The Greek Economic Crisis: Myths, Misperceptions, Truths, and Realities

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Since early 2010 many analyses of the Greek economic crisis have taken place on an international scale. Most of them have seen the light of day; a few remained confidential due to the format of the venue in which the crisis was discussed. Overall, Greece has been at the center of international attention every month of the past six years, with varying degrees of intensity.

Regrettably, very few of the public investigations have been accurate and objective.[1] Some academic studies were notable contributions toward understanding the causes of the crisis and the subsequent adjustment policies,[2] but most analyses were superficial, hasty, and plainly wrong. The importance of the issue and the obvious political dimensions generated an industry of myths and misperceptions, which, by perpetuating themselves over a long period,

1. I exclude from this list the official reports and press statements by the international creditors that have supported Greece throughout this period. The official reports can be found on the websites of the corresponding institutions. See European Commission, "Financial Assistance to Greece," last updated 8 December 2015, ec.europa.eu/economy_financeassistance_eu_ms/greek_loan_facility/index_en.htm; and International Monetary Fund, "Greece and the IMF," updated 16 December 2015, www.imf.org/external/country/GRC/index.htm.
2. As helpful examples of serious analyses about Greece, see, for example, Hans-Werner Sinn, ed., "The Greek Tragedy," special issue, *CESifo Forum* (June 2015): 5–35, www.cesifo-group.de/sinn-2015-greek-tragedy-pdf; Julian Schumacher and Beatrice Weder di Mauro, "Diagnosing Greek Debt Sustainability: Why Is It So Hard?" Brookings Papers on Economic Activity (Washington, DC: Brookings Institution, 2015), www.brookings.edu/about/projects/bpea/papers/2015/schumacher-wederdimauro-greek-debt-crisis; Susan Schadler, "Unsustainable Debt and the Political Economy of Lending: Constraining the IMF's Role in Sovereign Debt Crises," CIGI Papers no. 19 (Waterloo, Canada: Centre for International Governance Innovation, 2013), www.cigionline.org/sites/default/files/no19.pdf.

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impeded a rigorous analysis of the problem and thus prevented a series of Greek decision makers from taking timely and appropriate measures toward the resolution of the crisis.

The purpose of this essay is to cast and analyze the Greek crisis in terms of four important myths and misperceptions that dominated its first six years (May 2010 through March 2016). In contrast, I submit what, in my view and based on first-hand experience, are the corresponding truths and realities that could have helped expedite the resolution of the crisis if they had become more widely accessible to the decision makers and to the general public. In doing so, I hope to demonstrate that, when it comes to fundamental economic principles, distinctions along political lines—left, center, and right—are groundless and harmful. Economic principles are based on mathematical relationships that stand above political labels.[3] A fifth myth, which will also be analyzed briefly, refers to the postcrisis options for the Greek economy.

The Crisis Begins

The Greek economy began to unravel in October 2009 when, a few weeks after the Panhellenic Socialist Movement (PASOK) came to power following the September elections, the government revealed that the true deficit of the general government was at least twice as large as had been shown in the official statistics until then.[4] Private capital markets, which up to that point were financing the Greek deficits more or less steadily and were rolling over past debts almost automatically, reeled at the revelation. In December 2009

3. An example from the United States is instructive at this point. As soon as the great crisis erupted in 2008 following the default of Lehman Brothers, the Republican administration of George W. Bush did not hesitate to temporarily nationalize a series of industries (auto, insurance, mortgage, and so forth) to save the economy from imminent collapse.

4. Specifically, the official statistics until August 2009 estimated that the general government deficit as a percent of gross domestic product (GDP) would be 3.7 percent for the year. In September 2009, about one month before the new government won the elections, the then minister of finance of the center-right New Democracy party raised the estimate to 6 percent. In October 2009 the newly elected socialist government doubled the estimate to 12 percent. Eventually, it turned out that the correct deficit as a percent of GDP was 15.3 percent, or more than three times the official statistics for most of 2009. For a succinct timeline of the events that led to the first bailout agreement in May 2010, see Graeme Wearden, "Greece Debt Crisis: Timeline," *Guardian*, 5 May 2010, www.theguardian.com/business/2010/may/05/greece-debt-crisis-timeline.

the credit rating agency Fitch downgraded Greece's sovereign debt rating to BBB+ from A-, the first time in ten years that the country did not have an A- rating. The Greek spreads—the difference in the interest rates paid by Greece on its sovereign bonds compared with the interest rates paid by Germany on its ten-year bunds (a benchmark for sovereign comparisons)—increased steadily from 1.3 percentage points in October 2009 to 9 percentage points a year later.[5] In early 2010, therefore, it started to become clear that Greece might soon be unable to service its current debt obligations (that is, payment of interest and repayment of principal).

