performance in the competitiveness index than all EU countries and is at the level of Nepal.[334]

Figure 19 : Global Competitiveness Index (GCI) for Greece 2007-2017



Source: World Economic Forum. Received from Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE)

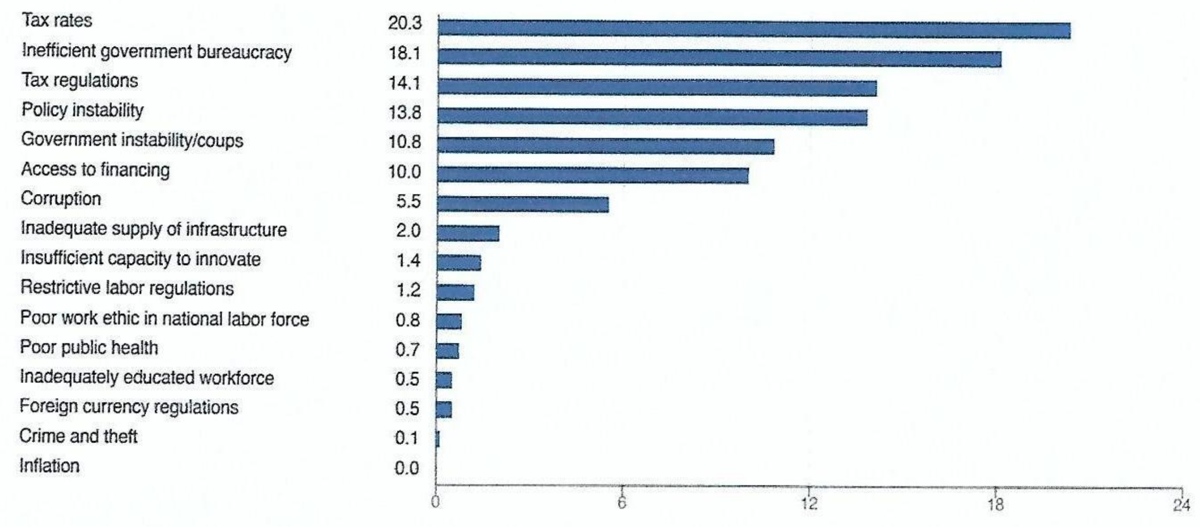
333 Federation of Hellenic Information Technology & Communications Enterprises (SEPE), Issue 17, December 2019

334 Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE) Report 2019 for Small and Medium sized Enterprises (SMEs), ibid

Greece presents the best performance in the sub-indexes “Health and Primary Education” 48th position, “Higher Education and Training” 44th position and “Infrastructure” 38th position. On the contrary, Greece presents the worst performance in the sub-indexes “Financial Market Development” 133rd position, in “Macroeconomic Environment” 117th position and “Labor Market Efficiency” 110th position.

Also according to the same WEF Repots (see Figure 20) the most important obstacles to entrepreneurship in Greece in the period 2008-2018 are the level of taxation and inefficient bureaucracy. Following is the tax framework, the instability of policies implemented, the political instability, the access to finance and the corruption.

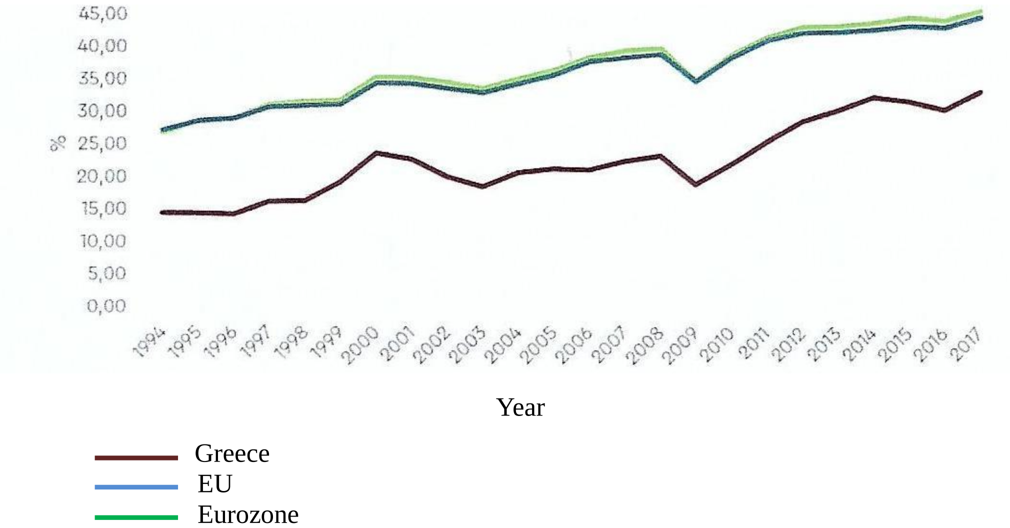
Figure 20 : Entrepreneurship problems in Greece 2008-2018



Source : World Economic Forum, The Global Competitiveness Report 2017-2018

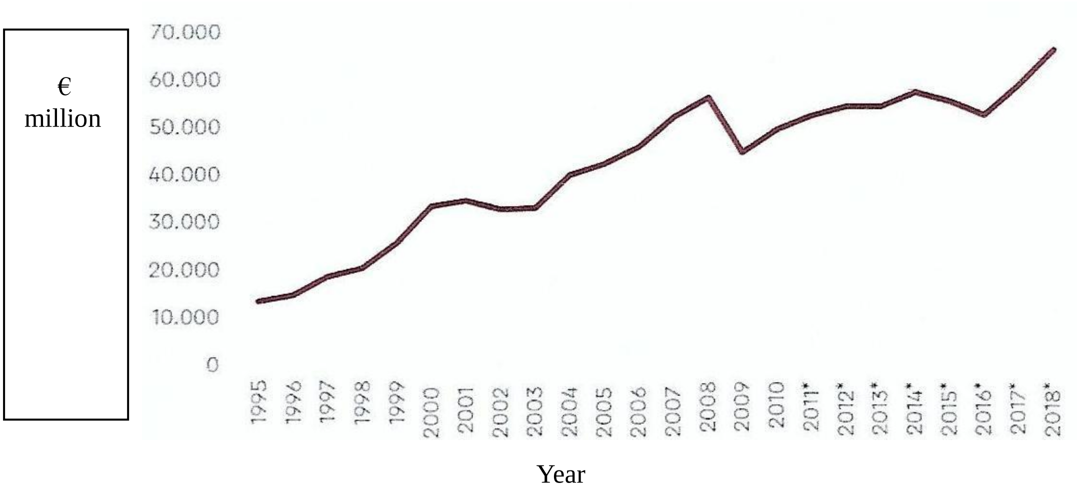
In terms of export dynamics, Greece lags significantly behind the European average over time. During the Crisis, there was a rapid increase in the share of exports in the country’s GDP (see Figure 21). However this phenomenon is mainly due to the reduction of GDP in the corresponding period and not to another reason, as Greek exports as absolute value remained almost unchanged, around 55 billion euros during the Crisis. After some stagnation, in 2018 the exports managed to reach 66.7 billion euros, as shown in Figure 22.

Figure 21 : Greece's exports as a percentage of GDP 1994-2017



Source : UNCTADstat (United Nations Conference on Trade and Development). Received from Institute of Small Enterprises - Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), ibid

Figure 22 : Greece's exports 1995-2018 (EUR million)



Source : UNCTADstat. Received from Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), ibid

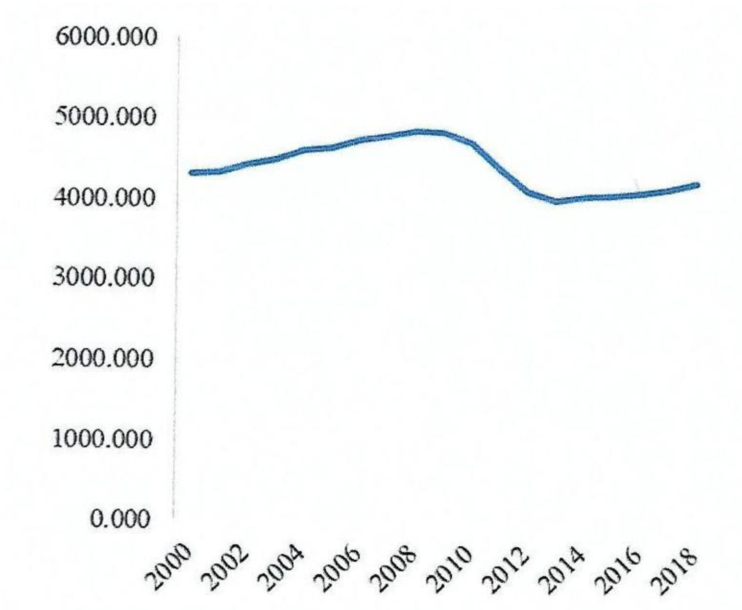
9. Impact on employment

Perhaps the most serious impact of the austerity policy of the Adjustment Programs, occurred in the field of employment. Even before the signing of the first Memorandum, Greece was facing a problem of high unemployment. In the third quarter of 2008 the unemployment was at 7.3% and in 2009 at 9.5%. However, the fiscal austerity measures that led to the closure of businesses, shrinking the public sector, restricting job creation doubled unemployment in 2011 to 17.7%. In 2012, they formed it at the highest level of the entire EU (at 23.6%) and in 2013 at an even higher rate. In the first quarter of 2014 the unemployment jumped to 27.8%. These percentages ranked Greece in the sad first position among the EU member states on the issue of employment.[335]

As for women and young people under the age of 25, the unemployment rate for women in October 2012 was 30.4% and for young people (under the age of 25) in October 2013 it jumped to 56.6%.

In Figure 23 that follows we observe the large drop in employment from 2009 onwards.

Figure 23 : Number of employees 2000-2018 (in thousands)



Source: Hellenic Statistical Authority. Data processing.

Access https://www.statistics.gr/el/statistics/-/publication/SJO01/-

Respectively, in Figure 24 we observe the dramatic increase in unempoyment with the number of unemployed reaching the highest level in 2013. Specifically, in absolute numbers, the umemployed in the first quarter of 2008 were 364,000 and in the fourth quarter of 2014 amounted to 1,246,000. So, we could say that the cost of the austerity policy by the end of 2014 was about 1 million unemployed with dramatic economic and social consequences for the respective households.[336]

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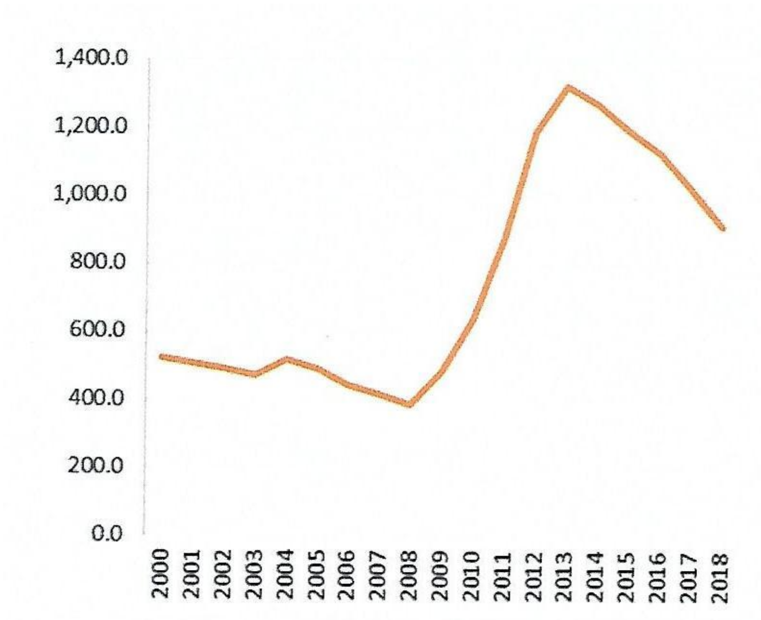
[335] Mourmouras I. , Vol. A' ibid

[336] Labor Institute – General Confederation of Greek Workers (GSEE). The Greek economy and employment. Annual Report 2015

Figure 24 : Number of unemployed 2000-2018 (in thousands)



Source : Hellenic Statistical Authority. Access https://www.statistics.gr/el/statistics/-/publication/SJO01/-

Since mid-2017, there has been a downward trend in the unemployment rate from 5% - 10% per year. In the period 2017-2018, the unemployment rate decreased and in particular, in 2018 the official unemployment rate reached 19.3% from 21.5% in 2017, while in the first nine months of 2019, according to data from the Bank of Greece,[337] it fell to 17.5% (see Figure 25 below). At the same time new jobs were created, but the largest percentage of them (54.9%) according to Bank of Greece [338] were part-time jobs.

Studies conducted from time to time by the General Confederation of Greek Workers, estimate that the return of the unemployment rate below 10% can be expected only in the middle of the next decade.[339]

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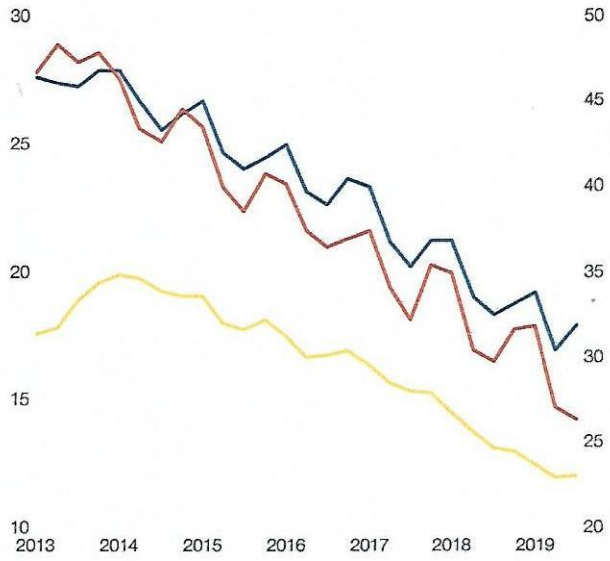
337 Bank of Greece, Governor's Report for the year 2019

338 Bank of Greece, Governor's Report for the year 2019, where details of the Information system ERGANI

339 Labor Institute – General Confederation of Greek Workers (GSEE). The Greek economy and employment Annual Report 2019

Figure 25 : Unemployment rates (first quarter 2013 – third quarter 2019)



Percentage % of the workforce

Total unemployment
Long-term unemployment
Unemployment of young people 20-29 years old (right scale)

Source : Hellenic Statistical Authority, Labor Force Survey. Received from Bank of Greece, Governor's Report for the year 2019

Regarding the replacement of the income of the unemployed, during the Memoranda, programs to increase their income were implemented. Compared to other countries, however, Greece until 2019 holds the third position from the end, after Romania and Turkey in terms of the level of income of the unemployed. A relevant research showed that an unemployed person in Greece during the first year of unemployment receives proportionally reduced income by 1/3 compared to what he would receive in other OECD country. The same research showed that in other countries where economic Adjustment Programs were implemented, the replacement rates of the income of unemployed are higher than in Greece. Specifically, in Cyprus the replacement rate is 74.6%, in Ireland is 69.6%, in Portugal 67.3% and in Spain 58.3%. These percentages show the lack of care for the unemployed in Greece during the period of the Memoranda, despite all the support programs that were implemented.[340]

[340] Labor Institute – General Confederation of Greek Workers (GSEE). The Greek economy and employment. Annual Report 2019

The implementation of the financial Adjustment Programs had negative effects and in wage formation. The implementation of the Programs was linked to continuous and violent deregulation of the labor market. In the context of stimulating the competitiveness of the economy, a reduction of the minimum wage was imposed from 751,39 euros gross in 2012 to 586,06 euros, ie. a reduction of 22% and for young people under the age of 25 the reduction was 32%. The recent increase in the minimum wage to 650 euros, ie. an increase of 10.9% and the abolition of the minimum wage for young people, replaced only half of the initial salary reduction imposed by the Programs.

