*opinion piece*

South East European Studies
at Oxford

# *The Art of Triangulation:*
## *Will Greece's debt crisis finally come to an end?*

*Charles Enoch and Kalypso Nicolaïdis*

November 2017

seesox
South East European Studies at Oxford

St Antony's College
University of Oxford

# The Art of Triangulation: Will Greece's Debt Crisis Finally Come to an end?

Charles Enoch and Kalypso Nicolaïdis
St Antony's College, University of Oxford*

After his electoral victory in the Fall of 2015, Alexis Tsipras' mandate was clear and supported by a wide majority of the Greek electorate: to implement the 3rd Memorandum of Understanding (MoU), an understanding with its EU partners as to the policy conditions for being bailed out yet again. The agreement was not only negotiated and signed in by the Syriza government but it was endorsed in parliament by all the major political parties – except Golden Dawn. After the incredible saga of the Spring of 2015, which cost the Greek economy dearly, it was perhaps possible at last for Greek society to cohere around the most important agenda of all: making it our own.

Two years later, the Syriza Government hopes to exit the bailout programs in August 2018 on the basis of the efforts it has made on the fiscal and macroeconomic front, succeeding for instance in bringing unemployment down to 21.2% in the fall of 2017 from 27% in 2014. This next goal in turn would require the mother of all bailouts: a meaningful restructuring of the Greek debt as a condition for the IMF return to the game. On that wavelength, in June 2017 the IMF Board approved in principle a new programme that will only disburse once Greece achieves a sustainable debt burden, i.e. a reduction in the country's debt obligations. The IMF's contribution is essentially nominal - only around 2 billion Euro as against the 58 billion undisbursed in the European Stability Mechanism on the EU side- but is seen to be of disproportionate symbolic significance. How should we understand the basics of the game?

Many Greeks on all sides of the debate about the EU/IMF programmes seem to have moved on, and taken off their ideological glasses to engage in a sober assessment of the pros and cons of the latest bailout. This has required neo-liberals and self-styled progressives to engage with the substance of the deal rather than praise or criticize it wholesale as the incarnation of all good or all evil. There is no such thing as objective or neutral analysis and such a conversation ultimately has needed to tackle underlying ideological assumptions and presumptions.

Undoubtedly, Greece is slowly recovering growth prospects –although structural obstacles still need to be overcome, and the problem on non-performing loans in the banks still hangs in the air.[1] But for the new potential to bear out, public opinion must align, and the Greek public sphere needs to continue to promote a common-sense assessment of what still needs to be done to bring the country back to prosperity. After all these years of crisis management, the devil is, still, in the detail. Greek society at large needs to continue to engage in a sober exercise of stock taking and see how the reform programme fits within their overall vision for the future of Greece.

This is a pedagogical rather than analytical paper - we do not seek to provide definitive

* We would like to thank George Pagoulatos for his input in this piece.
1 See inter alia Karamouzis, Monokroussos and Anastasatos, 'From a vicious to a virtuous cycle? Turning Greece into an attractive investment destination: Opportunities and Challenges' in *Economy and Markets,* Vol XI, Issue 3, September 2017

answers but rather suggest the broad outlines of such an exercise.

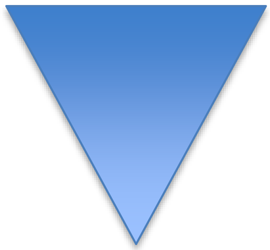
*The basic triangle*

The advocacy for a Greek bailout, including through indirect measures, must be understood against the backdrop of what we call *the basic triangle*. Compared with its predecessors, the 3rd programme's logic was to combine a softening of the fiscal consolidation path (1), with ambitious, far-reaching, and heavily frontloaded structural reforms (2), while banking on a set of flanking measures to compensate for the initial deflationary impact (3).

In highly simplified form the deal looked like this:

1) Fiscal adjustment:
"how much budget surplus"

2) Structural reforms:
"How should the Greek economy work"



3) Compensatory flanking measures:
"How much money should flow back in"

1) Maintaining fiscal adjustment through achieving a 3.5% primary budget surplus until 2022, with gradual declines thereafter. This target was earlier regarded as excessively ambitious, but was over-achieved last year (2016), with a surplus of 4.2% as against a 2016 target of 0.5%, in part because of one-off measures.