In response to the unfolding crisis, and amid protests and strikes, between January and March 2010 the Greek government unveiled a strict stabilization program in three phases: it would aim at reducing the fiscal deficit by 4 percentage points of gross domestic product (GDP) in 2010 and further to 3 percent of GDP by 2012, as required under the Maastricht Treaty. But the private markets remained unconvinced, not only because of the magnitude of the adjustment, which was thought to be unrealistic, but also because the previous public figures were false and were considered to be part of a conscious policy of Greece to mislead its European partners. As a result, the climbing of the spreads continued and the rolling over of the Greek debt came to a stop in April 2010, when Standard and Poor's downgraded Greece's credit rating to junk status. With €16 billion of debt maturing in May 2010, on 23 April 2010 then prime minister George Papandreou made the bold and correct decision to appeal for help from three international institutions: the European Union (represented through its executive branch, the European Commission, EC), the European Central Bank (ECB), and the International Monetary Fund (IMF). Thus the Troika was born.

Myths, Misperceptions, Truths, and Realities, 2010–14

The first Troika lasted from May 2010 to December 2014. Many analysts have investigated its origins, and the genesis of the Troika can reliably be summarized as follows: The then president of the ECB, Claude Trichet, was

5. Heather D. Gibson, Stephen G. Hall, and George S. Tavlas, "The Greek Financial Crisis: Growing Imbalances and Sovereign Spreads," Bank of Greece working Paper 124 (Athens: Bank of Greece, 2011), www.bankofgreece.gr/BogEkdoseis/Paper2011124.pdf.

against the involvement of the IMF in a eurozone country; he felt that the European institutions alone—the EC and the ECB—could resolve the problem of Greece. The IMF, sensing the difficulties of the country, had already been preparing for possible involvement since early 2010 and had actually fielded a few technical assistance missions to Athens.[6] The proactive managing director of the IMF at the time, Frenchman Dominique Strauss-Kahn, had repeatedly offered for the IMF to participate in any possible rescue of the country, but European leaders were wary.

Things changed in April 2010, when the expertise of the IMF became compelling compared to the EC *fonctionnaires* who lacked experience with stabilization and adjustment programs. One of the principal areas of IMF expertise was the assessment of the sustainability of a country's debt, which was a critical component of Greece's economic future.[7] At that point, German chancellor Angela Merkel acquiesced to the participation of the IMF in the bailout agreement, and thus the fate of Greece was linked with the Troika for the following four-and-a-half years.

I now analyze the two most important myths that dominated the public discourse from May 2010 to December 2014.

> *Myth 1*: The severe crisis that manifested itself by declining wages, salaries, and pensions and by rising unemployment was due to the Troika and its policies.
>
> *Truth 1*: The crisis was not caused by the Troika. The crisis was caused by the private capital markets, which pulled out of Greece and brought the country to the brink of default.

That the crisis was caused by the Troika is an important misperception that became fodder for many a political argument and demonized the IMF, especially by the Greek media. In fact, even the discontinuation of financing

6. I participated in the April 2010 IMF technical assistance mission on fiscal issues. That was my first and last professional involvement with Greece as a staff member of the IMF.