In the private sector, comparing the salaries of full-time employees with the salaries of part-time employees during the Memoranda period (2010-2018), we see the tragic situation, as shown by the data of Single Social Security Entity (EFKA) in Table 10 below. The part-time employee was paid less than half per hour of work compared to the full-time employee. The average monthly regular earnings of employees (in total full-time and part-time employment) which in 2010 amounted to 1,247 euros, decreased by 28% by 2018 and amounted to 898,59 euros.

It is worth noting the unfavorable position of the female workforce in relation to that of men in Greece. The participation of women in the labor market is extremely low. According to a recent Report of the European Commission in 2019, the employment rate of women in Greece, which amounts to 48%, is 19.7 percentage points lower than that of men and is among the lowest in the EU. Before the onset of the Crisis and until 2009, the unemployment rate gap between women and men was 6.3%, while in the Eurozone it was only 0.3%. However, with the deregulation of the labor market created by the implementation of Austerity Programs, this gap widened and in 2017 reached 8.3%, which is the highest of the period 2008-2017.[341]

[341] Labor Institute – General Confederation of Greek Workers (GSEE). The Greek economy and employment. Annual Report 2019

TABLE 10 : Number of Insured, Earnings and Wages in the private sector

2010-2018

Year	Type of employment	Full	Part-time	Total
2018	Insured	1,702,675	696,825	2,396,602
	Average regular earnings (€)	1,111	375.53	898.59
	Average wage (€)	48.61	23.18	42.89
2010	Insured	1,521,404	320,566	1,850,593
	Average regular earnings (€)	1,394	562	1,247
	Average wage (€)	58.34	30.92	54.46

Source : Single Social Security Entity (EFKA). Received from Labor Institute, Report 2019, ibid

10. Impact on the well-being of citizens

The decrease in economic activity during the Memorandum period also had an impact in the well-being of citizens. The degree of prosperity is first reflected in the per capita GDP, which as mentioned in previous subsection, decreased since 2008, due to the economic Adjustment Programs. Intertwined with the well-being of citizens is of course the degree of poverty and the implementation of the austerity policies of the Memoranda had a significant impact of the rates of impoverishment of the population. The increase in direct and indirect taxation imposed by the austerity policy, as well as the unemployment that followed the closure of many businesses, worsened the living standards of Greek households.[342] Figure 26 below shows the percentage of the residents in Greece who faced difficulties in meeting basic needs before the imposition of Austerity Programs and after the imposition of Programs and specifically the period 2016-2018.

[342] Labor Institute – General Confederation of Greek Workers (GSEE). Annual Report 2015, ibid

Figure 26 : Percentage of the population in Greece with inability to cover basic needs (2009 and 2016-2018)

Greece

Delay in payment of bills, interest, loans and installments

Inability to cover emergencies

Inability to eat fish or meat every other day

Inability to own a car

Inability to adequately heat

Inability for a week off

Inability to meet their obligations

EU (27)

Delay in payment of bills, interest, loans and installments

Inability to cover emergencies

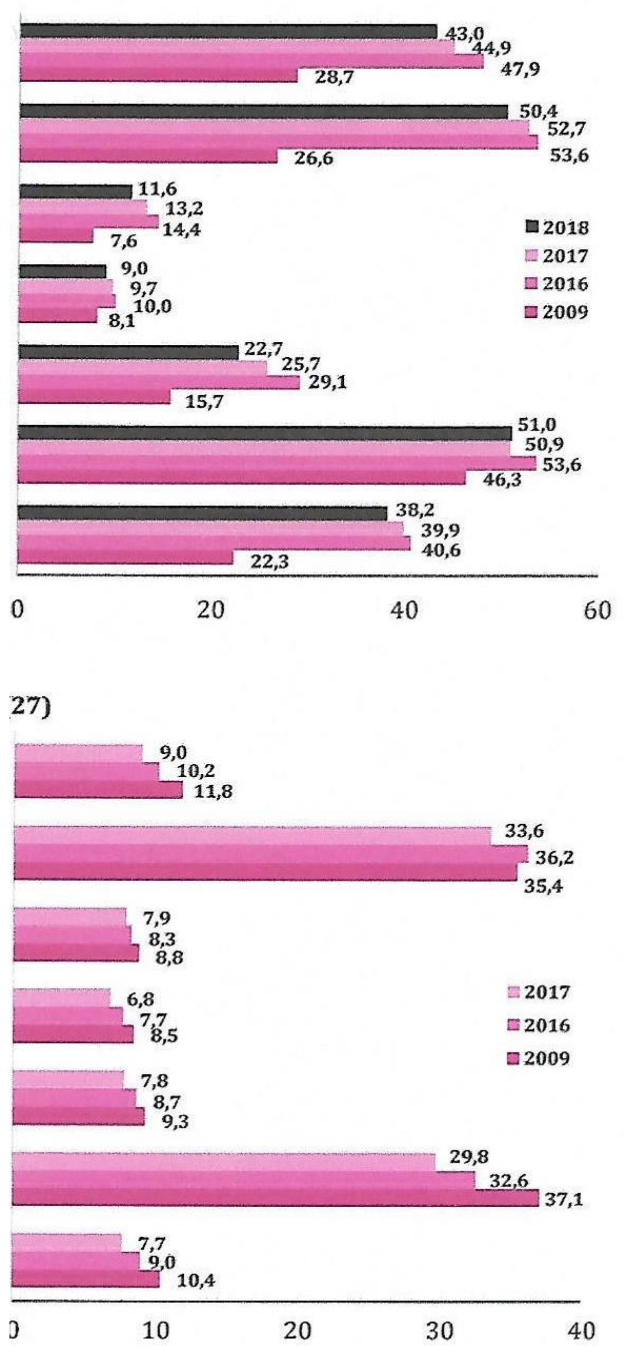
Inability to eat fish or meat every other day

Inability to own a car

Inability to adequately heat

Inability for a week off

Inability to meet their obligations



Source : Eurostat. Received from Labor Institute, Annual Report 2019

Analyzes of Labor Institute showed that during the implementation of the Adjustment Programs a strong dependence of the population on pensions appears, as pensions in Greece are a "safe net" not only for the beneficiaries, but also for the other members of the wider family.[343] Among those employed, the poverty rate among part-time workers was greater. From 30.1% which was the poverty rate in this category of population in 2009, it increased to 51.7% in 2012. As for the unemployed, in 2009 the poverty rate was 34.8% and in 2012 it rose to 65.5%. [344]

11. Impact on public debt

Public debt began to become a more substantial economic figure after the 1973-74 crisis. In the first year of the regime change it amounted to 25% of the GDP. In 1993 with the Maastricht Treaty, when the member states were obliged to disclose all their liabilities, it was revealed that it was higher. So, invisible liabilities of decades that until then were not calculated in the debt, formed the real amount of debt. Before 2009, the economy had become an absolute speculator,[345] who has no primary surplus to serve even a portion of his debt. The course of the debt until the emergence of the crisis in Greece, is shown in Table 11 below.

TABLE 11 : Greek debt course 1975-2009

Year	Debt (billion euros)	Debt % of GDP
1975	0.6	26%
1981	2.5	34 %
1989	22.4	69 %
1993	69.2	110 %
1996	97.8	111 %
2003	168.1	109 %
2009	298.0	127 %

Source : Explanatory Budget Report of respective years. Received from Giannitsis Tasos. Greece in Crisis, Polis Publications 2013

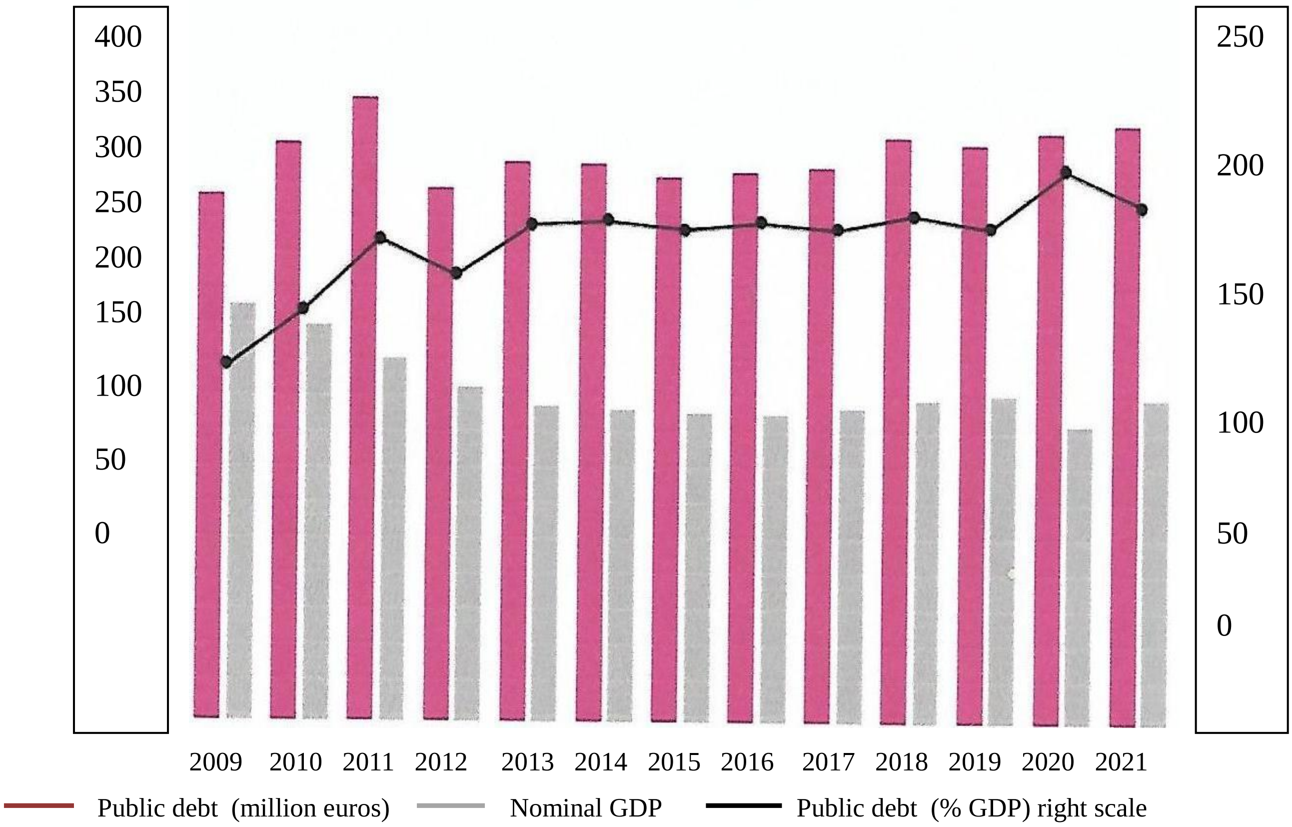
[343] Labor Institute – General Confederation of Greek Workers (GSEE). Annual Report 2018
[344] Labor Institute – General Confederation of Greek Workers (GSEE). Annual Report 2015
[345] Argetis G. , Bankruptcy and financial crisis. Failure and collapse of the Greek model of capitalism. Alexandria Publications 2012

In the years of the Memoranda the evolution of the public debt was disappointing, as the fiscal adjustment policy implemented in Greece, unfortunately did not leave unaffected and the evolution of public debt. In 2010 it was at 148.3% of GDP, while after two years of austerity (instead of decreasing as intended the austerity measures), it reached 170% of GDP in 2011. Thus, the size of the debt that was the main reason that led Greece to the Support Mechanism did not decrease, despite the austerity measures of the first Memorandum. As mentioned in other section, in 2012 the PSI was implemented, which reduced the public debt by about half. [346] In 2014 the debt jumped to 177% of GDP, in 2015 to 177.4% of GDP, while in 2016 it increased compared to 2015 and it reached 179.7% of GDP. The following year, in 2017, it amounted to 176.2% of GDP and in 2018 it showed an increase compared to 2017 by 17.1 billion euros, to reach 181.1% of GDP, despite the slight growth of the economy. Finally, in 2019 it was at 176.6% of GDP, while in the first quarter of 2020 it appears reduced by 8.1 billion euros compared to the corresponding quarter of 2019.

Figure 27 shows the evolution of debt from 2009-2021 (estimate for 2020-2021). It is worth noting that from the beginning of the Crisis in 2009 until in 2019, the public debt ratio increased by 54.4 percentage points, which proves the problematic debt crisis management framework. [347]

[346] Mourmouras I. , Vol A' ibid
[347] The data were obtained from the Annual Reports of Labor Institute – General Confederation of Greek Workers of the respective years.

Figure 27 : Evolution of General Government Dept 2009-2021 (estimate for 2020-2021)



Source : AMECO (May 2020), Ministry of Finance. Received from Labor Institute, Annual Report 2020.

The eruption of debt according to Professor Tasos Giannitsis,[348] is due to two institutional changes : in the independence of the Bank of Greece (due to which the state was not able to order the Bank of Greece to issue banknotes) and in the accession of the country in EMU. He expresses the view that a different approach to things in the field of the economy and politics before the Crisis, would make the Crisis milder.

[348] Giannitsis Tasos, Greece in Crisis. Polis Publications 2013

E) What the Memoranda achieve

Summarizing the effects of the financial Adjustment Programs and classifying them as positive and negative, we observe the following :

Negative effects

a. In particular, the implementation of the first Memorandum during the three years 2010-2012 caused the following effects on the business and economic development of the country in general :

- The recession in the first year of the implementation reached - 4.9% and the following year (2011), at - 7.1%. It is considered the greatest recession for the country in the post-war years.[349]

- GDP decreased for the third consecutive year by 4.5%, due to a decrease in domestic demand.

- The private consumption was reduced by a total of 21.6%, while the public consumption shrank by 20.1%.

- Inflation remained high (4.7%) at this time, mainly due to the increase in indirect taxes.

- The policy of internal devaluation imposed by the Adjustment Programs, led to a drastic cut in public and private sector wages, as well as in pensions. Average nominal earnings in the economy as a whole fell by 5%.

- The disposable income of households decreased dramatically. Parents' pensions, to a large extent constituted and still constitute the "income" of their fired and unemployed close relatives, a fact that negatively affected the consumption index of the households.

- At the labor level, 180,000 jobs were lost.

- Unemployment from 9.5% in 2009 doubled in 2011 (17.7%) and in 2012 reached the highest level in the entire EU, reaching 23.6%. In October 2012 the unemployment rates for women were 30.4% and for young people under the age of 25 jumped to 56.6%. [350] This percentage "justifies" the migration of scientific and generally skilled workforce from Greece to EU countries with further demographic consequences. Despite the recent improvements, the youth unemployment and long-term unemployment continue to be a concern in the European Commission's assessment, that is reflected in the Assessment Report of the Greek economy in 2019. [351]

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[349] Mourmouras I. , Vol A' ibid

[350] Mourmouras I. , Vol A' ibid

[351] European Commission. Commission Staff Working Document., Country Report Greece 2019, SWD (2019) 1007 final , ibid

- The correlation between the unemployment rate and the poverty rate strengthened in the period 2009-2012 to the extent that 1 in 3 poor people came from unemployment.