2) Structural reforms organized around four pillars:
   a. fiscal sustainability (pension and tax reform);
   b. financial stability;
   c. growth, competitiveness and investment (labour, product, and services markets; privatizations; policies to support investment);
   d. state and public administration capacity

3) Compensatory flanking financial measures: An important part of the MoU in 2015 was for the banks to be subject to an asset quality review (AQR) from the Single Supervisory Mechanism (SSM) at the European Central Bank in Frankfurt, in order to determine their overall level of solvency and recapitalize them if necessary. Banks' non-performing loans continued to be clearly at unsustainable levels, partly because of Greece's miserable economic experience over the past seven years: (NB it is far from clear why the large banks, at least, have not been subject to such a review to date: the SSM conducted an AQR for all Euro-Area systemic banks as a precursor to its own establishment.) There was a recapitalization in 2016 in which the state spent about 20bn Euros. Continued recapitalization, including bail-in, in line with the EU's Recovery and Resolution Directive, might be a necessary condition for the banks to resume their intermediation role and for a revival of economic growth.

The verdict? In a nutshell, both critics and defenders were right, and both were wrong. As usual with real questions, the answer is: it depends. It depends which bit of the issue you are considering, and how the context evolved over time.

And it depends on what you care about: the *effectiveness* of the deal on its own terms, that is debt sustainability or growth for Greece, and the time frame over which one is concerned? Its *fairness* for various segments of society, especially the most vulnerable? Or perhaps the most important key to its legitimacy, *ownership* by the Greeks themselves, whatever this may mean? Arguably, there has been increased consensus over these issues over the last few years over these criteria. Let's take each of them in turn.

*Effectiveness*

Some commentators may argue that the effectiveness of the deal was demonstrated in avoiding both default and Grexit in the two years that followed. Others may say that its real goal for creditors was to humiliate Greece/Syriza/Tsipras and that it succeeded, hence the plunge of the Prime Minister in the polls by the time of writing. Others yet that the 2015 MoU was meant to hold the Eurozone together, demonstrating that the EU would not give up on Greece and that was done. And so on.

We suggest however that it is more helpful to assess the deal on its own terms: how were Greece's prospect for growth affected by the 2015 plan?

Consider three points.

1) First, *the size of fiscal adjustment required.* It is hard to deny that Greece needed some fiscal adjustment and eventually to generate *some* budget surplus, both for economic reasons (even Keynes believed states could not run budget deficits forever since markets would stop lending you money), political reasons (when foreign governments take over from markets and become the main creditors in part *because* they can soften requirements, they need to show their tax-payers that the indebted country makes an effort too) and credibility reasons (as a form of signaling or hand-tying to address the the fear that relaxing of primary surpluses would mean a return to clientelistic practices). The question remains: how big a surplus and how fast?

The programme envisaged a gradual fiscal path to a 3.5% primary budget surplus for 2018 to 2022, with gradual declines thereafter.

Critics were right in principle to castigate a programme imposing further austerity measures (e.g. cutting government spending) on top of a recession. This is not a recipe for growth, so its impact on debt sustainability is therefore ambiguous at best. Unemployment fell during this period, but only from 22% to 17%--albeit a much better projection than in earlier exercises, which envisaged a new rise of unemployment towards the 27% level for 2015 and 2016. The 3.5% target reflected on the economic side a desire to see debt projections on a significantly declining trend, as well as the (perceived) political constraint of donors as mentioned. Some consider it as the main prerequisite to debt restructuring.

The target was more realistic than the 4 and 4.5% targets for 2016 under the previous programme, albeit still high. It seems that the creditors had (at least partially!) learned their lesson that squeezing out a large slice of fiscal savings in a shrinking economy ends up amplifying recession, leading to a vicious circle of target slippage, further fiscal measures, and so on. While 3.5% looked to be feasible for a year or two, and while the Tsipras government delivered,, its sustainability over five years looks to be questionable: adjustment fatigue would be an increasing possibility as Greece moves into its second decade of austerity. The fact that the Syriza government managed 4.2% in 2016 demonstrates short term commitment, but maintaining it over another one or two complete electoral cycles would be unprecedented, not just in Greece but in most other countries too. Indeed, this point is thoroughly analyzed in an appendix to the IMF's programme documents, and underlies its insistence on real debt restructuring (see below).