7. All indications are that the IMF strongly pushed already in 2010 for a generous restructuring of the Greek debt, but it was overruled by the European governments, including Greece. Debt restructuring occurred two years later, in March 2012. This event, known as Private Sector Involvement, is not discussed in this essay. An excellent source is Miranda Xafa, "Life after Debt: The Greek PSI and Its Aftermath," *World Economics* 14, no. 1 (2013), www.mirandaxafa.com/mediaupload/articles/life_after_debt.pdf.

by capital markets that triggered the crisis was only the proximate cause. In reality, the crisis was in the works for many years (some analysts attribute it all the way back to the populist policies of the PASOK governments of the 1980s) and was caused by the serious imbalances in the country's fiscal and balance of payments accounts. As a succession of Greek governments covered the deficits through external borrowing, the Greek debt became unsustainable: the country was unable to discharge its contractual obligations.

Why the imbalances grew out of control, especially in the decade of the 2000s, is well understood. After adopting the euro in 2001, Greece had access to plenty of credit at low interest rates, which allowed it to experience high growth rates through "borrow-and-spend" practices. According to a very methodical analysis of the Greek crisis, starting in 2005 the combined private and public consumption of Greece was over 100 percent of net national income and reached 113.7 percent in 2014, compared with about 95 percent for Germany, France, and the Netherlands over the same period.[8] Such an increase in aggregate consumption, which was clearly not due to a spectacular rise in productivity, was clearly unsustainable.

> *Myth 2*: Even if the Troika did not cause the crisis, its policies imposed on the Greek people surely exacerbated the situation. In other words, there were less painful alternatives to the path of adjustment demanded of the Greek government.
>
> *Truth 2*: The lending agreements (the notorious Memoranda of Understanding, or simply the Memoranda) between Greece and the Troika afforded the country access to extraordinary amounts of resources, which made the adjustment less, not more, severe than it would have been otherwise.

This second myth, which is closely related to the first one, argues that, even if one is prepared to accept that the Troika did not *cause* the crisis, the international creditors imposed such harsh terms that the economic consequences were much worse than they would have been without the bailout agreements. This analysis is logically incorrect: the lending agreements (the Memoranda) were not just commitments by the Greek government to reduce

8. Sin, 12.

wages, salaries, and pensions; to raise taxes; or to rationalize the hiring policies of the public sector. These commitments were accompanied by huge loans from both the eurozone and the IMF.

The numbers are compelling. The IMF lent Greece €30 billion in 2010 and €28 billion in 2012. (The Washington, DC–based organization, which has a membership of 188 counties, was accused by some of being too generous to a European country.) The first loan, under the facility known as a Stand-by Arrangement, (SBA) amounted to 3,212 percent of Greece's quota, and was the largest loan granted by the international lender in its seventy-year history.[9] Typically, the amounts afforded to IMF members are up to 600 percent of their quota. Exceptions are possible under certain circumstances, but nothing had ever come near the amount approved for Greece in 2010.[10] The second loan, under the facility known as Extended Fund Facility (EFF), was slightly less than the first one but was still nearly twenty-two times Greece's quota.[11] Putting the total amounts together, from 2010 to 2014 the IMF and eurozone together provided Greece with a total amount of €283 billion, or 154 percent of the country's average GDP over the period.[12]

The financing provided to Greece by its international creditors to replace

9. *Quota* is a technical IMF term denoting the capital subscription of a member, which is a requirement for every country joining the organization. Quotas can be augmented through so-called general allocations. For example, Greece's current quota is the amount Greece pledged to the IMF to become a member, as augmented by several general allocations over the years. See IMF, "IMF Quotas," 24 September 2015, www.imf.org /external/np/exr/facts/quotas.htm.
10. The approval of the program by the executive board of the IMF required a modification of one of the four eligibility criteria that a country is required to meet to be granted exceptional (i.e., very large) access to IMF resources. In fact, an ex-post evaluation of the Greek program by the IMF staff concluded that while only criterion two had to be modified for the approval of the program, with hindsight it is debatable whether criteria three and four had also been met. For a full explanation, see IMF, "Greece: Ex-Post Evaluation of Exceptional Access under the 2010 Stand-by Arrangement," IMF Country Report no. 13/156 (Washington, DC: IMF, 2013), www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf.
11. To provide Greece with this loan, the IMF approved an extension of its EFF from a duration of three years, as was the rule until 2012, to four years. Because of this extension, and unlike the 2010 loans, the 2012 loans from the IMF and the European Financial Stability Facility (EFSF) were not contemporaneous: the European loan ended in December 2014, whereas the IMF loan ran until March 2016.
12. The 2010 European loan comprised individual contributions by eurozone countries and was termed the Greek Loan Facility. The 2012 European loan was provided by the EFSF, which was a temporary resolution crisis mechanism that was superseded by the European Stability Mechanism (ESM) in late 2012.