- The investment inactivity that existed before 2009, turned into intense disinvestment in this Memorandum period, a fact that contradicts the persistently declared objectives of the Programs. [352]

- Gross fixed capital formation declined in the three years 2010-2012 by 39%. Both private and public investment decreased significantly. In 2015 they reached the lowest level. They are still the lowest in the EU, as they move below 13%. [353]

b. In general, throughout the period 2008-2018, Greece experienced an unprecedented decline in its living standards, even in international comparisons. During the Crisis and the Memoranda, Greece’s GDP collapsed in an unprecedented way, constantly declining since 2008. The country’s GDP fell by a total of 26.12% . The growth gap between Greece and the European partners widened this decade, as the economies of EU countries grew by 8%. The same happened with the gap between Greece and the Eurozone countries, as the latter’s economy grew by 6%. [354]

- Businesses closed and employees were fired. Large Greek companies with export orientation or international productive activities (Coca Cola 3E, BIOXALKO etc.) moved their headquarters abroad during the Memorandum period, mainly to secure lower financing. Small businesses and self-employed also moved their headquarters to Bulgaria and Cyprus, due to lower tax rates and insurance contributions.[355]

- Non-performing mortgage and business loans increased, which affected the dignity of many debtors and led them to despair, and even suicide.

- The continuous increase of public debt to 177.4% of GDP in 2015, to 179.7% in 2016 reveals the failure of the Programs to get Greece out of the debt crisis.[356]

- Part of the private state property was sold and some public enterprises were given for exploitation, which in the opinion of several researchers, were profitable or could become profitable.

- Greece’s growth potential was affected by the measures of the Programs and any recovery will be slow and weak.

[352] Pierros Christos, Income Distribution, Structural Competitiveness and Non-performing loans to the private sector. Labor Institute- GSEE, Study 49

[353] European Commission. Commission Staff Working Document, ibid

[354] Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), ibid

[355] Kazakos P. , ibid

[356] Labor Institute – General Confederation of Greek Workers (GSEE). Annual Report 2017

Positive effects

In the view of the Bank of Greece [357] the first Memorandum prevented the bankruptcy of Greece, which in April 2010 was inevitable. The negative performance of economic activity and employment would have been much worse, had it not been for the Adjustment Programs and financial support from the Community partners and the IMF.

- The General Government Deficit decreased by 5 percentage points compared to 2009, reaching 10.6% of GDP in 2010.
- Primary surpluses were achieved in 2017-2018 at the level of general government. Of course, this surplus was a result of the tax increase, which reduced the disposable income of taxpayers.
- There was a negative inflation for the first time in 2013, after 45 years, a development which shows that prices responded to demand reduction and labor cost.
- The current account balance also showed a surplus for the first time, thanks to the reduction of imports. From 15% of GDP in 2009, it recorded small surpluses in 2015-2016.[358]
- Exports of goods and services in 2018 recorded a record growth of 36.1% of GDP, compared to 23.4% of GDP in 2008.
- Investments timidly began to recover.
- Public debt with the PSI was reduced by about 100 billion euros. In 2008 it reached 180% of GDP, but it remains the highest in the EU. [359]
- The structure of the banking sector has changed radically.[360]
- Public Administration was modernized with an institutional framework and logistical equipment, a fact that contributes positively to the daily business.
- The confidence in international markets was restored.
- The financial sector stabilized, thanks to the measures taken to strengthen the viability of the banking system.

F) Criticism of the Memoranda

The enforcement of the Memoranda was a field of research, analysis, criticism, but also controversy both within the scientific community and in society itself. The controversies, focus first on the need or not to enforce the Memoranda, as well as the large number of

[357] Bank of Greece, The Chronicle of the Great Crisis, ibid
[358] European Commission. Commission Staff Working Document, SWD (2019), ibid
[359] European Commission. Commission Staff Working Document, SWD (2019), ibid
[360] Bank of Greece, The Chronicle of the Great Crisis, ibid

measures imposed, without ignoring the element of severity of measures.

Purpose of the financial Adjustment Programs implemented in Greece was primarily to address the problem of twin deficits, ie. budget deficit and the current account deficit, which were considered as the main causes of the Greek economic crisis. The basic tools of achieving this goal have been the fiscal austerity and internal devaluation policies.[361] In the context of the first two Adjustment Programs, dozens of reforms have been launched with a different aim each. The first Program included 51 reforms, while the second Program included double number of reforms (102).

Fiscal reforms and financial sector reforms played a dominant role in both Programs. The emphasis was first on fiscal reforms and then to tax reforms and the reforms of the financial system.

Thus, the first Program clearly aimed at fiscal adjustment, which is why 26.7% of its reforms concerned fiscal reforms (expenditures reduction etc.), while the corresponding reforms in the second Program covered only 18.7% of the total reforms.

The second Program placed significant emphasis on tax reforms covering 19.8% of its total reforms, compared to 6.7% which were in the first Memorandum. With the same Program (second) the Troika expressed its interest in the business environment more strongly, demanding reforms in 11% of the total reforms of this Program, compared to 4.4% in the first Program.

Equally important concern of the Adjustment Programs was the stability of the financial system. Thus 20% of the first Memorandum and 25.3% of the second Memorandum concerned the financial system.[362]

The first Memorandum had serious problems. First of all, it did not provide, among others, for timely debt restructuring, in any form. This was a targeted priority policy of the Eurozone countries. They wanted to avoid a new crisis of their banks, which had lent Greece with billion euros. At the same time, they sought in any way, not to spread the crisis to other EU member states.[363] Besides, the Greek government did not ask for debt restructuring, because the view that prevailing at that time was that “restructuring is neither desirable, nor possible. It is not an option for any Eurozone country”.[364] Greek banks and insurance funds were also negative in cutting public debt. What was the reason? The banks held a large part of the public debt (62.5 billion euros), and the Insurance Funds held Greek Government bonds of 75

361 Pierros Christos , ibid
362 Katsikas Dim. , ibid
363 Kazakos P. , ibid
364 Papadimos Loukas , Newspaper To Vima, March 3, 2010

billion euros. Therefore, any debt write-off would burden their position. We note that the German and French banks did not want the debt to be restructured in time, of course neither their governments nor the ECB.

It was argued that the Greek Government should strongly request debt restructuring, instead of signing the Memorandum, taking advantage of the supportive position for such a solution that the then Director General of the IMF, Dominique Strauss-Kahn had. Professor Kazakos Panos claims that Greece had many reasons not to ask for debt restructuring. The most important, in his view, located in the time-consuming process required for a restructuring agreement, in which the bankruptcy of Greece would not be prevented. In addition, a public pursuit for restructuring would, in his view, prevent Greece from returning to the markets due to a loss of trust. However, there were opposing voices in Greece and in abroad with arguments in favor of restructuring.[365]

Yanis Varoufakis expresses a different point of view. He argues that "alternative in the European negotiation did not exist, but there was an alternative ending to the negotiation". In particular, he argues that Greece should have "boldly" told in the Summit in January 2010 that "unfortunately we went bankrupt" and that Greek banks were on the verge of collapse, instead of begging for a loan. He believes that, this manipulation by Greece would strengthen its negotiating position and in the event of a "non-serious European proposal", Athens would declare a temporary suspension of payments and would call on its creditors to begin negotiation of debt haircut.[366]

According to Professor Mourmouras, the policy of internal devaluation implemented with the Programs reducing wages, was based on a misdiagnosis of the problem by lenders.[367]

In its relevant Report, the Labor Institute of General Confederation of Greek Workers considers the fiscal adjustment policy and internal devaluation in the four years 2009-2012 to be wrong. Analyzing the data so far (2015), it considers that the economic Adjustment Programs failed, because they failed to create conditions of fiscal stability, reliability and autonomous access of Greece to the capital markets. In general, the criticism of Labor Institute expressed through the Annual Reports of Memorandum period is that a) the Programs focused their effort in cost competitiveness, while the problem of the Greek economy was structural competitiveness, [368] b) Greece's debt management was based on two

[365] Kazakos P. , ibid p. 65, where the arguments from both sides.
[366] Varoufakis Yanis, The Genesis of the Memorandum Greece, ibid
[367] Mourmouras I. , Vol A' ibid
[368] Labor Institute – General Confederation by Greek Workers, Development and social implications of IMF stability policies. Study 21

parts: new borrowing (in harsh terms indeed) to avoid a stagnation of payments from Greece and fiscal adjustment with internal devaluation to cause an "expansionary shock" to the economy, through exports.[369]

Criticism of the Adjustment Programs is also included in a relevant study [370] of Eurobank, which also finds negative effects on the Greek economy and businesses from the implementation of the Greek Adjustment Programs. This study points out that it is now both acceptable and documented that the economic policy mix implemented with the Programs in Greece, under the responsibility of the Troika that essentially drafted them, was incomplete, based on erroneous assumptions (fiscal multipliers) and priorities.

This position of Eurobank is strengthened by an analysis of Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), according to which of the total amount of fiscal policy that amounted to 173.60 billion euros, 2/3 of this (117.12 billion) came from the revenue side and 1/3 (56.47 billion) from part of expenditure, which reveals the economic bleeding of the society that occurred through the continuous harsh and unbearable taxation, especially of the lower classes.[371]

Relevant study by authors of the Observatory for Economic and Social Developments of General Confederation of Greek Workers, identifies the main cause of this unprecedented loss of prosperity in the period 2009-2018 in the philosophy and design of economic Adjustment Programs. This group of authors argues that, the authors of the Programs did not take into account the basic institutional and structural features of the Greek economy, but they demanded from Greece to adapt to their assessments, something that "could only be done through one combination of fraud and delusion".[372]

Professor Kazakos expresses another view. He considers that the dramatic decline in GDP is due to the "initial conditions", that is in the situation that Greece found itself in 2009 and in the poor implementation of Memoranda. Criticizing, in fact, the "Insurance" Law 4387/12-5-2016 of the third Memorandum, points out that the provisions of this law do not ensure the viability of the insurance system, despite the reductions in pensions and the increases in insurance contributions. He justifies his view as relevant provisions of the law do not provide for the reimbursement of benefits depending on contributions and favor the insured who have

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[369] Labor Institute – General Confederation by Greek Workers, Annual Report 2015, ibid

[370] Karamouzis Nikolaos, Lessons from the Greek Crisis, in : Economy and Markets Review. Eurobank Publications 2019, Issue 1st

[371] Institute of Small Enterprises- Hellenic Confederation of Professionals, Craftsmen and Merchants (GSEVEE), Report 2019, ibid

[372] Argetis George and others. The Delusion of Greece's Economic Adjustment Programs. Papazisi Publications 2018

a few years of insurance in calculation of the amount of the pension.[373]

Finally, the assessment of the Bank of Greece is that the Memorandum did not fail, but it was partially and selectively implemented and gave the impression that it failed.

It is worth noting the self-criticism on the part of the IMF with which it admitted the mistakes of the Programs implemented in Greece. In fact, in its last Report in 2019, the IMF acknowledging the mistakes and failures of its Programs, unequivocally accepts that the delay in the restructuring of the Greek debt served as a lifeline for the banks of the Eurozone. This happened because in the crucial two years 2011-2012 Greece repaid bonds worth 50 billion euros held by European Banks. It also admits the wrong approach in the initial stage of the problem, as well as that it had over-optimistic assessments about the success of the Programs. This over-optimism underestimated the impact that the measures would have on the development and the course of debt.[374]

[373] Kazakos P. , ibid
[374] CNN Greece 1-10-2019

4.2 PORTUGAL

In this chapter we will refer to the course of the Portuguese economy during the period from its accession to the Eurozone until the onset of the Crisis (1999-2009) and then in the period it experienced the Crisis until it came out from it. We will also refer to the measures taken to deal with the Crisis, how much they affected the indicators and the development of the economy in general, and how its financial situation was shaped after the exit from the Crisis. The comparison of the financial figures of these two periods, we believe will help in determining the impact of the economic Adjustment Program on the financial and business development of Portugal.

4.2.1 The Portuguese economy after joining the euro (1999-2009) [375]

Portugal became a member of the European Union (then the EEC) in 1986. It joined in the Eurozone in 1999, although it did not meet for 1997 the budget deficit criterion (below 3% of GDP), as required by Treaty of Maastricht.[376]

The first years after joining the euro, the budget deficit, while it should have been reduced, continued to increase. In 2002 it reached 4.2% of GDP and the Portuguese Government, as it was obliged to reduce it, made cuts in social security benefits and tax increases. In the period 2003-2004 it took additional measures for the same purpose.

From 2004 until the beginning of the Crisis in Portugal, which began in 2010, [377] the GDP continued to grow except for 2009, when it decreased by 2.5%. However, despite the GDP growth, the economy was experiencing a structural recession which was exacerbated due to the reluctance of Portuguese companies to invest and households to consume, as they were already over-indebted.

The inflation, which was 4.1% in 2001, fell to 2.4% in 2004 and ended in 2009 at -0.9%.

Unemployment, however, followed an upward trend, as did the budget deficit. From 4.1% of the active population which was in 2001 and 5.1% in 2002, continued to grow. In 2003 it reached 6.4%, in 2004 it reached 6.7% and in 2009 it reached 10.8% which was the highest unemployment rate since 1998.

The public debt at the end of November 2004 was 89.5 billion euros, ie. 7.4% more than in 2003 and continued to rise. In 2010 it reached 94% of GDP.

[375] The following data, relating to the period 1999-2004, were obtained from Annual Report 2004 of the Office for Finance and Commercial Affairs of the Greek Embassy in Lisbon.
[376] Bank of Greece, ibid
[377] https://www.bbc.com/news/world-europe-17761153

Especially the three years 2002-2004 proved in practice a restrictive period for Portuguese households and businesses, which by restricting investment, lost a lot of competitiveness. The recession of this period highlighted the weakness of the model on which the development of the country was based during this period, but also in previous years. This is the model of low cost “imported” labor force, with a low level of training which, as the economic figures mentioned above have shown, did not work.

4.2.2 Portugal in the Memorandum

The spread of the debt crisis in the Eurozone did not leave unaffected the Portuguese economy. However, in 2010 it recorded growth of 1.4%, thanks to export recovery. In 2011 the Portugal’s access to the financial markets deteriorated as the cost of borrowing from international markets was “prohibitive”.[378] High external debt and large budget deficits forced the Portuguese Government to seek financial assistance from the EU, the Eurozone countries and the IMF on 7 April 2011. Portugal is the third Eurozone country seeking help.[379] The request was accepted by all and in May 2011, a relevant Memorandum of Understanding and a loan agreement were signed. This agreement covered the period 2011 to mid-2014 and included a total, co-financing of 78 billion euros, corresponding to 45% of its GDP.[380] Each creditor financed Portugal with 26 billion euros and the disbursements took place over a period of three years with a repayment period of 19.5 years. It should be noted that the Portuguese Government has decided to end the Program without disbursing the full amount of aid. In November 2014 it asked for and disbursed only 24.3 billion euros, instead of 26 billion it had originally agreed.

The funding was linked to a strict fiscal discipline Program that adopted on 17 May 2011. The Program envisaged reforms to promote growth and employment, fiscal measures to reduce public debt and deficit, as well as measures to safeguard the stability of the country’s financial sector. It also provided for among other, a deficit reduction from 9.8% of GDP in 2010 to 5.9% in 2011, to 4.5% in 2012 and to 3% in 2013. [381] The commitments of the Program were included privatizations of state-owned enterprises by 2013.

A) Implementation of the economic Adjustment Program- Memorandum

Portugal made efforts to implement the Program and not to deviate from this. In general, it succeeded. Thus, despite the change of Government in July 2011, the new Government

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378 Mourmouras I. , Vol. A’ ibid
379 Bank of Greece, ibid
380 Mourmouras I. , Vol. A’ ibid
381 Greek Embassy in Lisbon. Annual Report 2004 of the Office for Finance and Commercial Affairs

announced cuts in public spending and tax increase, while Moody's downgraded the country's creditworthiness to category of "junks". The expenditure sector moved within the framework of the Program. Revenues, however, fell short of targets. [382] This development led in the revision of the deficit targets to 5% in 2013. In the 2013 budget new measures amounting to 3% of GDP were incorporated. The Portuguese society reacted to the measures with a wave of strikes in the private and public sector. This did not affect the Government to take new measures in November 2013 that affected pensions, salaries and social benefits.

