The Assisted Countries

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EU Non-EMU Members

Hungary

2008-2010 – 15.6 bn Euro (IMF+BoP).

Latvia

2008-2011 – 4.5 bn Euro (IMF+BoP, EIB/EBRD, World Bank).

Romania

2009-2011 – 19.6 bn Euro (IMF+BoP, EIB/EBRD, World Bank).

2011-2013 – 1.15 bn Euro (World Bank).

2013-2015 – 2.5 bn Euro (World Bank).

EMU Assisted Countries

Cyprus

2011-2012 2.5 bn Euro (bilateral).

2013-2016 10 bn Euro (IMF+ESM)

Greece

2010-2015 215.9 bn Euro (IMF+EFSF+GLF – bilateral loans pooled by the European Commission)

2015-2018 86 bn Euro (IMF+ESM)

Ireland

2010-2013 68.2 bn Euro (IMF, bilateral, EFSM, EFSF)

Portugal

2011-2014 76.8 bn Euro (IMF, EFSM, EFSF)

Spain

2012-2013 41.3 bn Euro (ESM)

The Cypriot Case

- **Cyprus is an island in the Mediterranean Sea, 840,000 citizens.**
- **The crisis hit Cyprus in 2012.**
- **Reasons:**
    - **€22 billion exposure of Cypriot banks to the Greek debt haircut.**
    - **downgrading of the Cypriot economy into junk status by international rating agencies.**
    - **inability of the government to refund its state expenses.**
- **June 2012: Cypriot government request for bailout.**
- **November 2012: Agreement on bailout terms, including: strong austerity measures, including cuts in civil service salaries, social benefits, allowances and pensions and increases in VAT, tobacco, alcohol and fuel taxes, taxes on lottery winnings, property, and higher public health care charges.**

The Cypriot Case (cont.)

Levy on private accounts:

- The first proposal (by EU negotiators) also included an unprecedented one-off levy of 6.7% for deposits up to €100.000 and 9.9% for higher deposits on all domestic bank accounts.
- Following public outcry, the Eurozone finance ministers were forced to change the levy, excluding deposits of less than €100,000, and introducing a higher 15.6% levy on deposits of above €100,000
- This revised deal was also rejected by the Cypriot parliament.

Final Agreement:

- Recapitalization of the entire financial sector while accepting a closure of the Laiki bank (this helped to reduce the necessary loan to €10 bn without necessity to impose a general levy on bank deposits.
- Implementation of the anti money laundering framework in Cypriot financial institutions.
- Fiscal consolidation to help bring down the Cypriot governmental budget deficit.
- Structural reforms to restore competitiveness and macroeconomic imbalances.
- Privatization program.

The Greek Case

- Before the crisis, Greece was one of the fastest growing in the Eurozone (4.2% av.)
- Greece was hit especially hard by the 2008 global crisis since 2 of its main industries are tourism and shipping.
- Another reason was the erosion of Greek's trade competitiveness after the introduction of the Euro, that increased its labour costs.
- Recession due to the global crisis decreased foreign investments.
- Consequently, Greek's trade deficit and budget deficit rose from below 5% of GDP in 1999 to around 15% of GDP in the 2008–2009 periods.
- Being an EMU member, Greece could not devaluate its currency to decrease debt and attract investments.
- April 2010: Greece could not anymore borrow in the market and requested a loan of €45 bn. Greek's sovereign debt rating was downgraded to BB- "junk".
- May 2010: Greece announces austerity measures to secure a €110bn three years loan (1st adjustment program).
- October 2011: the Troika (Commission, ECB, IMF) offers Greece another loan of €130 bn subject to further austerity measures.

The Greek Case (cont.)

