An Economic Analysis of the Measures against the financial debt crisis on Greek Economy

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Abstract: This paper is about the measures taken by the Greek government to counter the financial problem. These measures aimed at the fiscal consolidation, the rescue of the financial system of the economies and the return of the economies to a developmental track with low unemployment levels.

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1. Introduction
The measures for the U.S.A. were about the salvation of banks with liquidity problems. These problems came about from their handling high risk mortgage loans. The US government in order to financially strengthen its credit institutions gave enormous amounts buying stocks as well as their portfolios with toxic products through law. Then a policy of public investments giving money to the real economy was followed so that it could return to developmental track. Great Britain followed the same policy as far as the salvation of its financial system was concerned. By buying stocks and forcing control over the banks, liquidity was reinforced, while at the same time an attempt was made to re-organise them. A tight cut-back policy was followed aimed at the reduction of the public debt. At the same time the private sector was given incentives for growth with the long term aim of reducing unemployment. Greece, following the example of the other two, also gave funds, to its banks. Yet as it did not have the same image in its public finance as compared with the other two and given its anemic productive process it faced problems trying to take loans from the markets. As a result, the country turned for help to the European stability mechanism to avoid bankruptcy. For its economic course to be considered viable a policy of hard austerity was applied with severe cut-backs and enforcement of new taxes for increasing income.

2. The liquidation of Banks
In Greece the first recapitalization of banks was in 2008. This act aimed at maintaining liquidity in order to keep the flow of capitals to the real economy. The government of the time gave to the financial institutes of the country 28 billion euro according to the law 3723/2008.

This happened as follows:
• 5 billion euro in exchange the Greek Government takes the so-called privileged shares of equal value. These shares do not give the right to vote in the General Stockholders Meeting. The annual stock performance of the shares was 10%. Law 3723/2008 (2008).
8 billion euro in Greek government bonds, which are equal to cash. The cash, mentioned, was paid with Greek governments bonds. The Greek government issues bonds, gives them to the banks and they, in turn, deposit them to the Central European Bank and receive an equal amount of funding, with a very low interest law 3723/2008. 15 billion euro in loans with Greek government guarantee, that the bank can give to third parties. If at any point the bank cannot live up to its obligations the Greek government has to pay the loan. Law 3723/2008.

In May 2010, when Greece entered the European Financial Stability Mechanism it was thought necessary to further support the financial sector with extra 50 billion euro. This measure was voted by the law (3845/2010) which included the measures as the outcome of the country entering the mechanism. The liquidation would be proceeded in the following way:

- 10 billion euro in cash by the new-founded financial stability facility, whose aim is to maintain the stability of the Greek banking system, giving its own capitals with the form of privilege shares. The 10 billion euro would come from the 110 billion of the Greek financial aid by the support mechanism. Whereas the risk of damage is taken on fully by the Greek government. Law 3845/2010, (2010)
- 15 billion euro in loans with the Greek government guarantee to third parties, which is stated by the law 3723/2008. Law 3845/2010, (2010)

The total amount of money given for the liquidation of the banking system from 2008 to 2011 was 78 billion government grant.

3. The first Measures of holding the Public Debt by Papandreou Government

The government under the unbearable pressure by the European Officials to become active after the increase of lending rate decided to act immediately. The first measures were taken in the beginning of February 2010 and were about stopping hiring staff, cut-backs on benefits by 10%, on overtime and travelling expenses. Eleftherotypia (9/2/2010). These measures were considered by the markets to be insufficient to reduce Greece’s public dept and as a result the lending rate kept on rising. Driven by the fear of the inability to receive loans from the markets due to the prohibitive rate even harder measures were taken to reduce government expenses.

