Greece's Economic Bailout

What is the issue?

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- Greece recently celebrated its exit from bailout plans that commenced in 2010.
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- Nonetheless, some imminent risks persist, which Greece needs to handle.
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What is the context of Greece's Bailout?

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

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- While Greece has sailed through the bailouts and is looking optimistically towards the future, the path ahead is far from clear.
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- Greece owes a staggering 180% of GDP in debt and also, and has also agreed for stringent budgeting conditions to its lenders for getting bailed out.
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- Notably, Greece will now need to maintain a 3.5% primary surplus (a budget surplus prior to interest payments) until 2022 and then around 2% until 2060.
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- IMF has warned that such budget surpluses are rare and is especially challenging for a country with an ageing population.
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- Further, with the country just emerging out after a decade of economic strife, maintaining such high budgetary surpluses might impact its growth potential.
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- This in turn might affect Greece's ability pay off its debt.
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What are the pending reforms?

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- Many reforms were taken up during the bailout period, but a lot else remains to be done – like greater flexibility in the labour market.
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- Simplified licensing processes for companies and banking reforms to reduce non-performing assets (NPA) on bank's balance sheets are other areas.
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- Notably, almost half of all outstanding loans of banks are now NPAs.
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- Further, the existing tax base needs to be reorganised to ensure that the

bulk of the burden doesn’t fall on the middle classes as it now does.
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How does the future look?

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

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