2) *Second,* this prospect for growth in turn depend on the other part of the basic triangle, namely *the impact of the structural measures laid out in the programme.*

Overall, Tsipras committed the Greek state to structural reforms that were long overdue. We are not the only ones to believe that it is on these reforms that Greece's medium-term growth potential lies. The Syriza programme ended up broadly following the one put forward by the first Greek modernizing government (PASOK's Simitis) twenty years ago and by almost every government that followed—although each of them for various reasons failed to implement them. These measures are meant to enhance both state capacity and Greece's business environment. Some were put in place between 2015 and 2017 and some were delayed.

On the state capacity side, what is not to like in measures meant to make it easier to collect tax revenues and tackle evasion? accelerate the judicial process? make public procurement more transparent? better safeguard market competition against oligopolies? reduce bureaucratic impediments to business activity and investment, such as streamlining licensing of enterprises? evaluate and depolitize public administration? Make social security sustainable? And strengthen state capacity in education, vocational training and labor market capacity building?

Amongst the measures in this regard are some that would bring Greece closer in tax structure to that of its country comparators in the Euro Area, including importantly a broadening of the tax base, so that a higher share of the population actually is liable for tax. Additionally, measures are envisaged to improve compliance with tax obligations: tax collections relative to assessments have fallen from 70% in 2010 to 46% in 2016. With the government also in domestic arrears to domestic suppliers to a total of 4% of GDP, the already-weak payments culture has deteriorated further.

Pensions reform has been a contentious element of EU/IMF programmes since early on. It is arguable that those who have worked all their lives and are now enjoying the fruits of their labours should not now, when they are vulnerable, have these fruits taken away. On the other hand, large sacrifices have been made by those of working age, and it would be equitable that these should be more widely shared. Also, Greece's deficit in paying pensions relative to contributions for pensions is four times the Euro Area average, hence putting a significant burden on the fiscal side. In short, if pension cuts are designed to be progressive, so that those on the lowest pensions do not see them cut, there would be a case for including these in a package. In fact, however, some argue that it is government insistence on limiting the cuts that will be borne at the upper end of the scale that limits the possible progressivity of such cuts, and will mean that those on the lower end will not receive the full pension entitlement that the overall formulae would otherwise ensure.

On the business environment side, assessment may seem a bit more complicated. Let us recall that much of the adjustment effort to enhance Greece's competitiveness under the 1st and 2nd MoUs was focused on labor market reforms and a decrease of private sector labor costs and wage incomes. This aspect of structural reform has been much criticized on the left. In contrast, others argued that in the eight years after the introduction of the Euro Greek labor costs went up on average by 30% while German labor costs went down by 7%. Even if you are a well-managed Greek firms, it can be hard to compete under these conditions. In the five years before the third MoU Greece rolled back this gap, too drastically argued Syriza. So it was a measure of progress that the present programme represented a more balanced attempt than its predecessors to increase efficiency beyond the obsessive focus on private sector labor costs. There is still plenty to do on this count, as Greek lobbies continue to protect a number of sectors while powerful interests are still involved in oligopolistic behavior, keeping prices up at the same time as incomes continue to fall. The MoU as a result argued for more competition in the energy, wholesale trade, construction, e-commerce, media and manufacturing sectors as well as more generally in product and services markets. And against continued fierce resistance it also put forth specific measures for the opening up of liberal professions, something that has been on the agenda since the 1990s. While some are still controversial, many of these measures are gaining acceptance and have started to be implemented.

In sum, while structural measures boost efficiency, and hopefully growth and real incomes in the medium term, the fiscal measures depress growth and real incomes particularly in the short term. The net effect may well be negative in the short term, but hopefully reverses later.

3) *Third,* whatever we may think of the fiscal austerity cum structural reforms required at the time by the MoU, there was a silver lining: the flanking measures of the overall "package deal" geared at improving Greece's long-term fiscal sustainability and growth outlook.