The packet of measures included:

- 30% reduction on Christmas, Easter and Leave of Absence benefits.
- 12% reductions on all benefits of the public sector.
- 7% reduction on the salary of employees.
- Increase of VAT from 4.5 to 5%, from 9% to 10%, from 19 to 21%.
- 15% increase on petrol tax.
- An added 10% to 30% to import taxes on the value of most imported cars.
- Restoration of presumptions on maintenance costs on all cars with no exception.
- Extension of presumptions on maintenance costs on all real estate with no exception.

The measures brought about a tranquility which, as it seemed, was temporary. The Greek economic structure did not allow the desired results to emerge as there was the need, apart from the austerity measures proceed to a series of reforms of the Greek economy (privatizations, opening of “closed off” profession

4. Entering the European Financial Stability Fund

After the parliament voted that new measures the danger of a possible bankruptcy within the euro zone was still lurking. The leaders
of the European Union saw the need for the existence of a support mechanism for the countries which would have borrowing problems. So they decided to establish the European Financial Stability Fund comprised of the European Union Countries (E.U.), the European Central Bank (E.C.B.) and the International Monetary Fund (I.M.F.). The funds mainly came from the countries – members of E.U. and a small part from the I.M.F., which was chosen for the creation of the mechanism due to its experience in dealing with debt crisis of different countries.

In Greece the situation seemed to worsen as after the tranquility that followed the voting of the measures, uncertainty had again prevailed. The lending rate started rising once again. In a climate of allegations and severe pressure from European partners the government decided to activate the European Financial Stability Fund (E.F.S.F.) on 23rd April 2010. The Greek government went to a loan agreement accompanied a memorandum of co-operation between Greece and the three bodies which comprised the E.F.S.F. The obligations of the state in order to receive the loan were included in the memorandum. These obligations included:

- The substitution of the 13th and 14th salary of civil servants with a 500 euro benefit for all those who earned up to 3000 euro and complete abolition of these two salaries for all the higher salaries.
- Substitution of 13th and 14th pension with 800 euro benefit for pensions up to 2500 euro.
- Further cutbacks of benefits 8% on the civil servants’ benefits and 3% on employees on government-owned corporations where there are no benefits.
- Increase of the high VAT from 21% to 23%, of the middle from 10% to 11% and from 11% to 13% and of the lower to 6.5%.
- Increase of the special consumption tax on fuel, cigarettes and drinks by 10%.
- Addition of 10% more on import tax on the value of most imported cars.

Also, the bill proposed changes in labour with the increase of dismissal limit and reduction of the guaranteed pay. Furthermore, the insurance scheme proposed an increase of the age limits for pensions for women working in the public sector to 65 years until the end of 2013 beginning from 2011. Petrakis (2010 pg 798-733). Also, the government committed a series of privatizations and the opening of “closed off” professions in order for the economy to become antagonistic. Also the Financial Stability Fund was established with the aim of the stability and stabilization of the Greek banking system.

5. Medium – term frame of Fiscal Strategy

From the beginning of 2011 there have been deviations from the goals of the income as well as from the progress of structural reforms. So a decision was made to vote, once more, restricting and collecting measures through a packet of medium – term duration in order for the Greek State to be able to receive loans from the stability mechanism (2012 - 2015). The medium –term Programme of Fiscal Strategy as it was called was voted on 29th June 2011 and included:

- The change of tax scale with the burdening of all those who state over 8000 euro income. Medium – term frame of Fiscal Strategy (2011)
- Exceptional contribution for all those who have an income of over 12000 euro. Medium – term frame of Fiscal Strategy (2011)
- Transition to a higher level of VAT for products and services of restaurants. Medium – term frame of Fiscal Strategy (2011)
- Enforcement of graduated objective housing costs. Medium – term frame of Fiscal Strategy (2011)
• Enforcement of special solidarity contribution of 2% for battling unemployment. Medium – term frame of Fiscal Strategy (2011)
• Enforcement of special contribution of Auxiliary Insurance Pensioners which will be deducted monthly. Medium – term frame of Fiscal Strategy (2011)
• Increase of the deduction of percentage on all pensions above 1450 euro, from 4% to 10% which existed until then from 6% to 14%. Medium – term frame of Fiscal Strategy (2011)
• 50 billion euro from privatizations. Medium – term frame of Fiscal Strategy (2011)