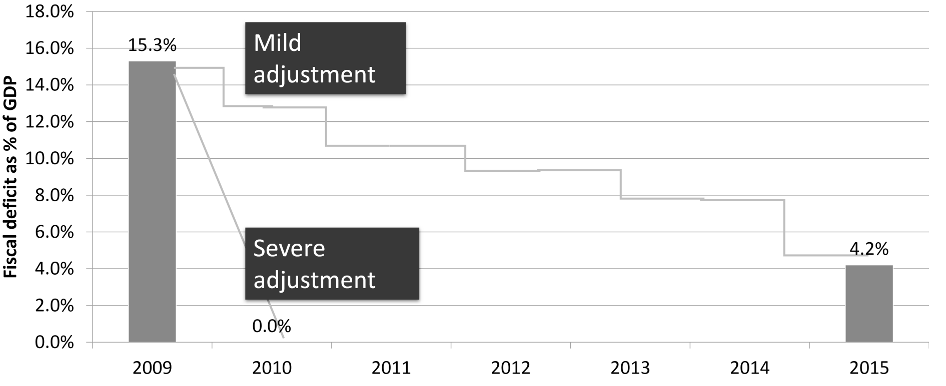

Figure 1. Greek Austerity with and without Financing

Source: Author's figure and calculations, based on official reports and IMF internal memoranda.

the private financing that had dried up by early 2010 afforded Greece the opportunity to achieve a much milder adjustment, as shown in figure 1.

In 2009 Greece's fiscal deficit was 15.3 percent of GDP. If Greece had gone bankrupt in 2010 without recourse to the Troika's resources, the deficit would have had to be slashed to 0.0 percent overnight.[13] This translates to more than €33 billion, which would have to be saved through a corresponding reduction of government spending; without financing, expenditures would have had to correspond to available domestic revenues for a long period of time. On the other hand, as figure 1 indicates, the availability of international financing from the official sector made the adjustment process *less* severe, since as late as 2015, Greece could afford to run a deficit of about 4.2 percent of GDP.

The perpetuation of the second myth in the public discourse throughout the existence of the first two lending agreements and the corresponding adjustment programs was a colossal failure of the George Papandreou, the Lucas Papademos, and the Antonis Samaras governments' communication policies.[14]

13. If Greece had defaulted on its external obligations, it would still have had to reduce its primary deficit of 10.4 percent of GDP to 0.0 percent overnight.

14. A succinct analysis of the issue along similar lines is provided by Daniel Gros, "The Greek Austerity Myth," CEPS Commentary (Brussels: Centre for European Policy Studies, 2015), www.ceps.eu/system/files/COMDGGreekAusterityMyth.pdf.

Achievements and Failures of the Adjustment Programs between 2010 and 2014

A detailed examination of developments in the Greek economy during the first four and a half years of the Troika-supported programs is beyond the scope of this essay. However, one can provide a summary of the end results, based on the objectives of the programs.

The programs had two objectives: first, macroeconomic stabilization, and, second, restoration of the country's competitive advantage, which would set the stage for sustainable growth without continual recourse to external borrowing. In economic terms, the first objective was compression of aggregate demand and the second objective was expansion of aggregate supply. According to IMF orthodoxy, stabilization is a prerequisite for growth, which is the correct sequence to prevent a relapse of an economy in an unsustainable vicious circle of borrowing and spending through large fiscal and current account deficits.