Overall, whether structural reforms translate into growth depends on some rather optimistic conditions which all have to do with the most elusive factor of all: confidence.[2] Bank recapitalization will only lead to an improvement of financial stability and proper access of Greek lenders to the Eurosystem if banks continue their current re-commitment to sound practices and Greek savers trust their system again; the projected investment package will only materialize if national and international investors foresee a climate of macroeconomic stability and if Grexit is seen as an increasingly remote possibility.[3] But such confidence will in turn depend on improved performance of Greek institutions (such as in the justice system and the enforcement of contracts) and the necessary shift of the country's growth model towards greater reliance on tradeables and exports. While much of the discussion on the MoU has focused on the elements aiming at improving fiscal sustainability, there has not been enough attention to these critical dimensions.

This is where flanking measures play a role. Some of these were components of the fiscal adjustment, while others were distinct structural measures. Cumulatively, they were meant to support the growth stimulus that would generate the fiscal savings required to finance the transition to higher primary budget surpluses

---

[2] Karamouzi, et al., op cit, have set out in detail a range of policies that could help establish confidence in Greece.

[3] *ibid*

Meanwhile, Greece is to benefit also from the so-called "Juncker Plan", which aims to enhance growth potential across Europe, including for instance through the financing of improved broadband. And the recent bond issue in the summer of 2017, signalling Greece's tentative return to the market, shows investor expectations that the path of recovery is now assured. Gross domestic capital formation is projected by the OECD to grow by 7.7% in 2017, after several years of decline.

One key element is the extent to which debt restructuring is part of the package. Most importantly, in an unholy alliance with the IMF, Tsipras did win a commitment from the European partners that debt restructuring would be tackled in connection with this third bailout. We write "in connection" as the German government insisted that there would be no direct and simultaneous quid pro quo, which would break EU rules too blatantly. But it is clear that Greek debt unsustainability will finally be faced and directly addressed by the widely anticipated debt relief, by way of maturity lengthening, moratoria of debt payment and interest rate reduction and other net present value improvements. In other words, all forms of debt relief are negotiable except for "nominal haircuts", quite probably to be heavily disguised in the agreement, obviously for the sake of German sensibilities.[4] This is what is actually meant by the statement that the Greek authorities "reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and in a timely manner".

That being said, there remained in 2015-16 significant differences between what the IMF envisaged and what the Europeans had in mind, in part because of differences in projections for Greek growth, as well as regards the form of the envisaged restructuring The IMF recalls for instance the Brady Plan, in which the US led moves to end debt instability and low growth in Latin America by agreeing a lowering of debt in exchange for improvements in the quality of debt (in that case a US government guarantee). Lowering the PDV of debt was key in transforming a region that had been economically notoriously unstable to one that survived without major difficulty even the turmoil of the GFC. Germany by contrast focuses on "moral hazard" and that "Schuld" in German means both debt and guilt. Debt reductions, if any, have had to be non-transparent, in order not to frighten the German public and to maintain the image of probity.

In sum, the outlook for Greece has improved enough, and its efforts have been credible and sustained enough, to justify an imminent debt restructuring. As summarized by Karamouzis et al, there are:

> a number of important macroeconomic, structural and strategic factors rendering Greece an attractive destination for private and foreign investment. These include, but are not limited to, the country's unique geographical and geostrategic position, which makes it an important crossroads for trade, transport and energy distribution connecting Middle and Far East with Central and South Europe; its heritage, culture, mild Mediterranean climate and natural beauty; competitive labor costs and a skilled and educated workforce; increasing signs of stabilization in the domestic economy and a gradual resumption of positive rates of economic growth; improving domestic financial conditions and funding opportunities, resuming market access and sizeable EU (and other official-sector) sources to finance future investments; depressed asset prices and unique investment

[4] The German election of September 2017 may make the situation even more complicated, with Chancellor Merkel likely having to negotiate a four party coalition—where each party has difference views on how to handle Greece—before a German government position can be fully established.