In the context of increasing revenues, it increased the VAT rates on certain items from 6% to 23% and transferred the reserves of Insurance Funds in the State Budget. In 2011 the Portuguese Government sold a percentage of the state-owned electricity company to the Chinese company Three Gorges. It also sold a percentage of BPN Bank. Alongside, it launched privatizations in the transport sector and the state television sector for the next Memorandum years. In order to reduce public spending, it abolished 137 public sector organizations and reduced the number of civil servants.[383]

Most of the adjustment came from the revenue side which arose from tax rate increases. The horizontal fiscal adjustment measures taken, disappeared after the return of benefits to pensioners and civil servants, following a relevant decision of the Constitutional Court.

In June 2014, Portugal withdrew from the three year economic Adjustment Program. Since then it has been under Post-Program Surveillance (PPS) until at least 75% of the financial assistance received has been repaid. The PPS is expected to last until 2035.

B) Impact of the economic Adjustment Program

The implementation of the economic Adjustment Program inevitably had a significant impact on the economic development and social life of Portugal, both during and after implementation as any such Program has.

1. Impact on GDP

The decline in consumption and investment during the Memorandum period, as mentioned above, resulted in the contraction of the Portuguese economy by 1.2% in 2011, by 3.2% in 2012 and by 1.4% in 2013. In 2014 a small increase of 0.9% was observed (see Table 12 below). The decline in domestic demand, which in 2011 decreased by 6.2% and continued to decline almost throughout the Memorandum, contributed to this contraction of GDP. In

[382] http://www.tanea.gr/news/economy/article/5010794

[383] Greek Embassy in Lisbon. Annual Report 2011

particular, the domestic demand in 2012 decreased by 7.2% and in 2013 by 2.5%. However, in 2014 it increased by 2% for the first time since 2010. On the contrary, the external demand had a positive contribution to GDP growth, as it increased by 3.8% in 2011 due to the decrease in imports. An increase in external demand was also observed in the following Memorandum years (by 5.3% in 2012).

The reduction of investments also contributed to the contraction of GDP, and in fact to a significant degree. In the first year of the Program, investments decreased by 14% and continued to decline in the following years. Thus in 2012 they decreased by 18.1% and in 2013 by 6.7%. In 2014, however, they recovered by 5.2%.

The decline in private and public consumption was equally significant in reducing Portuguese GDP. The harsh austerity measures with cuts in wages, pensions, benefits and the high taxation weakened the Portuguese disposable income for consumption. At the same time the Government's goal of reducing the public deficit led to a reduction in public spending, which was dramatically reduced. Thus, the private consumption decreased in 2011 by 4%, in 2012 by 5.6% and in 2013 by 1.5%. In 2014 it increased by 2.1%. Similarly, the public consumption in 2011 decreased by 3.8%, in 2012 by 4.7%, in 2013 by 2.4% and in 2014 by 0.3% due to a reduction in the salary of civil servants.

2. Impact on the budget deficit

In 2011 the budget deficit amounted to 7.2 billion euros (42% of GDP) and was reduced compared to 2010 by 9.6 billion euros. This decrease was due to the fact that during 2011 the receipts from direct taxes increased and the extraordinary contribution imposed by the Adjustment Program was collected. In the same year (2011) the total government expenditure fell by 5.7%, due to the first cuts in salaries and due to the reduction of operating expenses of the public sector by 7.5%. Despite the measures taken, in 2012 the budget deficit was 8.8 billion euros, ie. 6.4% of GDP. It increased compared to 2011 by 2.2 percentage points, as during this period (2012) public revenues from direct and indirect taxes decreased by 4.3%. It is pointed out that the goal for 2012 was to reduce the deficit to 5% of GDP.

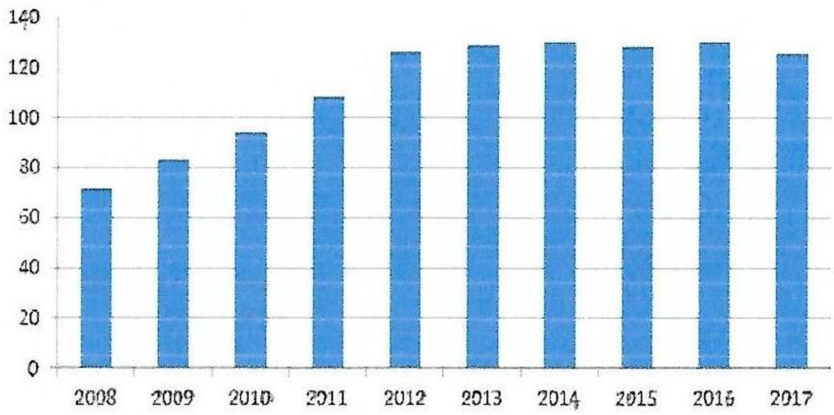
3. Impact on inflation

Due to the increase of VAT rates in several items and due to the increase of energy prices, the inflation ranged to 3.6% in 2011, to 2.8% in 2012, to 0.4% in 2013 and to -0.2% in 2014. The following years after the end of the Program it moved slightly higher (in 2016 it was 0.6% and in 2018 1.03%).

4. Impact on public debt

Portugal's public debt was also affected by the austerity measures of the Program. Its course was upward throughout the implementation of the measures. As shown in Figure 28, in 2011 it reached 108.3% of GDP, from 94% in 2010. Continuing upwards, in 2012 it stood at 124.15% of GDP, in 2013 at 129.4% of GDP and in 2014 at 130.2% of GDP. In 2015 when the Adjustment Program ended, it decreased for the first time after 7 years of upward trend to 128.8% of GDP. [384] It is worth noting that in the first year of the implementation of the Memorandum, several public companies recorded huge losses amounting to 1.5 billion euros, an increase of 38.5% compared to 2010. 90% of these losses was recorded in the Lisbon Metro. On the contrary, in the same year the Portuguese Post Office recorded profits.[385]

Figure 28 : Public debt % of GDP 2008-2017



Source : Bank of Portugal – AICEP. Received from Annual Report 2017 Embassy of Greece in Lisbon

5. Impact on business

Small and medium-sized enterprises are the backbone of Portuguese entrepreneurship and represent 90% of all businesses. The debt crisis that Portugal faced in the last years before the imposition of the Memorandum and continued to face during it, had a direct and dramatic impact on the liquidity of small and medium-sized enterprises. Their major problem was their access to finance. The same problem existed even for the healthiest businesses. This problem has spread to the employment sector, as small and medium-sized enterprises in Portugal participate in the creation of the highest employment rate. That is why the Portuguese

[384] Greek Embassy in Lisbon, Annual Report 2015
[385] Greek Embassy in Lisbon, Annual Report 2011

government introduced a package of measures to strengthen businesses.

6. Impact on the labor market

The implementation of the economic Adjustment Program had a significant impact on employment resulting in a spike in unemployment. In 2011 it was 12.7%, in 2012 15.7% and in 2013 17.7%. Then, the unemployment followed downward trend with the result that in December 2017 it was reduced to 8.9%. The salary gap between men and women still remains. Low wages are maintained, the minimum wage is 580 euros and part-time is about 23% of employees.

TABLE 12 : Economic indicators of Portugal 2009-2017 (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDP	-2.5	1.4	-1.3	-3.2	-1.4	+0.9	1.5	1.39	2.6
Inflation	-0.9	1.4	3.6	2.8	0.3	-0.2	0.5	0.6	1.03
Unemployment	9.5	10.8	12.9	15.7	16.3	13.9	12.2	11.1	8.9
Public deficit*	-10.2	-9.8	-4.2	-6.4	4.9	7.2	4.4	2.06	1.0
Public debt*	83.1	94.0	108.3	124.1	129.4	130.2	128.0	130.4	126.2

* (% GDP)

Source : Bank of Portugal, National Statistical Institute of Portugal. They were taken from the Annual Reports of the respective years of the Greek Embassy in Lisbon.

C) Impact summary

The above effects can be summarized as follows:

With the completion of the implementation of the Memorandum in Portugal, its economy recovered to such an extent that its GDP in 2019 increased by 2.9%, compared to that of 2018, according to the Portuguese Statistical Institute. Between 2015-2019, GDP converged to the average GDP of the Eurozone. The private consumption increased after regaining consumer confidence and increasing their disposable income. Inflation fluctuated at low rates (0.03% in 2019, compared to 1.6% in 2018). There was a surplus in the current account balance. Exports increased as a percentage of GDP from 29% in 2013 to 41% in 2014. The budget deficit from 9.8% of GDP in 2010 reached 2.5% in 2015. Unemployment shrank from 17.7% to 15.2%. However, the high unemployment among young people under the age of 25, is a negative sign of the Portuguese economy. The lending terms improved. The public debt decreased after 7 years of continuous growth and in 2017 reached 126.2% of GDP. The Portuguese economy slowly regained the confidence of the markets, as evidenced by the non-disbursement of the last installment of the Program.[386]

[386] Greek Embassy in Lisbon, Annual Report 2015

4.3 CYPRUS

In this Chapter we will refer to the evolution of the economy of Cyprus during the period before the Crisis, as well as in the Memorandum and post-Memorandum period. We believe that the financial data of the respective time periods to which we will refer, will give the picture of the effects caused by the economic Adjustment Program implemented in Cyprus.

4.3.1 The economy of Cyprus from its accession to the EU until the Global Crisis (2004-2009)

Cyprus joined the EU in 2004 and the Eurozone in 2008. In the 1980s the Cypriot economy was transformed from a labor export economy to a labor import economy (economy of the “visiting employee”),[387] as it attracted migrants from Eastern Europe, the Middle East and Southeast Asia. In the 90’s , taking advantage of the “offshore” regime, it developed into an international financial center as tax advantages attracted 230,000 companies in Cyprus.[388] This phenomenon brought growth, which is why the World Bank included Cyprus in the high-income countries. The IMF for the same reason, in 2010 ranked Cyprus among the 33 most developed economies internationally.[389] At the beginning of the century, tourism, construction and the banking sector were the economic model of the Cypriot economy. But in the mid-2000s, the tourism ceased to be the driving force behind GDP growth. The development model has changed and since 2005 the private consumption and construction have been the main driving forces of the economy. The new growth model increased GDP until 2008, but at the same time led to an increase in imports resulting in external deficits. As shown in Figure 29 below, the GDP of Cyprus in 2004 was at current prices of 12.52 billion euros and in 2005 it was 13.40 billion euros. In the following years it continued to grow even with the onset of the Global Crisis in 2008. Then it reached 17.15 billion euros, but the following year, in 2009, it shrank and reached 16,85 billion euros.

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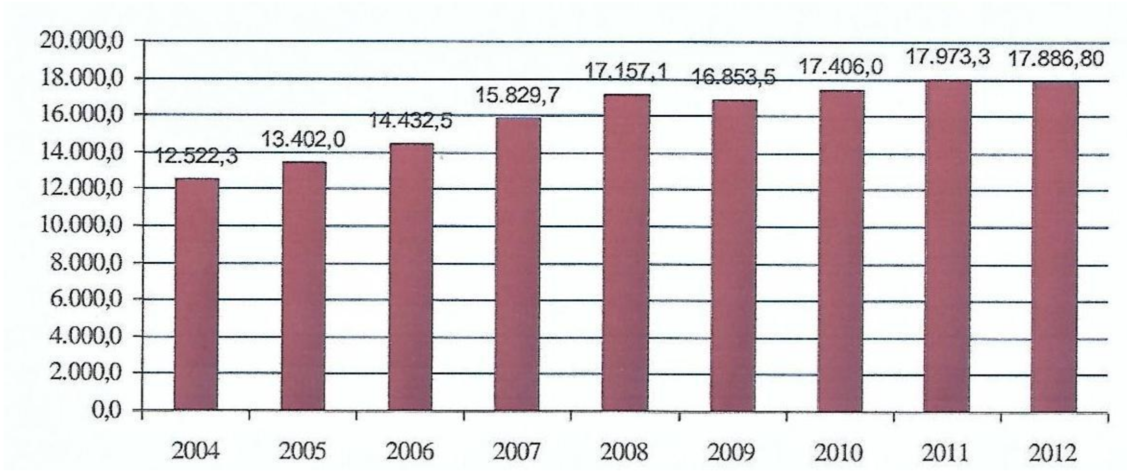
[387] Ioannou Grigoris – Charalambous Georgios. The social and political impact of the Cypriot financial crisis 2010-2017. Friedrich Ebert Stiftung (FES), Nov, 2017. (FES is the oldest political foundation in Germany and was founded in 1925. More at www.fes-athens.org)

[388] Statistical Service of Cyprus (CYSTAT) 2015 at http://www.mof.gov.cy/mof/cystat/statistics.nsf/

[389] Embassy of Greece in Cyprus, Report 2012 on the Economy of Cyprus and the Development of economic and trade relations between Greece and Cyprus

Figure 29 : Development of Cyprus's GDP 2004-2012 (million euros at current prices)



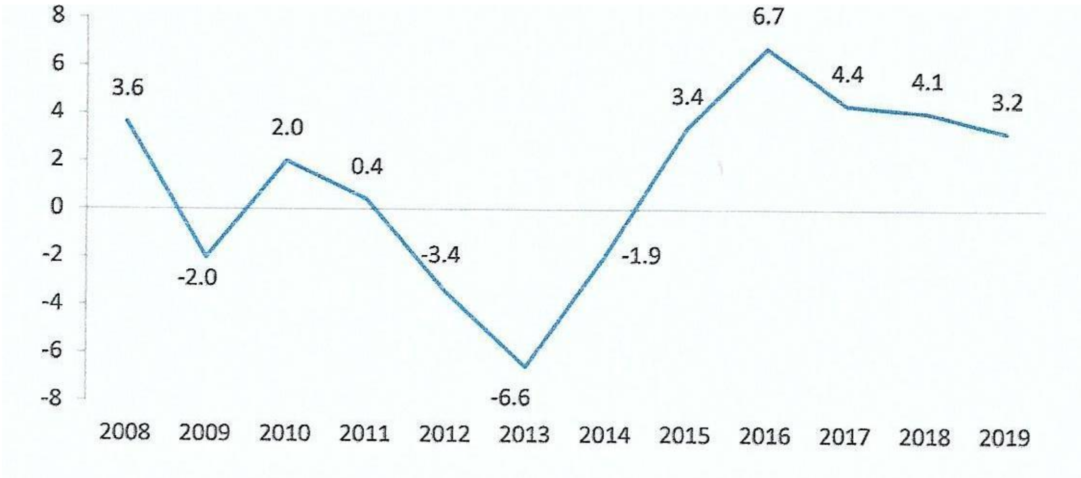
Source : Central Bank of Cyprus. Received from Report 2012 of the Greek Embassy in Cyprus, ibid

4.3.2 Cyprus in Crisis and the Cypriot economy before the Memorandum (2009-2012)

With the above described characteristics, the economy of Cyprus recorded significant growth rates before 2009, higher than those of the Eurozone, which were very close to the growth rates of the world economy. However, the global economic Crisis also affected the Cypriot economy.

Thus, in 2009 the "Cypriot economic miracle" ended. The flourishing of construction activity is also over. As shown in Figure 30, GDP shrunk in 2009 for the first time in 35 years. Its contraction was 2% and the contraction of per capita GDP was 4.1%. In 2010 and 2011 the Cypriot economy returned to a restricted recovery trajectory and GDP grew by 2% and by 0.4% respectively, while the per capita GDP increased by 0.5%. But 2012 was a crucial year for the further course of the economy. The recession reached 2.4% with obvious deterioration trends. This year, GDP fell by 3.4%, while the per capita GDP fell again by 2.8%. However, both GDP and the per capita GDP remained higher than that of Greece and many EU member states.