Greece was very successful in achieving macroeconomic stabilization through fiscal restraint and consolidation. In 2009–13 Greece achieved the highest and fastest cumulative fiscal consolidation among countries of the Organization for Economic Cooperation and Development in recent years: 16.6 percentage points of GDP, at an annual rate of 4.2 percentage points of GDP on average. In addition, Greece achieved a primary surplus one year ahead of the program target.[15] What is frequently overlooked is that fiscal consolidation was largely progressive, as the reduction in salaries and pensions of the public sector started from the top tiers and moved down to mid-level employees and pensioners.[16]

The fiscal consolidation, which sheltered the civil servants, caused a sharp increase in unemployment of the private sector, coupled with the disappearance of many small and weak enterprises and banks. The effects of the fiscal adjustment, which were predictable in terms of direction if not of magnitude,

15. The primary surplus at the end of 2013 was 1.2 percent of GDP, while according to the bailout agreement Greece was expected to achieve a primary surplus not before 2014.
16. See IMF, "Greece: Fifth Review under the Extended Arrangement under the Extended Fund Facility, and Request for Waiver of Nonobservance of Performance Criterion and Rephasing of Access," IMF County Report no. 14/151 (Washington, DC: IMF, 2014), 25, box 1, www.imf.org/external/pubs/ft/scr/2014/cr14151.pdf.

were supposed to have been counterbalanced by an increase in the supply of goods and services and a commensurate reduction in prices, which would have restored competitiveness and helped Greece regain its diminished export market shares. This dynamic, expected to be sparked through a series of extensive and long overdue structural reforms in most sectors of economic activity, never materialized. Instead, the structural reforms did not take hold and the typical explanation is summarized in the next myth:

> *Myth 3*: The failure in the implementation of most structural reforms was due to lack of political will and ownership by the Greek governments.
> *Truth 3*: While ownership was not exemplary, Greece soon reached unforgiving capacity constraints.

This myth, and its corresponding truth, are likely to be controversial, because many analysts have consistently put the blame for the unsatisfactory implementation of structural reforms squarely on the political will of the Greek governments, notably the Papandreou (2009–11) and Samaras (2012–14) governments. However, this explanation is only part of the story, and it is possible that most analysts who subscribe to this view have been unaware of the inner workings of the Greek bureaucracy. Without underestimating the lukewarm political support for many reforms that would have affected vested interests, I believe that, even under the most auspicious political environment, the Greek public administration would have been unable to carry out most of the reforms, especially under the strict timelines imposed by the two Memoranda and their revised versions.

The Greek public administration has been very weak for decades compared to European counterparts. In terms of both knowledge and experience, typical Greek civil servants lacked both the expertise and the discipline to carry out the complex reforms demanded by the Troika. The limitations of the Greek civil servants (themselves hampered by a lack of appropriate infrastructure and elementary technology) were recognized by the international creditors, who provided massive technical assistance in many areas covered under the programs: tax and expenditure policy, revenue administration, public financial management, banking resolution, and so forth. However, the principal negotiators of the Troika failed to take the next step, namely, to rethink, reconsider, and reprioritize the structural reforms as they moved ahead with the various program reviews.

In fact, some credible commentators believe that the problem was twofold: both the *prioritization* and the *sequencing* of reforms. Gikas Hardouvelis, the last minister of finance of the Samaras government, recently revealed that he had insisted on the liberalization of the product markets before the liberalization of the labor market but that his admonitions were not espoused.[17] Hardouvelis's analysis is correct: between 2009 and 2015 unit labor costs (ULCs) were reduced by 15 percent, but this improvement was not reflected in the prices of tradables, and Greek exports continued to have a very low contribution to GDP (between 20 and 25 percent). Put differently, due to the extensive rigidities and distortions in the product markets, the decline in ULCs was not mirrored in a corresponding reduction in prices.

In sum, the Troika partners bear a serious responsibility for the failure of Greek governments to implement structural reforms effectively and in a timely manner.

The 2015 Watershed

The year 2015 was a watershed for the relations of Greece with the Troika. Two important developments took place. First, the new government elected in January, comprising a two-party coalition (the Coalition of the Radical Left, also known as SYRIZA, and the right nationalist Independent Greeks) developed a strategy against the Troika that ultimately failed and led to an agreement on the third Memorandum. Second, the IMF was not a participant in the latest Memorandum and set two conditions for its return to the negotiating table. This section analyzes these developments in turn.