opportunities in key sectors of the domestic economy; small size of Greek companies, which raises significant M&A opportunities; asset sales and firm restructurings accruing from NPL management, which require substantial injections of private equity and debt; a more balanced growth position following the correction of pre-crisis macro imbalances; an increasing pro-euro & pro-reform political and social consensus; the strong commitment by euro area partners to deal more resolutely with the country's public debt sustainability issue in due course; the massive privatization programme and significant infrastructure projects that are underway. [5]

*Fairness*

However much the Greek pie ends up growing or shrinking in the next few years, it matters how the pie is divided. Fairness matters of course in its right. But it also matters for instrumental reasons: the Greek political saga since 2009, and the access to power of Syriza, has demonstrated what we already knew: support for reform depends on the general population's perception of how the cost of adjustment is distributed. The earlier MoUs have tended to overlook issues of fairness for the sake of expediency (e.g. a socially unfair VAT rise is a quick and easy solution). The last programme's credentials have been mixed when it comes to fairness and social justice.

To be sure, it serves social justice to tackle tax evasion and widen the tax base including through a taxing property in a truly progressive way which does not destroy the fabric of places of family return; it serves fairness also to vigorously fight corruption including by reducing military spending--which has long been a festering ground for kickbacks and spoliation of tax-payers, and where Greece spends far more than the EU average as a percentage of its GDP; it serves social justice to break up Greek oligopolies which during the crisis have managed to keep prices up while incomes continued to fall; and it serves intergenerational justice to transfer resources from a pension system absorbing one of the largest percentages of social expenditure in the EU towards investment in job creation, in a society where nearly half of the young are unemployed and 300,000 have left to look for work abroad in the last 5 years.[6] In addition, the MoU called for the introduction of a Guaranteed Minimum Income scheme, which, even if at a low level, would finally introduce Greeks to the virtue of a universal safety net. By definition, this scheme was to be means-tested and much fairer than the current system of benefits, which often is not. In the event the minimum income scheme was finally introduced in February 2017. While indeed it is a start, in that Greece has enacted a reform that other countries in the region have enjoyed for years, it extends to only a small section of the population, and does not provide support to a level that could in any way be called comfortable.

But in any case, and as always, with reforms that derive from the EU doctrine of competition-induced efficiency, driving out of the market less efficient undertakings could have a profound transformational impact. As usual, the objective of expanding the overall medium-term capacity of the economy to generate growth and jobs will be achieved at the cost of producing many more losers yet from previously protected sectors and occupational categories. The most vulnerable among them may to a limited extent benefit from the Guaranteed Minimum Income, but not all will be so protected.

[5] See fn 1Karmouzis, Monokroussos and Anastasatos, 'From a vicious to a virtuous cycle?

[6] On brain drain and circulation see the current work conducted under SEESOX's diaspora programme.

More generally, the austerity policies since 2010 years have dramatically worsened poverty and inequality indicators, and the further planned reduction of social expenditure, including in public health and the lowest pensions (planned savings from 1.3% to 1.9% GDP annually in 2016-18), could well exacerbate this effect. Not only will the program, at least in the early stages, lead to a further reduction of incomes, but often this is without regard for distributive impact: While the broadening of the tax base is a good thing, VAT hikes are regressive, and raising the main VAT rate to 23% has hurt small businesses. State savings from pensions (planned savings from 1.3% to 1.9% GDP in 2016-18) hurt pensioners across the board, including smaller and medium pensions, especially affecting early pensions. Overall, real incomes in general have been be hit, through the increase in VAT revenue (1.1% GDP each year) and income taxes (an average of 0.8% GDP in 2016-18).

Some of the savings in the health sector further rationalized the system (e.g. in procurement of hospital supplies and expanding generic drugs), which is good for the part of the population which cannot access private health care, but also continues to worsen conditions in certain geographical areas. Abolishing the VAT discount for islands which are prosperous tourist destination was fair but, when it comes to islands disconnected from the mainland for much of the year and with sporadic tourism, the measure could undermine regional cohesion in a country which already suffers exceedingly from rural exodus. Also, the increase in rates did not in its first year lead to a rise in revenue, probably because of a rise in tax evasion. And what should we make of the abolition of the preferential tax treatment for farmers (rate set at 20% in 2016)? It seems fair that farmers participate in the national effort like everyone else, but if implemented without regard to the very low margins that sometimes characterize agriculture in Greece, this will drive away younger farmers from a tradeable sector that is key to Greece's new growth model. On the treatment of small farmers, the requirement to increase the length of time for which milk can be labeled as "fresh" has made the headlines, including as alleged evidence for skewing in favor of northern European lobbies. Local milk produced in villages with a 2 day shelf life will likely lose out to its Danish and Dutch competitors. But so will the Greek cartel that has kept milk prices artificially high. The hope here is that small local "ultra-fresh" producers will find innovative ways to stay in the market, including in rebranding their product, entering alliances and using EU structural funds. It seems that breaking up cartels still remains as an objective in the most recent official papers.