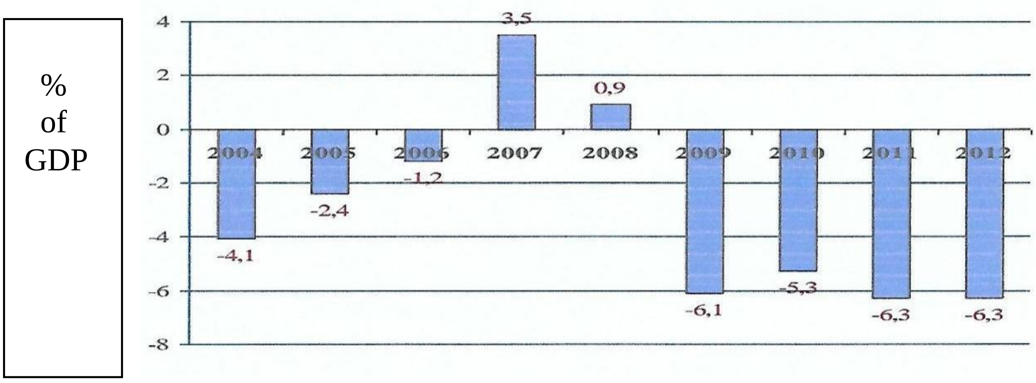
Figure 30 : Growth rate of the Cypriot economy 2008-2019



Source : Ministry of Finance of Cyprus. Strategic Fiscal Policy Framework 2021-2023

The fiscal balance of Cyprus before the Global Crisis was in deficit for many years. In view of its accession to EMU, it implemented an appropriate policy and managed to reduce it from -4.1% of GDP in 2004 to -1.2% of GDP in 2006. The following year, in 2007, not only eliminated it, but it turned it into a surplus of 3.5% of GDP. Also in 2008 the balance was in surplus and ammounted to 0.9% of GDP (see Fugure 31). However, in 2009 the fiscal balance showed a deficit. It reached - 6.1% of GDP, due to an increase in public spending on salaries and pensions. The deficit continued to increase until it reached -6.3% in 2012. We note that in the corresponding period in Eurozone the deficit fell from -4.2% in 2011 to -3.7% in 2012, while in Greece the deficit increased from -9.5% to -10% of GDP.

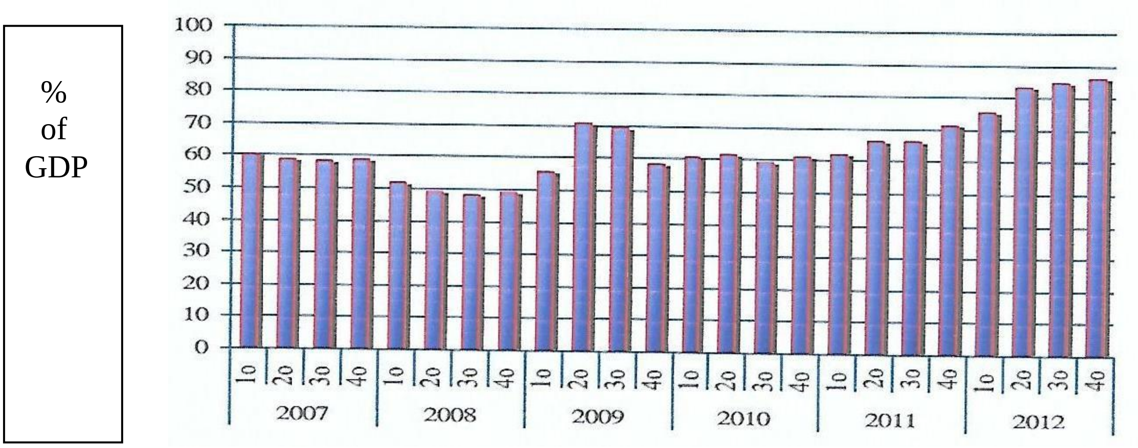
Figure 31 : Development of the fiscal balance of the General Government of Cyprus 2004-2012



Source : Central Bank of Cyprus. Received from Report 2012 of the Greek Embassy in Cyprus, ibid

Cyprus in order to join EMU, implemented the first Stability Program for the years 2010-2011, which it submitted in November 2007. Thus, as shown in Figure 32, it also managed to reduce its public debt from 58.8% of GDP in 2007, to 48.9% of GDP in 2008. However, with the onset of the Global Crisis, the continuous upward course of debt began. In 2011 it exceeded 12.7 billion euros, ie. it was 71.1% of GDP and in 2012 amounted to 15.3 billion euros (85.8% of GDP), when the average in the Eurozone in 2012 was 90.6% and in Greece 170.3%.

Figure 32 : Public debt development of Cyprus 2007-2012 (% of GDP)



Source : Ministry of Finance of Cyprus. Economic developments 2012 and prospects. Received from the Report 2012 of the Greek Embassy in Cyprus, ibid

The current account balance in Cyprus remained under control for several years until 2004. But then it began to deteriorate dangerously. In 2005 it was -5.9% of GDP and in 2008 it jumped to -15.6% of GDP. Temporarily until 2011 its course fluctuated and in 2012 it reached -5.6% of GDP (see below Table 13).

These unfavorable developments in the balance were due to the problems of the past, but also due to the problems that arose from the accession of Cyprus to the Eurozone, as with its accession, the imports increased at such high rates that small increases in exports could not be offset.[390]

[390] Embassy of Greece in Cyprus, Report 2012 on the Economy of Cyprus and the Development of economic and trade relations between Greece and Cyprus

Table 13 : Current account balance of Cyprus 2005-2012

Year	2005	2006	2007	2008	2009	2010	2011	2012
Mil. Eur.	-461,1	-1.005,3	-1.865	-2.994,1	-1.431,8	-2.038,9	-772,5	-1.095,9
% of GDP	-5.9	-7.0	-10.7	-15.6	-7.7	-10.7	-4.0	-5.6

Source : Central Bank of Cyprus

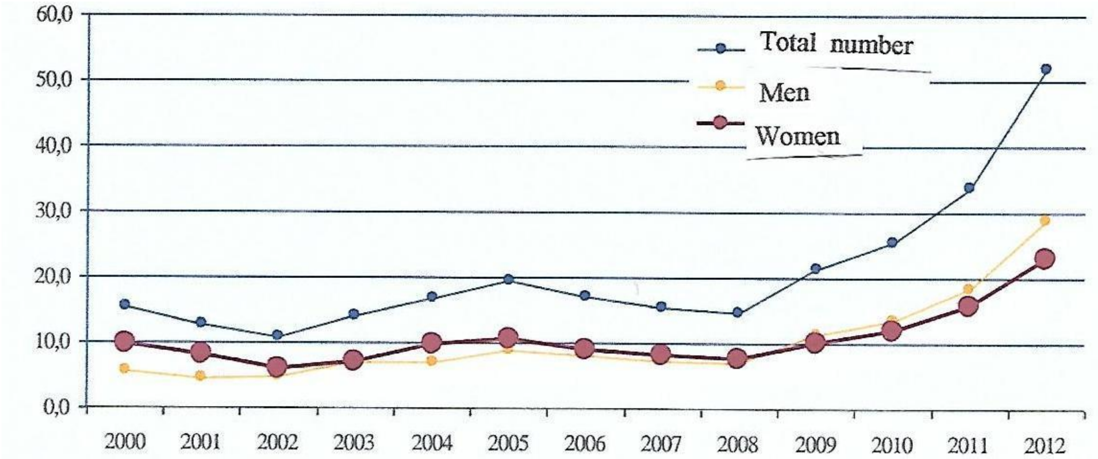
Cyprus's foreign trade is characterized by a chronic deficit, as the Cypriot economy is based at 79.5% in the service sector. The main feature of the year 2012 was the significant reduction of trade volume by 7.2% due to the unfavorable global situation. At the same time the reduction in imports of goods by 9% helped to reduce the trade balance deficit by 12% in 2012. It should be noted that 54.3% of Cypriot exports concern re-exports of products, as Cyprus operates as a center of international "triangular" trade.

Total public expenditure as a percentage of GDP in the period 2000-2012, showed a continuous upward trend. They started with 37.1% of GDP in 2000 and reached 46.3% of GDP in 2012. This happened because the social benefits increased by 15.2% of GDP in the period 2000-2012. In the corresponding period, the total revenues increased from 34.7% of GDP in 2000 to 40.1% in 2012.

Unemployment in Cyprus increased steadily with the outbreak of the Global Crisis and worsened in the following years. Its percentage, according to the data of Statistical Service of Cyprus (CYSTAT), amounted to 6.3% of the active population in 2010, to 7.9% in 2011 and to 11.8% in 2012. The increase in the unemployed came mainly from the sectors of construction, trade, processing and the provision of accommodation and catering services which were most affected. The continuous increase of unemployment in Cyprus from 2008 onwards, deregulated the labor market. It is estimated that the main reason for this deregulation was the mass arrival of labor in Cyprus from EU countries. The number of employees in 2012 was 388,600 and 52.3% of them correspond to men. In 2011-2012 the salaries were reduced dramatically, after the unemployment rate had doubled and the bargaining power of workers and their unions had been weakened.[391] The following Figure is revealing of the development of unemployment.

[391] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report on Economy and Employment 2013. Conclusions

Figure 33 : Unemployment development in Cyprus 2000-2012 (in thousands)

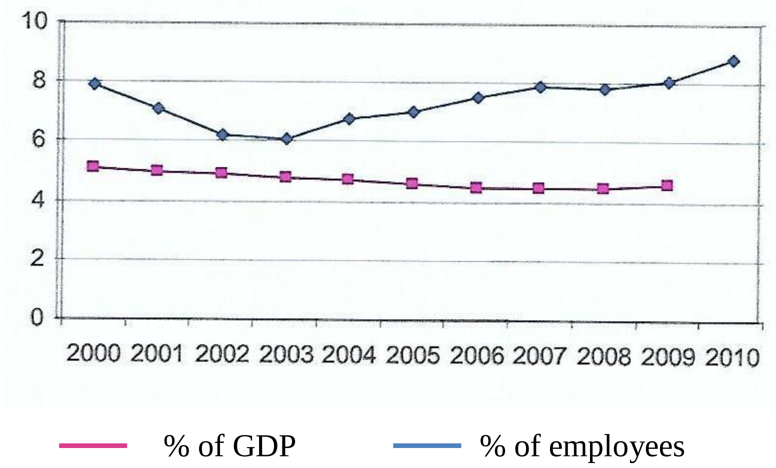


Source : Statistical Service of Cyprus (CYSTAT). Received from Report 2012 of the Greek Embassy in Cyprus, ibid

It is worth mentioning the profile of the financial system of Cyprus before the signing of the Memorandum, as well as the measures of the Memorandum, that we will analyze later, left a strong impact on the financial system. According to the data of Statistical Service of Cyprus (CYSTAT), the prosperity of Cyprus in the last decade before the Crisis, has increased thanks to the rapid and unprecedented expansion of the financial system. In fact, the financial sector showed such a growth that it is estimated that it was 8 times higher than the Cypriot GDP (896%). The contibution of the banking sector to GDP growth was continuous and contibuted (see Figure 34) by 26% in economic growth during the decade 2000-2010. Without this contibution the economic development of Cyprus would be weak and in the last years of the Memorandum the Cypriot economy would have sunk in great recession. As shown in Figure 34, the banking sector contributed 6.2% to GDP in 2003 and in 2009 by 8.6%. It is worth noting that the international services sector, for years before the Crisis, was an integral part of the economic model of the Cypriot economy and its "backbone". This is confirmed by the fact that even after the harsh measures of the Memorandum, most of the foreign companies located on the island remained, benefiting from the various tax incentives. Until May 2013, the Cypriot Governments pursued a stable policy in the service sector, resulting in Cyprus becoming an international business center for the provision of services.[392]

[392] Embassy of Greece in Cyprus, Report 2012, ibid

Figure 34 : Contribution of financial services to the Cypriot economy 2000-2010



Source : Statistical Service of Cyprus (CYSTAT). Received from Report 2012 of the Greek Embassy in Cyprus, ibid

4.3.3 Cyprus in the Memorandum

The optimistic picture of the Cypriot economic model that lasted more than twenty years, began to deteriorate from 2009. Since November 2010 the country's creditworthiness was constantly deteriorating. This fact in combination with high lending rates, excluded Cyprus from the international money markets since May 2011,[393] as the differences in the yields of the German government bonds reached a prohibitive level. Thus, the Crisis appeared in Cyprus. It should be noted that the Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO), expressed the view that the crisis in Cyprus was "fabricated" as the performance of the Cypriot economy was far from the performance of other countries with fiscal problems.[394]

The long-term structural distortions of the Cypriot economy that pre-existed at the time of the Global Crisis, mainly concerned the banking sector whose assets were 8 times the Cypriot GDP. They also concerned the public debt, the budget deficit, the over-indebtedness of businesses and households which amounted to 3 times the GDP of Cyprus, the overconsumption and the trade deficit which in 2005-2009 was 20% of GDP. Equally important imbalance were the accumulation of private debt, the non-servicing of loans and the excessive fall in real estate prices. These distortions, when in 2010 Greece joined the Memoranda and in 2010-2012 lost 25% of its GDP, acted as a catalyst, due to the timeless

[393] Embassy of Greece in Cyprus, Report 2012, ibid
[394] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report on Economy and Employment 2011

interdependence of Greek and Cypriot economy, in leading Cyprus to “its” Memorandum.[395]

Under these circumstances, in June 2012 Cyprus submitted a request for financial assistance. After many months of negotiations,[396] on 2 April 2013 it signed the economic Adjustment Program (Memorandum) with the Troika. It was preceded by a draft rescue plan submitted by the Troika, but rejected by the Cypriot Government which disagreed with the manner and the ammount of funding for the recapitalization of the banking system.

A) Implementation of the Memorandum

The Program covered the period from April 2013 to March 31 2016. It provided for financing of Cyprus by European Stability Mechanism (ESM) with 9 billion euros and by the IMF with 1 billion euros. The disbursements would be made after evaluation (per quarter) of the implementation and progress of the agreed measures-actions. The Memorandum provided for harsh measures aimed at a) restoring the financial sector – consolidating the banking system, b) achieving a primary balance of 4% of GDP in 2018 and correcting the deficit as soon as possible and c) supporting the competitiveness through structural reforms.[397] Then, the agreed measures were specified in legislation settings. These regulations imposed, among other things, a reduction in salaries and pensions in the public sector, a reduction or even the abolition of social benefits, a reduction in the number of civil servants, an increase in the VAT rate, an increase in taxation on real estate transfers and on tobacco products and gasoline, an increase in deposit taxes etc. For the improvement of competitiveness it provided for reform measures in the wage indexation mechanism, reducing the frequency of adjustment.[398] The Government of Cyprus implemented all agreed austerity measures.

B) Impact of the Financial Adjustment Program

Cyprus successfully withdrew from the Memorandum in March 2016. Since then it is in Post Program Surveillance (PPS), which will last until to repay 75% of the loan. The implementation of the Memorandum, as expected, had a long-term impact on all sectors of the economy. Surveys and studies of the Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO), as well as the Central Bank of Cyprus recorded these findings and analyzed the evolution of the economy during the Memorandum, as well as after its end.