The Third Memorandum

The new government elected in January 2015 came to power with the explicit promise to denounce the previously agreed Memoranda and find a new way to

17. Gikas Hardouvelis, "Greece and Europe: Beyond the European Crisis" (paper presented at the Second Annual Summit on the Future of Europe, Harvard University Center for European Studies, Cambridge, MA, 22–23 September 2015), www.hardouvelis.gr/FILES/SPEECHES/03_HARDOUVELIS_CES_HARVARD_SEPT_22.pdf.

restore stabilization and growth in the ailing Greek economy. The salient feature of the new government's platform was yet another myth that dominated the public arena for seven months:

> *Myth 4*: The Greek debt is unsustainable and its restructuring should be the centerpiece of the negotiations with the international creditors.
> *Truth 4*: Greece has been granted a grace period for the repayment of the 2012 loan until 2022 and a contemporaneous deferral of interest payments.

The implication of this fact is that, even if Greece were granted an all-out forgiveness of its debt owed to eurozone countries and the European Financial Stability Facility (EFSF), there would be no *immediate* impact on the country's finances.[18] Back in 2012, the European lenders had recognized the possibility that debt relief might be necessary at some point down the road, but that point was not imminent in early 2015, especially because Greece had fallen behind in the implementation of many important structural reforms.[19] In addition, in cash-flow terms, Greece's debt service obligations were so low that debt restructuring was certainly not a priority.[20]

Yet the strategy and tactics of the new government were anchored on the issue of debt relief, which became the branding of the then minister of finance, Yanis Varoufakis. It is now well established that the Greek government's strategy in the first seven months of 2015 was based on the wrong assumption that a possible Greek default would be such an imminent threat

18. The loans owed to the IMF from the 2010 SBA and the 2012 EFF, as well as loans owed to the ECB, are not subject to restructuring, because it is not allowed by the institutions' respective charters.
19. The 27 November 2012 statement by the Eurogroup stated, inter alia, "The Eurogroup is confident that, jointly, the above-mentioned initiatives by Greece and the other euro area Member states would bring Greece's public debt back on a sustainable path throughout this and the next decade and will facilitate a gradual return to market financing. Euro area Member States will consider further measures and assistance, including inter alia lower co-financing in structural funds and/or further interest rate reduction of the Greek Loan Facility, if necessary, for achieving a further credible and sustainable reduction of Greek debt-to-GDP ratio, when Greece reaches an annual primary surplus, as envisaged in the current MOU, conditional on full implementation of all conditions contained in the programme, in order to ensure that by the end of the IMF programme in 2016, Greece can reach a debt-to-GDP ratio in that year of 175 percent and in 2020 of 124 percent of GDP, and in 2022 a debt-to-GDP ratio substantially lower than 110 percent." See European Council, "Eurogroup Statement on Greece," 27 November 2012, www.consilium.europa.eu/en/workarea/downloadAsset.aspx?id=19043.
20. In 2014–15, Greece was paying for its debt service less than Italy and Ireland were, both of which had a higher debt-to-GDP ratio than Greece.

to the cohesion of the eurozone that eurozone countries would try to keep Greece "alive" at all costs. The eurozone countries did not fall for the Greek government's bluff and demanded a clear commitment Greece for the continuation of the reforms that had been agreed to by the Samaras government. The Greek government through Minister Varoufakis tried in vain to buy time, including by defaulting on an IMF repayment on 1 July 2015, unprecedented for an advanced country.[21] In the process, valuable time was lost and the economic situation in Greece after seven months of the SYRIZA government was much worse than in December 2014. The end of "negotiations" took the form of an acrimonious EU summit in July 2015, at which Prime Minister Alexis Tsipras was forced to agree to a third Memorandum, with much harsher terms compared to those available to Greece in February 2015, soon after his government had first come to power.[22] Moreover, the Greek government decided to impose capital controls following a 25 percent withdrawal of deposits from the Greek banks.

The new Memorandum, formally signed by Greece on 14 August 2015, was accompanied by a new €86 billion loan from the European Stability Mechanism (ESM), which is now the permanent bailout mechanism for eurozone countries. By the time of the new agreement, however, growth prospects for 2015 and 2016 had turned negative, and the new loan had made debt relief after 2022 all but unavoidable (see table 1).