Apart from tax collecting and cut-back measures the programme also included the creation of the Asset Development Fund. Its aim is the utilization of public property as well as the acceleration of privatizations. There have also been changes on the work regime:
• It is instituted a measure for work back up for the organizations that are abolished. Medium – term frame of Fiscal Strategy (2011)
• All those hired, lacking professional experience will earn 20% less than the limit of National General Collective Agreement. Medium – term frame of Fiscal Strategy (2011)
• The duration of fixed-time contracts goes from 2 to 3 years. Medium – term frame of Fiscal Strategy (2011)

6. Measures to counter Poverty and the Homeless

When Greece entered the debt crisis the percentage of the homeless and poor families rose dramatically. The main measure that the government took was to organise soup kitchens in different areas in the big cities. Also the Greek Orthodox Church and various non-profit organisations organised soup kitchens and cared for the clothing of the poor. The problem of intense immigration was not radically dealt with and in the end of 2011 shelters were created for the illegal immigrants. This measure was chosen as a temporary solution in dealing with the problem. The economic immigrants would be transferred there until they were deported from the country. This measure made life of the citizens easier in the center of Athens, which faced vital problems with acute poverty and the extreme phenomena that derive from it.

7. Measures for the Drug Independence and the reduction of HIV

The bad economic state, the intense unemployment and the bad psychological state lead a person to drugs. The incidents which called for help from the rehabilitation centers in the years of crisis were extremely increased in comparison with other times. The cutbacks on health and equipment did not allow the bodies in charge to treat the number of drug addicts. The lists for the care and rehabilitation of addicts are quiet long and the waiting period enormous. In 2011 the then Minister of Health Andreas Loverdos, told the Parliament that the list of drug addicts will end and addicts will be treated as patients and will be given an antidote or substitute of their dose. OKANA is also to be commended for its try to protect homeless drug addicts by supplying them with clean syringes so as to reduce HIV incidents. Also OKANA in co-operation with other organisations, against drugs wrote down the exact number of drug addict suffering from the HIV virus, in order to be helped.

8. Conclusions

The conclusions that are drawn after the listing and the analysis of the measures to counteract crisis are that economies are clearly unprepared for the magnitude and the extensions of the crisis. The policies that were followed on the one hand restricted the financial danger and in the other hand increased their public debt extremely. The increase of public debt is due to the flow of money to the banks (financial institutions). These extremely large sums turned the crisis from financial to a debt crisis. In the
cases of Great Britain and Greece governments followed an austerity policy in order to limit the high debt rate. The citizens were asked, one more time, to pay the price for the lawlessness of the banking system. In the United States they dealt with the financial crisis by saving banks (financial institutions), which faced liquidity problems and were in danger of bankruptcy. This measure in conjunction with the public investment policy, which was followed as well as the programme of social reforms, resulted in augmenting the public debt. After the privatization programme of its broad banking system increased the levels of public debt. The idleness of political leaders allowed the debts to continue to increase to uncontrollable proportions. The measures taken for Greece to counteract crisis were initially the refunding of its financial sector deriving from international financial developments. The big sums that were given for the reinforcement of the banks were, consequently, enormous in comparison with their size. The enormous sums of money in combination with the long lasting wrong actions and deficiency of the governments drove the public debt of Greece to historical heights. In 2010 the policy applied intended to drastically cut the public deficit. In order to achieve this, cutbacks were made on the expenses of the public sector, concerning the functional and wage cost as well as expenses. In the case of Greece this recipe was not successful as there was a continuing deviation from the goals that were set. This had as a consequence the introduction of new measures, which were once more about cutting expenses as well as tax collecting measures. Apart from the deviation from the goals, the continuous taking of measures intensified the uncertainty as regards to the viability of the Greek public debt.

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