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395 Embassy of Greece in Cyprus, Report 2014, on the Economy of Cyprus and the Development of economic and trade relations between Greece and Cyprus

396 IMF Statement by the EC, ECB and IMF on the Mission to Cyprus Nov. 2012. 23

397 The full text of the Memorandum in the Official Gazette of the Republic of Cyprus Annex First No. 44173/ 30-4-2013

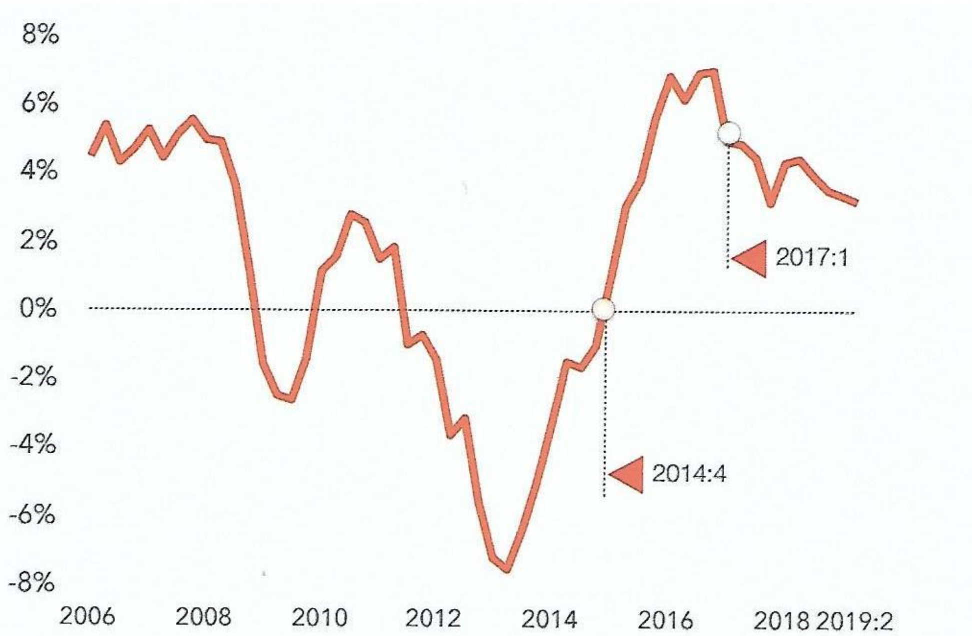
398 Embassy of Greece in Cyprus, Report 2012, ibid

These studies recorded the following effects :

1. Impact on GDP

The year 2013 is considered by the Cypriot economic agents as “horrible year”,[399] as Cyprus reached the brink of bankruptcy. After 6 years (2009-2014) of recession and especially deep recession from 2012-2014, the real GDP of Cyprus fell and reached the levels it was a decade ago. The evolution of GDP during and after the Memorandum period is shown in Figure 35. The first recovery of the Cyprus’s economy, began in the first quarter of 2015 and continued in 2016. The Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO), considers the reason for this recovery to be the spectacular fall in oil prices and not the Troika’s policy. It argues that the easing of the fiscal effort in 2015 contributed, together with favorable external factors (oil prices) to the economic recovery, as when the fiscal effort intensified, then the economy fell into a deep recession.[400]

Figure 35 : Annual growth rate of GDP 2006-2019



Source : Eurostat. Received from Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO) , Report on the Economy and Employment 2019

[399] Embassy of Greece in Cyprus, Report 2014, ibid

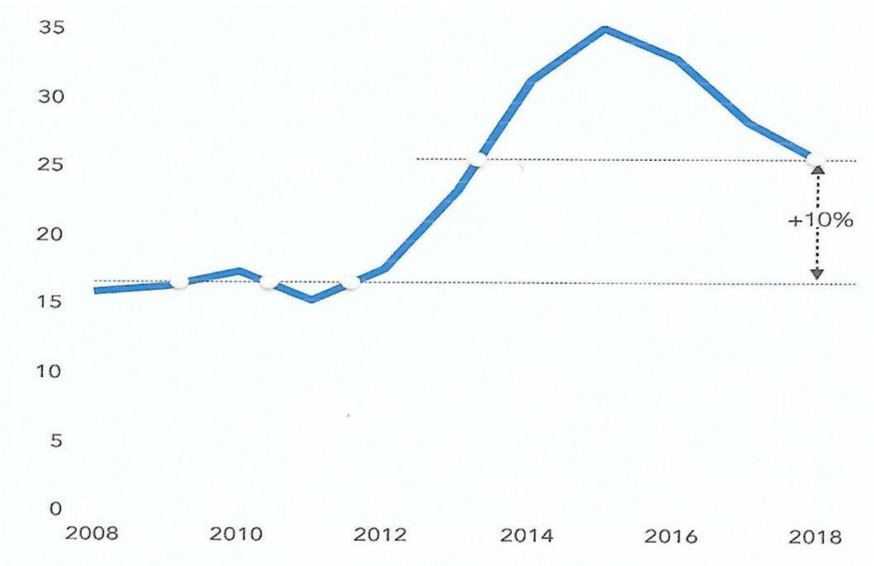
[400] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report on Economy and Employment 2016 (Foreword by the Director General Manager of INEK).

The purchansing power of the average wage during the Memorandum, remained lower than in 2013. After the end of the Memorandum period, it reached the levels of the first quarter of 2013. In 2019 the purchasing power was about 5% lower than in 2011 despite the boosting of the economy. Cyprus and Greece are the only countries in the Eurozone where the earnings over the last five years have not recovered to such an extent as to eliminate the reductions of the Memorandum period.[401]

2. Impact on employment

Since the winter of 2015 the number of emlpoyees has increased. This increase reduced the indicators of poverty and material deprivation, but did not return the indicators to the levels of 2008-2011 for all sections of the population. Mostly, it did not return them for the unemployed. In 2008-2011 the percentage of the population that was in risk of poverty, amounted to 16% and in 2018 to 26% of the Cypriot population (see Figure 36 below).

Figure 36 : Percentage of the population at risk of poverty 2008-2018



Source : Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO) , Report on the Economy and Employment 2019

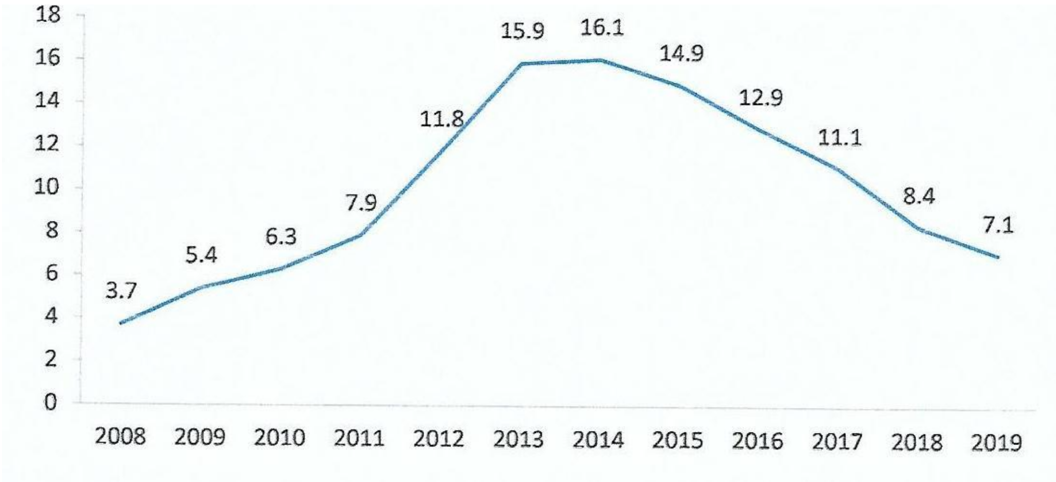
The unemployment rate in 2015 stood at 15% of the workforce, compared to 16.1% in 2014. In 2017 it stood at 11%, while in 2019 it was at the level of 2009-2011 (7.1%).

The long-term unemployment, which began in 2008, stabilized in 2014 at 45% of total unemployment. Until 2019 it did not return to the percentages of 2008, as 1 in 4 unemployed

[401] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report on Economy and Employment 2019

remained unemployed for a long time. The statistics showed that the underemployed in 2019, were twice as many as the unemployed. Cyprus in 2019, held the 7th worst position among the developed EU countries in the field of under-employed, after Greece, Spain, Italy, Croatia, France and Portugal.

Figure 37 : Unemployment in Cyprus 2008-2019



Source : Ministry of Finance of Cyprus. Strategic Fiscal Policy Framework 2021-2023

3. Impact on current account balance

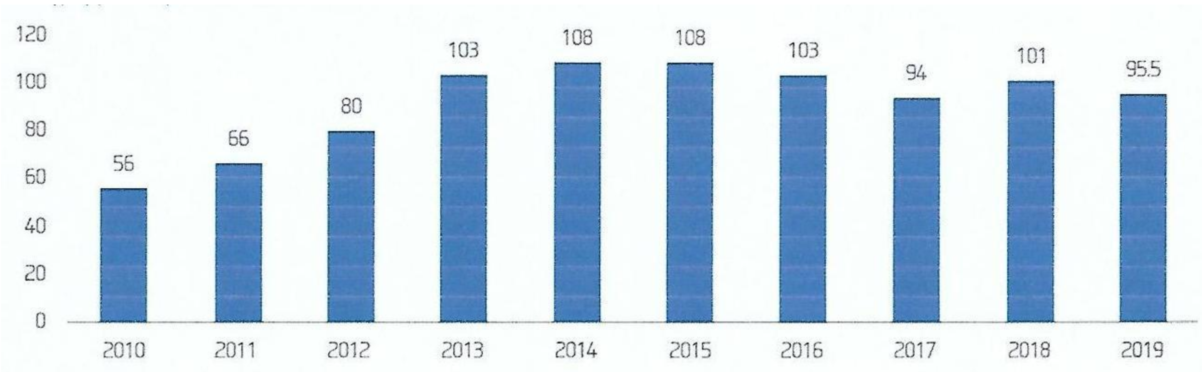
The current account balance showed a deficit from 2018 and was the highest in the Eurozone. In 2019 it was at -8.1% of GDP, while the Cypriot economy was in the fifth year of upward trend. The European Commission estimated that in 2020 the deficit would double (10.6%) compared to 2018. [402]

4. Impact on public debt

The public debt during the implementation of the Program instead of being reduced, as was the aim of the measures taken, increased. Specifically from 80% of GDP that was in 2012, it rose to 103% of GDP in 2013 and to 108% of GDP in 2014 and 2015 (see Figure 38).

[402] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report on Economy and Employment 2019

Figure 38 : Development of Cyprus's public debt 2010-2018 as % of GDP



Source : Ministry of Finance of Cyprus. Annual Report for 2019

5. Impact on consumption and investment

According to data of the Ministry of Finance of Cyprus,[403] the Cypriot economy has returned to positive growth rates since 2015, after an unprecedented period of recession. Private demand in 2019 recorded positive rates higher than in 2014. Public consumption also had a positive development in the period 2016-2019, from a negative rate in 2014. Fixed capital investments after continuous reductions in previous years, recorded a significant increase in 2017 and a decrease in 2018. The Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO) found a high degree of disinvestment in the first year of the implementation of the Adjustment Program.[404]

6. Impact on banking system

In the context of the consolidation of the Cypriot banking system, the Government implementing the decision taken by the Eurogroup on 25 March 2013, proceeded to rescue the Laiki Bank and the Bank of Cyprus. The way of rescue was different from the one applied by Greece, in order not to increase the public debt of Cyprus. The "haircut" of deposits in these banks was chosen for deposits over 100,000 euros. Deposits in the Bank of Cyprus over 100,000 suffered "haicut" 40%. All deposits in Laiki Bank over 100,000 euros were lost completely. This action cost to depositors 5.4 billion euros and led to the violence contraction of the banking sector with the closure of Laiki Bank. Due to this fact, many companies were forced to lay-off workers, cut wages and delay in wages being paid. These are many cases of companies that have become inactive and others went bankrupt or went into voluntary

[403] Ministry of Finance of Cyprus. Strategic Fiscal Policy Framework 2017-2019
[404] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report on Economy and Employment 2013. Conclusions, ibid

dissolution.[405] In addition, the suspension of banking operation for two weeks, the strict restrictions on transactions and capital movements for 12 months, increased the existing liquidity problem.

7. Impact on business activity

The closure or massive shrinkage of businesses and banks created, among other things, impoverishment due to the resulting unemployment and inability to meet basic needs, especially by the unemployed. The reduced trend of business development during the Memorandum period, but also after, is reflected in the sharp decline in the number of start-up businesses. The undeclared work and underemployment was the only choice for the unemployed during the Memorandum period and beyond. In 2017 the unemployment rate approached levels of the pre-Memorandum period (11%).

The research of the Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO) claims that during the period 2012-2014 of the Memorandum period, the economy of Cyprus was deteriorating with great speed compared to that of Greece and clearly greater than that of Spain and Portugal. However, it had a smaller duration.[406]

C) Impact summary

In general, the effects of the economic Adjustment Program on the Cypriot economy, during the implementation of the Memorandum, can be summarized as follows:

- The policy of internal devaluation pursued in the three years 2012-2014, plunged the Cypriot economy in deep recession and GDP decreased by 25%.
- The standard of living of the Cypriot society was affected, due to the reduction of the social benefits, salaries and pensions, as the prices did not follow wage cuts. The purchasing power of wages had plummeted. The consumption decreased.
- The labor market was liberalized and negatively affected the wage formation, as well as the growth rate of unemployment, as the bargaining power of workers on these issues decreased.
- Businesses closed and jobs were lost. Liquidity was the most important problem in the business world.
- The repayment of private loans has been problematic.
- Domestic demand decreased and this fact led to a decrease in production, as well as a large part of the workforce went on forced leave.

[405] Ioannou Grigoris – Charalambous Georgios, ibid
[406] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report 2014 , ibid

- The aim of the Program to improve competitiveness by reducing prices, was not achieved during the Memorandum period, as the contribution of exports to GDP was negative in the period 2012-2014.

- There was a large disinvestment due to reduced demand.

- Public debt increased, the banking system shrank with the final closure of Banks. The restructuring of the banking system cost to the private depositors very expensive, as they lost a total of 5.4 billion euros due to a "haircut".

But from 2016 onwards, the economy began to recover. In 2018 the steps of the economic recovery were obvious, small steps of course, not able to return Cyprus to the growth rates that it had in the 90's and until the onset of the Crisis.[407] It is enough to take into account that the poverty rate in 2018 was 26% of the population, compared to 16% of the population in 2008. [408]

[407] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report 2014

[408] Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK-PEO). Report 2019

The following Table 14 shows the evolution of key economic figures of the Cypriot economy during the Memorandum and after the end of the Memorandum. These figures [409] reflect the impact caused by the Memorandum on the development of the Cypriot economy and Cypriot companies.

Table 14 : Basic economic figures of Cyprus 2013-2019

	2013	2014	2015	2016	2017	2018	2019
Nominal GDP Mil .euros	17.995,0	17.408,5	17.826,9	18.872,9	20.039,7	21.137,8	21.943,6
Rate of Change GDP	-6.6	-1.9	3.4	6.7	4.4	4.1	3.2
Per capita GDP euros	20,880	20,420	21,030	22,160	23,320	24,290	24,920
Unemployment %	15.9	16.1	14.9	12.9	11.1	8.4	7.1
Inflation %	- 0.4	-1.4	-2.1	-1.4	0.5	1.4	0.3
Fiscal Balance % of GDP	-5.8	-8.7	-1.0	0.3	2.0	-3.7	1.7
Primary Balance % of GDP	-1.8	-5.9	1.7	3.0	4.3	-2.0	5.2
Public Debt % of GDP	104.0	109.2	107.5	103.4	93.9	100.6	95.5
Current Account. Mil.eur.	-265,4	-709,2	-80,2	-795,6	-1.021,7	-931,2	-1.473,5

Source : Ministry of Finance of Cyprus, Statistical Service of Cyprus (CYSTAT), Cenral Bank of Cyprus. Received from the Annual Report 2019 of the Greek Embassy in Cyprus

[409] The data concerning the evolution of the financial figures, mentioned in this Chapter , were drawn from the Annual Reports of the years 2004-2006 and 2011-2019 of the Greek Embassy in Cyprus, from the Reports of the years 2008-2019 of the Labor Institute of Cyprus – Pancyprian Federation of Labor (INEK PEO), from the Reports of the Central Bank of Cyprus 2011-2018 and from the Ministry of Finance of Cyprus.