While in December 2014 it was possible, under certain circumstances, for the Greek debt to follow the trajectory outlined in the November 2012 Eurogroup statement (see note 19), by October 2015 it was clear that this could not be the case without further debt restructuring.[23]

21. The default status lasted until 20 July 2015, when Greece received a short-term loan from the EU in anticipation of the first installment under the third Memorandum, which was eventually approved on 14 August.

22. In September 2015, European Commissioner for Economic and Financial Affairs Pierre Moscovici made the following comment: "Mr. Varoufakis wasn't at the Eurogroup meetings of finance ministers to negotiate. We had countless discussions with him. These discussions were vain, pointless, and academic. He only wanted to play for time, not make concrete proposals." Michel Rose, "Talks with Varoufakis Were 'Vain, Pointless,' EU's Moscovici Says," Reuters, 24 September 2015, www.reuters.com/article/us-eurozone-greece-idUSKCN0RO26L20150924#tjS0R5Vrlq8j0yTZ.97.

23. It is essential to understand the difference between Varoufakis's position in early 2015, when he was asking for *immediate* debt restructuring, and debt relief *after 2022*, the possibility of which had been recognized by both the IMF and the eurozone countries.

Table 1. Change in Greek Financial Projections, 2014 and 2015

	End-2014 projections	*October 2015 projections*
2014 GDP growth (actual)	0.8%	0.8%
2015 GDP growth	2.9%	–2.3%
2016 GDP growth	3.7%	–1.3%
Primary fiscal balance 2015	3.5%	–0.3%
Primary fiscal balance 2016	4.5%	0.5%
Required additional financing	Very little	€86 billion
Debt sustainable?	Yes, if growth continued	No, under old definition

Source: Author's table based on IMF, European Commission, and Eurogroup statements.

Table 2. Greece's New Loan Agreement with the European Stability Mechanism, 2015–18 (in billion euros)

	August 2015 (actual)	*December 2015 (actual)*	*2016–18 (projected)*	*Total*
Debt servicing	13.0		41.1	54.1
Amortization	13.0		24.5	37.5
Interest payments	0.0		16.6	16.6
Bank recapitalization	10.0		15.0	25.0
Arrears clearance	0.0		3.9	6.9
Total	23.0	3.0	63.0	86.0

Source: Author's table based on ESM and Bank of Greece statements.

Moreover, as demonstrated in table 2, only a small amount of the new loan will go to the budget and only for the repayment of arrears; most of it will be channeled to debt servicing and to the recapitalization of the four significant banks.

In short, the delaying and erratic tactics of the SYRIZA government in the first seven months of 2015 led to a deterioration of the Greek economic situation, which necessitated the approval of a third bailout agreement. The implication of the latest program (which is now formally supported and monitored by a new, European-only Troika, comprising the ESM, the EC, and the ECB) is that, despite SYRIZA's pronouncements both as an opposition party and as the main governing party of the first 2015 coalition, Greece must continue on the path of deep and fundamental structural reforms, which aim at modernizing the Greek economy. At the same time, and despite the temporary loosening of fiscal policy in 2015 and 2016, Greece will need to achieve substantial primary surpluses for many years in the future.

The Present and Future Role of the IMF

As noted earlier, an important difference between the third Memorandum currently in effect and the previous two Memoranda is that the IMF did not participate in the August 2015 agreement. In June 2015 the IMF staff published its latest "Debt Sustainability Analysis of Greece" (updated a few weeks later), in which the staff changed the metric of debt sustainability from the debt-to-GDP ratio, which has been used since 2010, to the gross financing needs-to-GDP ratio.[24] As the first IMF paper indicated, "Given the extraordinarily concessional terms that now apply to the bulk of Greece's debt, the debt/GDP ratio is not a very meaningful proxy for the forward-looking debt burden."[25]

Under the new metric, the IMF was prepared to accept a ratio in the range of 15 to 20 percent of GDP as an indication of long-term sustainability. This is a welcome change, on both conceptual and operational grounds. However, for the IMF to sit again at the negotiating table two prior conditions must be met. First, the eurozone countries must provide enough debt relief to render Greece's debt sustainable after 2022, and, second, the first review of the August 2015 agreement (the third Memorandum) must be successfully completed. As of February 2016, completion of the first review was planned at the earliest for March 2016, and the participation of the IMF was not guaranteed, although it appeared likely.

