Greece exits bailout - euro crisis “officially” over

Greece finally recovering slowly after a very steep fall: Real GDP since 1999

- **Standing on its own feet again**: Roughly 10 years after the start of the great financial crisis, Greece will be the fifth and last Eurozone country to leave its bailout programme. From Tuesday onwards, Greece will have to get by without new loans from its official lenders (i.e. the International Monetary Fund, European Stability Mechanism, European Commission and European Central Bank) and attract money exclusively from private sources.

- **From boom to bust**: Greece’s pre-financial crisis growth model was based on an unsustainable debt-financed consumption and investment boom. The tell-tale signs of growing risk were visible in its fiscal and current account deficits that each consistently exceeded 4% of GDP from 2003 to 2011. The great financial crisis and the subsequent need to correct Greece’s domestic excesses caused a mega-recession in Greece. The GDP decline of c.27% was much deeper than necessary due to too much focus on austerity (tax hikes) instead of pro-growth structural reforms. Nevertheless, Greece’s economy is finally expanding again at a half-satisfactory pace of around 2% annually.

- **Turkey, watch out**: Some parallels between Greece’s unsustainable boom until 2008 and Turkey’s economic excesses over the last years are visible. In addition, Greece lengthened its adjustment crisis when the left-wing Syriza government in early 2015 disregarded policy measures recommended by experts and instead opted for unorthodox economic policies spearheaded by the then-finance minister Yanis Varoufakis. This set back the Greek recovery by some three years. The Greek experience should ring alarm bells in Ankara.

- **Reasons why Greece can finally succeed...**: Looking at the track-record of the other four Eurozone ex-bailout countries, namely Ireland, Spain, Cyprus and Portugal, Greece should have a good chance to enjoy healthy growth over the coming years. Despite Greece's painfully slow economic recovery (see chart), the country implemented important long-term changes which make it more dynamic. Greece has: (1) rebalanced its large fiscal and current account deficits, (2) implemented important labour market and pension reforms, (3) brought down its bond yields and interest payment expenses, and (4) secured more EU funds to support investments. See [Greece a fresh start.](#)

- **... but significant challenges remain ahead**: Despite a restructuring of privately held Greek bonds in 2012, Greece's high public (180% of GDP) and private (c.130% of GDP) debt remain a key challenge in the absence of more dynamic growth. A still large stock of non-performing loans in the banking system, high tax rates, an expensive pension system, a large public sector, weak educational performance and emigration are adding to Greece's long-term challenges. The risk to watch is whether Greece reverses reforms to such an extent that markets take fright again.

- **Early election?** They cannot be ruled out as the government majority has shrunk to two seats. But according to opinion polls, the reform-orientated centre-right New Democracy party would win in such a scenario.

- **EU wants Greece to succeed**: Over the next years, Greece will receive significantly more money from EU budgets to support investment growth. Meanwhile, official lenders helped Greece to build a large cash reserve which should be enough to refinance the country for roughly two years. In combination with other debt relief measures, this should improve Greece's credit rating, Greece will remain under tight surveillance by official lenders and receive benefits which are conditional on further reforms. This reduces the risk of Greek policies going too much astray again.
Economics

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