- The Greek prime minister Papandreu plans to have a referendum but backs down due to strong EU partners' pressure, threatening to withhold an overdue €6 billion loan payment that Greece needed by mid-December.
- Nov. 2011: Papandreu resigns and the new prime minister Papademos becomes responsible to implementing austerity measures.
- The implemented austerity measures have helped Greece bring down its primary deficit—i.e., fiscal deficit before interest payments—from €24.7bn (10.6% of GDP) in 2009 to just €5.2bn (2.4% of GDP) in 2011.
- At the same time they contributed to a worsening of the Greek recession and unemployment.
- February 2012: the Troika agrees to loan €130 bn conditional on the implementation of another austerity package that would reduce Greek expenditure by €3.3bn in 2012 and another €10bn in 2013 and 2014.
- March 2012: the Greek government default on its debt (the largest default in history by a government). private holders of Greek government bonds (banks, insurers and investment funds) would "voluntarily" accept a bond swap with a 53.5% nominal write-off, partly in short-term EFSF notes, partly in new Greek bonds with lower interest rates and the

The Greek Case (cont.)

- maturity prolonged to 11–30 years (independently of the previous maturity).
- That debt write-off had a size of €107 bn, and caused the Greek debt level to fall from roughly €350bn to €240bn in March 2012.
- December 2012: the Greek government bought back €21 billion ($27 billion) of their bonds.
- Of all €252bn in bailouts between 2010 and 2015, just 10% has found its way into financing continued public deficit spending on the Greek government accounts. Much of the rest refinanced old Greek government debt, held by private banks and hedge funds.
- June 2012: new government elected.
- November 2012: the Greek parliament passed a new austerity package worth €18.8bn. In return, the Eurogroup agreed on the following day to lower interest rates and prolong debt maturities and to provide Greece with additional funds of around €10bn.
- Despite all programs, a new forecast financing gap emerged in 2014-15, necessitating more government lending or fiscal improvement (expenditure reduction, privatization etc.).

The Greek Case (cont.)

2014: Greece experienced positive growth in the first 3 quarters but recession returned towards the end of the year.

- The recession was explained due to the elections of the new parliament and the formation of Syriza-led government (refusing to respect the bailout agreement).
- The Troika to suspend all scheduled remaining aid to Greece under its current program.
- This caused an increasingly growing liquidity crisis (both for the Greek government and Greek financial system).
- May 2015: Greek attempts to negotiate with the Troika.
- The Eurogroup granted a six-month technical extension of its current bailout program to Greece, until June 2015.
- July 2015: the Greek people vote in a referendum against a new bailout program in return for more austerity measures. The Minister of finance resigned and negotiations continued.
- A bailout program subject to more austerity measures was decided
- In 2015 78% of Greek debt is owed to public sector institutions, primarily the EU.

The Greek Case (Cont.)

- September 2015 – elections.
- 17 October 2015 + 19 November 2015– the Greek Parliament passed an austerity bill, including limitations on early retirement and extension of property tax.
- Greece engaged in enhanced privatization, and sold banks' shares to raise money to stabilize their capital.
- Recently Greece continues with stabilization and austerity measures, receiving financial assistance from the EU.

Greece: Tax evasion + Corruption

- **2010: tax evasion losses assessed: over 20bn$.**
- **2012: Greek "black economy" is assessed at 24.3% of GDP (EU average 15%).**
- **2013: government collected less than half of the revenues due in 2012 (the rest for delayed payment).**
- **2014: Greece scored 43/100 according to Transparency International's Corruption Perception Index, ranking it as the most corrupt country in the EU.**
- **2015: treaty discussed with Switzeland to handle some 80bn$ tax evaded sums deposited in Swiss Banks.**

G/G Game: complementary options

IMF guidance: at least 20% of the debt should be covered to make Greece eligible to the next financial assistance package:

- Cuts in civil service salaries.
- **IMF assessment: = 5% of the debt.**
- Cuts in social benefits, allowances and pensions
- **IMF assessment: = 10% of the debt.**
- Increases in tobacco, alcohol, fuel taxes and taxes on lottery winnings.
- **IMF assessment: = 5% of the debt**.
- Higher public health care charges.
- **IMF assessment: = 10% of the debt.**

Thank You

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