There is an important point in the triangular relationship among the IMF, the eurozone, and Greece that several analysts have missed. The prevalent view is that the IMF is at odds with the eurozone because it insists on debt relief against the reluctance of Greece's European partners. In reality, how-

24. IMF, "Greece: Preliminary Draft Debt Sustainability Analysis" (Washington, DC: IMF, 2015), 11, www.imf.org/external/pubs/ft/scr/2015/cr15165.pdf. The updated report is IMF, "Greece: An Update of IMF Staff's Preliminary Public Debt Sustainability Analysis" (Washington, DC: IMF, 2015), www.imf.org/external/pubs/ft/scr/2015/cr15186.pdf.
25. IMF, "Greece: Preliminary Draft," 11.

ever, eurozone countries have formally declared that they will be prepared to consider debt relief after the completion of the first review of the program. Considering that the IMF has also set the completion of the first review as a precondition for its future participation in the program, it is obvious that both partners are interested in one common goal: that Greece continue and, if possible, accelerate the adoption and implementation of structural reforms, the most important of which continue to be on pensions, privatizations, the labor market framework, and nonperforming loans and foreclosures.

In assessing the developments during 2015, which reflected an almost complete loss of credibility of the Greek government, one wonders what would be the future of Greece by the end of 2016.[26] This is a difficult question, because Greece has always been at the intersection of economics, European politics, and, more broadly, geopolitical considerations of the North Atlantic Treaty Organization. An emerging consensus among pundits is that the latest agreement is probably the last offer from the Europeans to Greece; it was granted after intensive internal deliberations among the major eurozone countries, probably with the concurrence of the US government. The final deal was an additional €86 billion loan, with the help of which Greece is expected to make one last, serious effort to remain within the eurozone. If the effort succeeds, Greece will continue to enjoy the privileges (but also to accept the obligations) of the common currency. If not, Greece will have to exit.

The Day After and the Last Myth

Regardless of whether Greece remains in the eurozone or reverts to the drachma, the day will come when Greece will have to consider its path toward sustainable growth. The future of Greece is clouded by a fifth and final myth:

> *Myth 5*: Once the current crisis is over, Greece will automatically find itself on a path of sustainable growth.

26. The July 2015 "Euro Summit Statement" began with the following sentence: "The Euro Summit stresses the crucial need to rebuild trust with the Greek authorities as a prerequisite for a possible future agreement on new ESM programme." This is an extraordinary opening statement for a summit, which reflects the total loss of credibility of the Greek government during the previous months. See European Council, "Euro Summit Statement," SN 4070/15, 12 July 2015, Brussels, consilium.europa.eu/en/press/press-releases/2015/07/12-euro-summit-statement-greece/.

Truth 5: Greece will find itself in a sustainable growth path only after it has rediscovered its competitive advantage in the new global division of labor.

As noted earlier, the 2010 crisis was caused by the emergence of cumulative imbalances, which, in turn, were due to the gradual loss of competiveness over a period of at least thirty years. Some casual analysts believe, probably as a result of wishful thinking, that once the crisis is over Greece will find itself where it was in 2010, if not in 2004. That is likely not going to be the case. To return to sustainable growth, Greece must not only arrest and reverse the main economic imbalances that have been the main objective of the three Memoranda, it should also find new areas of comparative advantage, a task that is becoming progressively more difficult, given globalization and concomitant labor mobility. This is a separate undertaking that requires a methodical, multifaceted, and coordinated exploration.

In my view, the new areas of comparative advantage should be sought not in the product markets but in services. With the exception of a few agricultural products, Greece (like many other countries in the Western world) has lost its previous export market shares to the Far East. The future of Greece lies in services, such as medical tourism (which could build on traditional tourism, the main source of export revenue for the country); green energy (the development of wind and solar power); logistics (for example, call centers); and transport services. Greece would need to discover a new business model, based on expanded and improved infrastructure, inputs from domestic and foreign businessmen, an improved public administration, an agile and efficient justice system, and a willingness to reject obsolete and failed models of development. In the words of the US department store magnate, JC Penney, "Growth is never by mere chance; it is the result of forces working together."