4.4 IRELAND

In this Chapter we will refer to the course of the Irish economy in the period before the accession of the country to the Memorandum, as well as to the Memorandum and post-Memorandum period. The comparison of the financial figures of these periods will reflect the positive and negative effects of the Adjustment Program on the economic and business development of Ireland.

4.4.1 Ireland before the Crisis

Ireland became a member of the EU in 1973 and joined the Eurozone in 1998. Ireland's economic performance before joining the Eurozone, as well as in the early years of its accession was impressive.[410] This was achieved with the large flow of foreign direct investment, due to the tax regime and with the creation of a favorable investment climate.

Until 2007, high growth rates were above the EU average. In 2007 the growth rate was 5.5%. In the same year the fiscal balance was positive of 0.3% of GDP and Ireland's public debt had reached 23.9% of GDP. This debt ratio was well below the EU average, which was at 57.8% of GDP. [411]

The real estate market has been the driving force behind the growth of the economy, at the same time as the multinational companies. The Irish housing market experienced one of the longest house price booms in Europe with prices for existing properties to increase by 268% by 2007. [412]

Since the end of 2007 the investor confidence in the Irish real estate sector was lost due to concerns about oversupply and price "bubble". The uncertainty about the future tax treatment of real estate, caused a decline in real estate transactions. So 2007 was the year that the Irish real estate market collapsed. The sharp fall in property prices greatly affected the domestic demand. The decline in the construction sector had, as expected, negative effects on employment, production, but also on the banking sector.[413] The outflow of deposits from the banking sector accelerated and the public borrowing costs reached unsustainable levels.

The following year, 2008, when the Global Crisis appeared, Ireland was the first country in the Eurozone which experience a drop in its GDP. This fall which was of 4.78% of GDP, came as a result of the Irish Government's attempt to guarantee the debt of its banks due to

[410] European Commission. The Economic Adjustment Program for Ireland. Occasional Papers 76, February 2011

[411] Roboti Eleni – Feronas Andreas. The effects of the financial crisis on the labor market of countries under fiscal adjustment. Social Policy, Hellenic Social Policy Association, Issue 5 (2016)

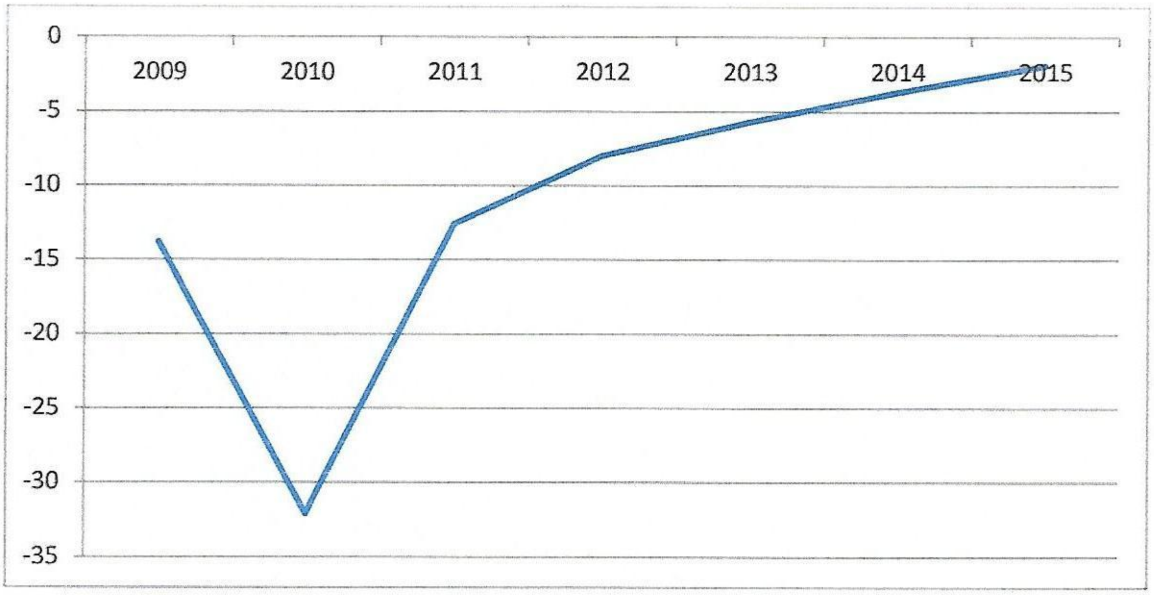
[412] European Commission. European Construction Sector Observatory. Country Profile Ireland. June 2018

[413] European Commission. European Economy. Macroeconomic Imbalances. Ireland. Occasional Papers 181, March 2014

the collapse of Lehman Brothers. The government nationalized Anglo Irish Bank, the largest bank in the country. So the first consequences of the "bubble" of real estate quickly appeared in real economy, something similar that happened with the real estate "bubble" in the USA. The Irish government froze all wages in the first year of the Crisis. For the next two years the wages fell. Specifically, in 2009 they decreased by 5-7% and in 2010 by 5-8%. [414]

In 2009 Ireland had one of the highest budget deficits in the Eurozone. It stood at -13.8% of GDP and in 2010 jumped to -32.3% of GDP, due to the recapitalization of banks (see Figure 39).

Figure 39 : Irish budget deficit 2009-2015

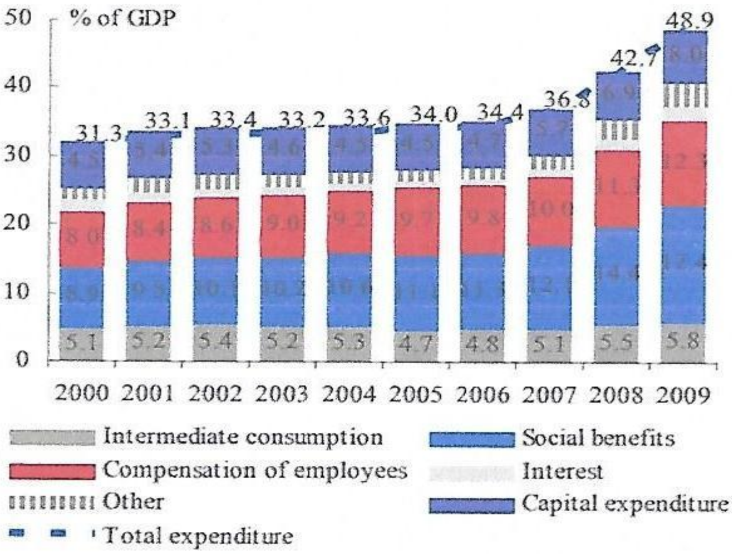


Source : Eurostat 2016

The various actions of the Government in order to reverse the unfavorable climate in economy did not work, as the rating agencies were constantly downgrading the country's creditworthiness and the access to sources of financing had been made impossible. The deterioration of financing further increased the cost of rescuing the banking system, which led to the budget deficit to 1/3 of GDP. Spreads of Irish sovereign bonds compared to equivalent German bonds widened to record levels. Total expenditure increased by almost 11% annualy on average in the period 2000-2007. Despite high nominal GDP growth, the expenditure-to-GDP ratio increased from 31% in 2000 to 37% in 2007. In 2008 total expenditure increased by 10.4%, while nominal GDP decreased by 5% (see Figure below).

[414] Roboti Eleni – Feronas Andreas, ibid

Figure 40 : General Gonernment expenditure in Ireland 2000-2009



Source : Eurostat. Received from European Commission. The Economic Adjustment Program for Ireland. Occasional Papers 76. February 2011

4.4.2 Ireland in the Memorandum

These challenges led the Irish authorities to request external help on 21 November 2010. A Program of € 85 billion financial assistance was agreed with the European Commission and the IMF, in cooperation with the ECB and approved by ECOFIN Council and the IMF Board on 7 December 2010. The Program provided for up to € 50 billion in fiscal needs and up to € 35 billion in banking support measures between 2011-2013. [415] Of the total of 85 billion euros, 45 billion euros came from EU contributions, 22.5 billion from the IMF and the remaining 17.5 billion came from bilateral agreements with European countries (United Kingdom, Sweden, Denmark). The repayment was agreed to be made in 12.5 years, but then extended to 19.5 years. [416]

What the Program provides

The main goal of the Program was to restore the trust of the financial markets in the banking sector and the Irish economy. For achieving this goal the Program consisted of three main directions : a) a financial sector strategy that included a substantial shrinkage and reorganization of the banking sector. This strategy provided for the allocation of 35 billion euros for the decisive reform of the banking sector that would take place with the closure of

[415] European Commission. The Economic Adjustment Program for Ireland. Occasional Papers 76, February 2011. The Letter for the request for help and the full text of the Agreement.
[416] Implementing Decision of the Council of the European Commission. Brussels 24-5-2013, COM (2013) 320 final, 2013/0167 (NLE).

unsustainable banks and the recapitalization of other banks, b) a strategy to restore fiscal sustainability. The main aim of this strategy was to put public debt on downward trajectory. Among other things, the Program provided for a reduction in public spending by cutting public sector salaries, reducing pensions and social benefits, increasing tax revenues and privatizing state-owned enterprises and c) a package of structural reforms to support the development. The package of these reforms was related to the policy change in labor market (job creation, reduction of the minimum wage, reduction of unemployment benefits, increase of competitiveness etc.). [417]

The Program was completed in December 2013 and the last installment was disbursed in March 2014. It is the first country which complete the Memorandum and was a success story of the European North. [418] It is now under post-Program Surveillance until it repays 75% of the loan. The surveillance will last until 2031.

A) Implementation of the Program

During the three-years Program in Ireland, the Troika evaluated quarterly the implementation and progress of the agreed measures, in order to disburse the installment of the financial aid (loan) accordingly. The relevant findings were included in the "monitoring reports". Such reports were also prepared after the completion of the Program for assessing the economic, budgetary and financial situation of Ireland and will be drawn up during the post-Memorandum supervision in which is Ireland, ie. until 2031, as mentioned above.

Thus, based on these reports, the implementation of the Program and the impact it has had on the economic and business development of Ireland will be presented.

B) Impacts of the Memorandum

1. Impact on GDP

The figures of the National Accounts of Ireland showed that the country's real GDP increased by 0.8% in the first three quarters of 2012, compared to the same period in 2011. This was due to the increase in private consumption, which for the first time since 2010 was positive.

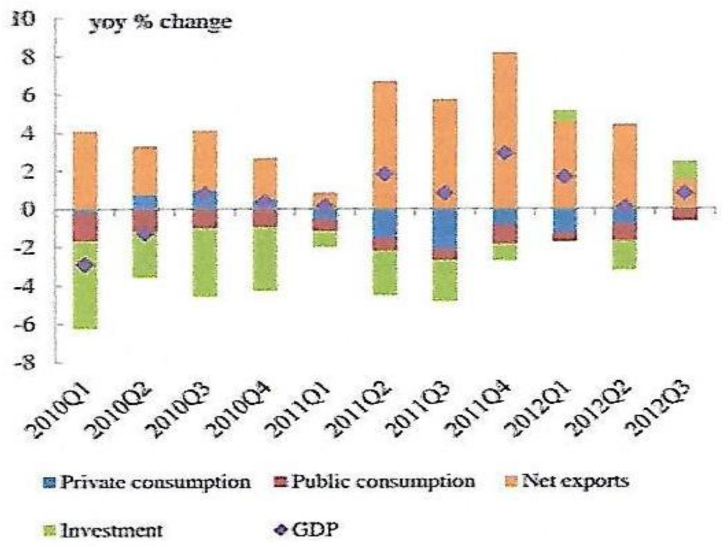
Nominal GDP until the third quarter of 2012 increased by 3.5% due to the significant increase in export prices. But in 2013 real GDP fell by 0.3% year-on-year (y-o-y). This

[417] European Commission. The Economic Adjustment Program for Ireland. Occasional Papers 76, February 2011

[418] Ministry of Foreign Affairs of Greece. Directorate of Economic Relations Greece – Ireland. Report August 2016.

decrease is related to the increase in imports and low private consumption. But then, in 2014 the Irish economy was the most growing of the Eurozone and in the second quarter of 2015 its GDP reached 6.7% on an annual basis. [419] In the period 2011-2013, real GDP recorded a low but positive growth on average higher than that recorded by Eurozone [420] (see Figure 41).

Figure 41 : Real GDP change 2010-2012



Source : CSO and Commission Services. Received from European Commission, European Economy, Occasional Papers 131, April 2013.

In the post-Memorandum period, real GDP grew by 7.4% year-on-year (y-o-y) in the first nine months of 2018, well above the Eurozone average. It increased by the activities of multinational companies.

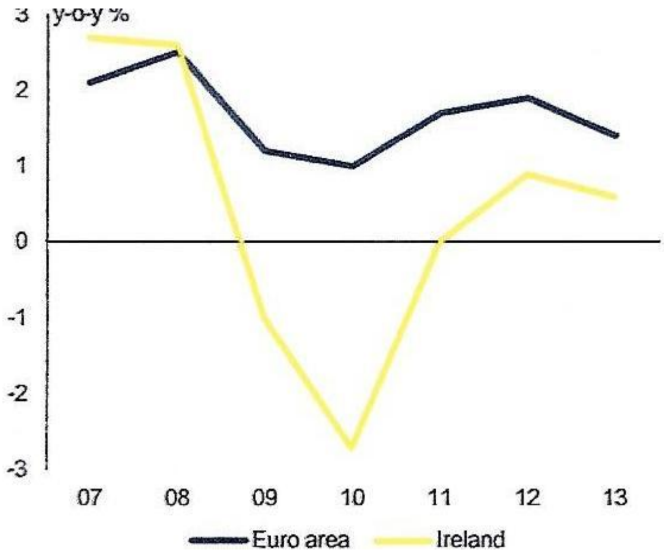
2. Impact on inflation

Inflation averaged 1.9% in 2012 substantially below the Eurozone average, which was 2.5%. In 2013 it remained at 0.5% y-o-y , substantially below the Eurozone average which was 1.3% that year, as shown in the Figure below.

[419] Gatzios Petros, Memoranda of Understanding : Elements and some thoughts from the European experience. Center for International Strategic Analyses (KEDISA), Sept. 2015.

[420] European Commission. European Economy. Macroeconomic Imbalances. Ireland. Occasional Papers 181, March 2014

Figure 42 : Inflation in Ireland 2007-2013



Source : Eurostat. Received from European Commission, European Economy, Occasional Papers 181, March 2014.

This evolution of inflation is explained by lower energy prices. However, in the post-Memorandum year 2018, inflation was 0.7% in the first nine months and especially in the second half showed some acceleration due to rising oil prices.

Real estate prices recovered in 2012, after falling by 50% in 2007. Especially in Dublin real estate prices rose 2.1% in January 2012. This was the first year-on-year increase since 2007. The upward trend in house prices continued in the following years. In the first nine months of 2018 the construction activity increased by 17.9%. This increase was the consequence of favorable government measures for the acquisition of housing in Ireland.