The privatization process set out in the MoU deserves special mention here. Here at least there seem finally attempts at making this a fair process by protecting against selling assets at fire sale prices, a prospect many in Greece and outside perceive as spoliation. Moreover, now only half of the revenues from these sales are to go toward paying Greece's existing debt, while the rest is for bank recapitalization and for investments. Greeks will continue to ask why some of the most successful public endeavours in Greece which have managed to be profitable need to be sold off. In some cases, they do appear to have a case; why should water be privatized, when other countries such as Germany are moving to take back control over its water? However, as regards others, like regional airports, upgrading, expanding, and increasing revenue would only be possible with privatization. And although a new head of the privatization agency was appointed as of October 2017, with a mandate to accelerate the pace of privatizations, in any case, the targets now are only a fraction of the stratospheric 50 billion Euro receipts envisaged in the earlier programmes.

What of rights? Was Greece being asked to abandon labour rights? No, to the extent that the MoU benchmarks are EU directives and international best practices - including from the ILO. On the other hand, some already-disadvantaged groups may be adversely affected within a framework where they will not have adequate protections. When it comes to rights related to the functioning of the justice system, the 2015 MoU endorsed the implementation of a new Code of Civil Procedure which was already drafted in the fall of 2014 by a group of Greek experts, and which has the undoubted advantage of updating a code that was more than a 100 years old, including by accelerating access to justice. But here again, there has been discontent to the extent that the new code allowed for swifter treatment of banks' debtors and, above all, the resolution of nonperforming loans.

*Ownership*

We are left then with a final paradox. To a great extent, the success of the reforms agreed between Tsipras and the EU depended on ownership by the Greek population, the willingness of people to play ball and play fair, their capacity and willingness to endure further, as well as to steer the reforms towards the greatest social justice possible. The 2015 MoU started by recognizing that fact, calling for « appropriation » by the public. But how could it do so and at the same time provide a densely written, very detailed programme largely written outside Greece, whose broad outline deputies had to approve in two days in July and in detail over the course of a few weeks in August 2015? How was the continued reform process to be owned by Greek democratic actors when the programme insisted that "all measures, legislative or otherwise, taken during the programme period, which may have an impact on banks' operations, solvency, liquidity, asset quality etc. should be taken in close consultation with the EC/ECB/IMF and where relevant the ESM"? Similarly, as regards the new privatization fund, while it is true that it was established in Greece and managed by the Greek authorities, the European Institutions play a critical supervisory role. Perhaps owning foreign vetted reform is a contradiction in terms…

But of course, ownership is not just something to be handed over, it is something to be grasped for oneself. Successive Greek government and Greek society need to embrace and take on with determination all the dimensions of this reform programme that are good for Greece, and where there are few serious alternatives; this would give them more credibility in criticizing elements that are wrong and that can be improved. That has required much self-reflection from Greek society on the fundamental approaches to work, welfare, political responsibility, and public property. No easy task. Whatever one's verdict of the Syriza's government in its last two years in power, it is safe to say that it has grappled with exactly this tension.

Such a process is made easier of course if Greece's colleagues in the Council and the Eurogroup approach the Greek process with an open mind, allowing adaptations to the programme that seek to redress some of the possible flaws. This spirit is reflected in the parts of the programme which allude explicitly to "mutually agreeable alternative measures" in cases where the Greek government might seek adjustments. In these cases, they were supposed to take into account the impact of such changes both on growth and on the distribution of costs and benefits of reforms. But of course, alternative measures must be sufficiently concrete to be credible.