3. Impact on trade exports

Ireland has a very open economy and therefore highly dependent on the international situation. For the period 2011-2013 the trade represented more than 18% of GDP on average. In 2014 Ireland had the highest growth rate in the Eurozone. Its GDP increased by 5.2%. [421] It is worth noting that the volume of export products the first three quarters of 2013 decreased by 6% compared to the same period of 2012, while the imported goods decreased by 1.4% during this period.

4. Impact on employment

Private employment in the fourth quarter of 2012 continued to grow, while unemployment at the same time remained high. In 2013 employment as a whole (public and private sector)

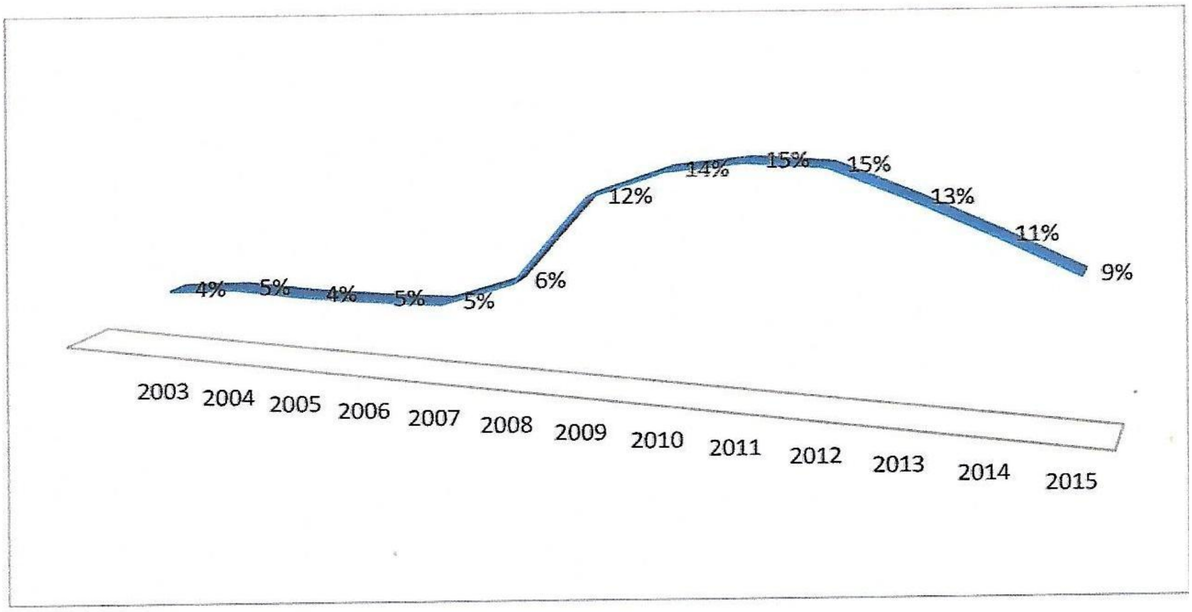
[421] Ministry of Foreign Affairs of Greece, ibid.

increased by 2.4% on an annual basis. In the post-Memorandum period the employment increased by 3.1% the first three quarters of 2018 and exceeded the pre-Crisis level.

Unemployment rose from 4.7% in 2007 to 12% in 2009. At the end of 2011 it was 14.9% of the active population and at the end of 2013 it decreased to 12.1% as well labor cost reduced. In the first quarter of 2014, it decreased to 7.3% (see Figure 43). [422] The unemployment rate in 2018 approached the level before the Crisis. In particular, unemployment continued its downward trend in all affected groups. In the third quarter of 2018, the unemployment rate reached 5.7%.

However, in terms of long-term unemployment, we must point-out that it remained high at 60.5% of the total unemployed in the first quarter of 2014. Youth unemployment at the end of the Program, decreased from 29.7% in the first quarter of 2012, to 25.3% in the corresponding quarter of 2014.

Figure 43 : Unemployment in Ireland 2003-2015



Source : Eurostat 2016

5. Impact on the fiscal balance

Until joining the Program, Ireland had the largest budget deficit in the Eurozone. In 2009 it was at 13.8% of GDP and in 2010 it was at 32.3% of GDP. In the period of the Memorandum, it decreased significantly. Thus, in 2012 Ireland had a budget deficit of 8.6% of GDP, following a cut in public spending on social welfare and health. In 2013 the deficit of the General Government decreased by 1 percentage point of GDP and reached 7.2% of GDP, ie.

422 European Commission. European Economy. Macroeconomic Imbalances. Ireland. Occasional Papers 181, March 2014

below the ceiling of the Excessive Deficit Procedure (EDP), which was 7.5% of GDP. Public finances in 2013 evolved according to the Troika's expectations. This improvement is mainly due to the highest tax revenues achieved by the government.

In the post-Memorandum period, total revenues increased by 7.3% in 2018 compared to 2017, thanks to the continuous large receipts of income tax from businesses. However, the total government expenditures in 2018 exceeded the budget lines. They were 1.2% above this year's target.

6. Impact on public debt

Ireland as a country of Euroregion was trapped, like other countries, in a debt trap in an effort to reduce government deficits with unilateral Austerity Programs that ignored the development dimension. This effort resulted in an increase in debt. So while Ireland's public debt in 2007 was 23.9% of GDP, which was below the EU average, in 2009 it was 65% of GDP and in 2012 it reached 115% of GDP. [423] At the end of the following year in 2013 it rose to 123.7% , while in 2017 it fell to 68.4% of GDP.

7. Impact on business

With the inclusion of Ireland in the Program, businesses of all sectors affected to a different degree. The construction industry, mentioned earlier, was most affected. The big problem of all businesses was access to finance. Lending by banks to indigenous small and medium-sized enterprises decreased and at the same time the credit conditions became stricter. Loans to Irish non-financial corporations declined by 3.6% from the beginning of 2012 until the end of the year. While the demand for credit remained low, the survey data showed that credit conditions continued in 2013 to be one of the strictest in the Eurozone. The new business interest rates on loans under € 1 million have risen since the beginning of 2013.

C) Impact summary

During the Program, there were generally positive economic adjustment trends, as the Irish authorities consistently met the primary objectives. These positive trends continued after the completion of the Program.[424] The Troika considered that adhering to the Program without modifications was a key achievement.[425] The faithful implementation of the Program helped

[423] Mourmouras Ioan. , Vol. A', ibid

[424] European Commission, Post-Program Surveillance for Ireland. Spring 2014 Report. Occasional Papers 195. June 2014

[425] European Commission . Economic Adjustment Program for Ireland. Autumn 2013 Review. Occasional Papers 167. December 2013

in regaining market confidence, a fact which was also assessed by the Troika as a key achievement.

Fiscal adjustment was mainly based on public expenditure related to the efficiency of public services, but was also based on welfare expenditure.

The restructuring of the banking system was done quickly with the mergers of banks being completed earlier. Thus, the Irish banks acquired strong capitalization among the Banks of the Eurozone and their profile improved. The cost of bank recapitalization was high for the taxpayer. However, it was lower than expected at the start of the Program. Despite the significant successes in the banking sector, the problem of non-performing loans remained and the banks proceeded to the sale of non-performing loans, a fact which contributed to the deterioration of the standard of living of debtors. The non-performing loans remained high in 2013 and amounted to 27% of total loans.

The economic and financial situation of the country improved slowly but steadily. In 2014, Ireland became the fastest growing EU country and its real GDP grew by 4.8%. The growth for the first three years is due on the one hand to exports, as it has strong trade ties with the USA and the UK and on the other hand in investments. At the end of the same year (2014) the private consumption began to accelerate.[426] However, public debt peaked at 123.7% of GDP in 2013, due to the support of banks and the reduction of revenues from the real estate market.

Structural reforms in the labor markets have not progressed well. Before the Program, Ireland did not have a system for dealing with the sharp increase in unemployment. An important achievement of the Program was the establishment of a such a system for the retraining of the unemployed in order to join the labor market.

Property tax was converted into recurring income based on the value of the property. Something similar to the Uniform Tax on Real Estate Property (ENFIA) in Greece.

[426] Gatzios Petros, Memoranda of Understanding : Elements and some thoughts from the European experience, ibid.

The following Table shows the evolution of the fundamental figures of Ireland during the period 2008-2015. The effects of the Program on Ireland's economic development are revealing in Table 15.

Table 15 : Fundamental Figures of Ireland 2008- 2015

	Public debt % of GDP	Budget deficit % of GDP	Rate of economic growth	Inflation	Per capita GDP	Current account balance % of GDP	Unemployment
2009	**61,7**	**-13,8**	**-4,6**	**-1,7**	**36100**	**-7,0**	**12,0**
2010	**86,3**	**-32,1**	**2,0**	**-1,6**	**36700**	**-1,3**	**13,9**
2011	**109,6**	**-12,6**	**0,0**	**1,2**	**36500**	**-2,0**	**14,7**
2012	**119,5**	**-8,0**	**-1,1**	**1,9**	**36000**	**-2,7**	**14,7**
2013	**119,5**	**-5,7**	**1,1**	**0,5**	**36300**	**5,6**	**13,1**
2014	**105,2**	**-3,7**	**8,5**	**0,3**	**39300**	**6,8**	**11,3**
2015	**78,6**	**-1,9**	**26,3**	**0,0**	**49300**	**9,5**	**9,4**

Source : Eurostat 2016.

CONCLUSIONS

The recent Global Financial Crisis that erupted before the end of the first decade of the 21st century, marked the course of the world economy, as well as the 21st century itself.

The Crisis, which erupted in September 2008 as a banking crisis in the USA, surprised economists and researchers who for decades had lived with the over-optimism that the crises were over. It arose from the collapse of the real estate market, a market based on subprime mortgages granted by US banks. The securitization of these loans in combination with their non-servicing eventually became the bomb on the foundations of the global financial market, as securitized loans "moved" across the Atlantic and thus banks around the world experienced liquidity problems.

With the label "Made in the USA", the 2008 Crisis started from a banking crisis, turned into a financial and ended in a US economic crisis affecting the entire planet. The deregulation of the financial system in conjunction with the securitization of loans in the US, highlighted the inability of the political system to withstand the pressures of the financial system. At the same time the speed with which the crisis has been transmitted through the channels of crisis and its unprecedented intensity have highlighted the globalized nature of the economy and refuted the decoupling theory.

In the European Union, the Crisis emerged as a necessary consequence of the huge global financial turmoil and remained with the features of real GDP decline of its member states for a prolonged period (case of backwardness), disproving the Europeans' claims that the 2008 Crisis was transient and would not affect Europe. The European Crisis emerged as financial crisis when its banks' liquidity problems arose, because most of the US ¼ mortgage loans that had ended up being securitized abroad were in the portfolio of European banks. It then turned into a public debt crisis.

The EU was unprepared to face the crisis which caused an avalanche of economic and political developments, which brought decisive cracks to the foundations of the EU, highlighting the weaknesses related to the model of governance and its economic and social policy.

The lack of an institution to deal with the crises, the resignation of its member states from the sovereign right of national monetary policy, the imbalances between the economies of its members demonstrated the Eurozone problematic structure and threatened its coherence to such an extent which gave the impression to some experts that "EMU was created to fail". At the same time, all this strengthened Euroscepticism and overthrew dogmas and principles of solidarity among its members, ignoring and bypassing even the expressed wills of a sovereign people. It was the worst phase Europe has faced since its establishment.

The delayed, perhaps deliberate, response of the EU to take the necessary measures to support the vulnerable economies of its member states, especially the South, created a solvency and borrowing crisis in these countries. However it "succeeded" in saving French and German banks that had toxic portfolios. The socialization of bank damage grew the problem of public debt of these countries, which due to these options of the EU were trapped in the vortex of financial impasse. The solution to the problem for these countries was given by the EU, selecting the fiscal adjustment programs in which it sought and succeeded in involving the IMF, thus proving its inability to resolve the problem of its member states on its own, as a Union of States.

Greece experienced these problems more intensely than all the countries of the European South, which received the greatest economic and social costs from the implementation of three consecutive fiscal adjustment programs, a fact that disintegrated its social cohesion, until the point of creating movements that were contrary to "rescue programs" and at the same time strengthened Euroscepticism in Greece.

The Crisis in the Eurozone, which as known concerns member states of a monetary union, its treatment that was done not exclusively with its own tools- Programs, but also with the participation of the IMF, as well as the effects on economic and business development from the implementation of the Programs in its member states, strengthened the scientific interest of experts in the study of these issues. At the same time, they were a challenge for their presentation with the present work, which utilizing the relevant bibliography and statistical data of institutions, tried to meet this challenge.

The present work was structured as follows:

The first Chapter provides a brief historical overview of monetary systems from the time of the Gold Standard to the establishment of the IMF and demonstrates the historical background of its establishment. The same Chapter analyses the aims, the main characteristics, the organizational composition and the mode of operation (lending, surveillance etc) of the IMF.

The second Chapter deals with the Global Financial Crisis of 2008. In the first section of this Chapter, reference is made to the general definition of the crisis, and a brief review of the historical background of the crises, the types, characteristics, causes and effects of crises in general. The same section summarizes the Crisis of 1929. The reference to the 1929 Crisis was made on the one hand because it was the last major global Crisis until 2008 and on the other hand to investigate whether or not the Irish theatrical writer George Bernard Shaw was right, saying “If story is repeated and the unexpected always happens, how unachievable learning from experience is man?”. The second section describes the climate of over-optimism that prevailed internationally, before the outbreak of the Crisis and the way in which the housing “bubble” in the US was created until 2007 with the help of the deregulation of the financial system and the securitization of subprime mortgages. The collapse of financial institutions in the US and the EU appears as a consequence of the above financial policy. At the same time, the inability of the markets for self-deregulation is highlighted, as the governments undertake their rescue, thus burdening their taxpayers. The Chapter concludes with the presentation of the dominant view, but also the slightly different views on the causes of the Crisis, as well as the summary of the results of the crisis in the US and the EU.

The third Chapter presents the Crisis in the Eurozone. The research begins with a brief reference to the historical stages of the establishment of the Eurozone. It continues with the way in which the Crisis manifests itself in the Eurozone and with the presentation of tables related to the development of GDP, budget deficits and debt of 18 member states of the Eurozone in the period 2002-2011, in order to comparatively highlight the general impact of the Crisis in the Eurozone. The analysis of the factors that allowed the Crisis to spread in the Eurozone (with its structure as the main factor), as they were supported by the researchers on the subject, as the special reference to the Crisis of the European South and the first –delayed- measures taken by the Eurozone for the Crisis, complete this Chapter.

The fourth Chapter refers to the Fiscal Adjustment Programs implemented in Greece, Portugal, Cyprus and Ireland, which are analyzed in a separate section for each country. For all the above countries, reference is made first to their financial situation during the period from the accession of each member in the Eurozone to the emergence of the Crisis, in order to then easily make visible the results that emerged from the implementation of the Programs. Then we make a brief overview of the accession process of each country to the Fiscal Adjustment Program. The case of Greece presents a peculiarity in this process. The research continues with the listing of the measures of the Programs, the way and the degree of their implementation, in order to reach the effects that these measures caused in each country. The effects focus on the developments of the macroeconomic figures of each country (GDP, budget deficit, public debt, investments, unemployment etc), during the implementation of the austerity measures until the exit of each country from the Program. They are presented in corresponding figures and tables for easier identification of the evolution of each economic size. At the end of respective section of each country are summarized the effects caused by the Programs on the economic and business development of the country.

In the section that refers to Greece, due to the specificity of its case, due to the implementation of the three consecutive Programs instead of one implemented in the other countries, a special paragraph "Criticism of the Memoranda" is dedicated, to which we will not attempt to refer to this point not even briefly, in order to avoid unnecessary repetition.

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