*Making it our Own*

We can only applaud Europe's continued investment since 2010 in the "Greek problem" and the collective sense on our continent that it is not just Greece's problem but a European one. But the bankruptcy of Greece after decades of corrupt and client list rule, and after seven years of a stop-and-go reform process, can only be remedied if the principles under which the European project is moving forward become the principles for Athens too.

Quite apart from the programme and the debt, Greece may not have an easy economic time ahead: the working age labour force is projected to decline by 30% between 2020 and 2060, and long -term growth is therefore put at only 1% per annum. Our projections are more optimistic! But there is little room for error here if one wishes to avoid a return to recession, so it is critical that the present juncture is used to strengthen the basics—not just the cosmetics—of the economy.

We do not argue that ideology has no role to plan in assessing the strengths and weaknesses of the current Greek programme. Indeed, the programme was ripe with ideological assumptions about what works and what does not work in putting a country like Greece back on the path to growth. Critics had a point in castigating a programme imposing further austerity measures on top of a recession, although projections now are that Greece will resume sustained—albeit anemic--growth. On the other side, there has been progressive recognition that privatization, liberalization, and fiscal responsibility are not wrong in and of themselves.

There is a need for a detailed stock taking of the 2015 MoU and the ways in which the Syriza government maneuvered its implications. This is beyond the scope of this paper. Instead, we have sketched what we see as the bare outlines of such a stock taking. Greece's 2015 economic adjustment programme came at the country's most critical juncture, at a moment of financial disarray and capital controls, with Greece facing the imminent threat of disorderly default and euro exit. This sense of urgency and a national existential risk helped at the time to cement broad cross-party parliamentary approval including that of a radical left-wing prime minister and a majority of Syriza members elected with the promise of terminating austerity. Necessity and TINA politics have always been a potent force for policy adjustment, but for this difficult programme to be able to deliver over the next decade, continued analysis and adjustment, political courage and imagination will be necessary. For a country seeking to exit its own modern day Great Depression within the euro, there indeed seems to be no other alternative.

*To conclude…*

We see an opening to a more imaginative response to handling Greek debt. President Macron has indicated a more flexible approach, and Angela Merkel is now putting together her government for a 4th term when she will care above all about her legacy. A neighbouring country, Bulgaria, will be assuming the EU Presidency in 2018. Thus there is a chance to go beyond the minimum in order to reduce Greek debt servicing and start putting the Greek crisis behind us. On October 9, 2017, Tzipras visited Christine Lagarde at IMF HQ, and mutual understandings appear to have been reached. There was agreement that if the primary fiscal targets are not reached because growth is below European projections (which the IMF consider unrealistic) the IMF will not seek additional adjustment measures to try to reach the 3.5% primary surplus target. Mrs.

Merkel may be reminded that the German economic miracle started with the 1952 debt agreement, when much of Germany's debt was written off and other parts were made payable only if the German economy was growing and the external balance was in surplus. Germany's last payment on its pre-war debt was made in 2010. She may understand that the success of the European project will hang upon resolving for good the problem of Greece's debt too.

# ABOUT SEESOX

seesox
South East European Studies at Oxford

**South East European Studies at Oxford** (SEESOX) is part of the European Studies Centre at the University of Oxford. It focuses on the interdisciplinary study of the Balkans, Greece, Turkey and Cyprus. Drawing on the academic excellence of the University and an international network of associates, it conducts policy relevant research on the multifaceted transformations of the region in the 21st century. It follows closely conflict and post-conflict situations and analyses the historical and intellectual influences which have shaped perceptions and actions in the region. In Oxford's best tradition, the SEESOX team is committed to understanding the present through the *longue durée* and reflecting on the future through high quality scholarship.

SEESOX has the following objectives:

- To support high-quality teaching and research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote multi-disciplinary study of the region's development within the University of Oxford (e.g. politics, international relations, anthropology, sociology, economics), working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;
- To foster cooperation between the academic and the policy making communities.

SEESOX
European Studies Centre
St Antony's College
University of Oxford
OX2 6JF

Telephone: +44 1865 274537
Fax: +44 1865 274478
E-mail: julie.adams@sant.ox.ac.uk

www.sant.ox.ac.uk/seesox