Greece in the Euro Area: Odd Man Out, or Precursor of Things to Come?

Loukas Tsoukalis

University of Athens/ELIAMEP

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Greece has acted as a catalyst for the outbreak of the crisis of the euro area, following the bursting of the big bubble in the Western financial system. It remains today the most vulnerable link of the euro chain, while in the meantime the crisis has extended to other countries. Greece has also served as a test case for national and European policies in response to the crisis: a stress test for the domestic political system, the economy and society at large in the context of economic austerity, recession and reform-induced change, as well as for the capacity of European institutions to devise new policies to deal with problems they had clearly not been prepared for.

Some believe that Greece is the odd man out among the beleaguered countries of the European periphery. If true, the policy options that could follow range all the way from special treatment and patience for a country expected to go through little less than a peaceful revolution in punishing conditions to default and/or forced exit from the euro area, with several other options in between. There are others who suspect or fear that Greece may be the precursor of things to come—as it has already been so in different ways—or possibly the first in a series of domino effects that could eventually lead to the disintegration of the euro area. It is high stakes.

Hence, the disproportionate amount of international attention paid to Greece in comparison to its modest size, although the size of its public debt is certainly less modest. As of March 2011, its public debt had risen to €354 billion held in large part by foreigners, notably banks, other financial institutions and increasingly European governments and the ECB (Graph 1).

The Outbreak of the Crisis

It all began in October 2009 when the newly elected government of Greece, led by George Papandreou of the socialist party (PASOK), announced that the Greek budget deficit of 2009 was going to be much bigger than previously claimed by the outgoing government of the centre-right (New Democracy), and well into double digit figures. The announcement was not followed by serious measures to deal with the problem. Jittery markets, still under the spell of the Lehman effect, suddenly focussed on the prospect that the crisis could transform itself into a crisis of sovereign debt, as governments increased their borrowing to deal with the adverse effects on banks and the real economy. Spreads on Greek state borrowing rose fast as the Greek government and EU institutions dithered (Graph 2a).

Greece was the catalyst for the outbreak of the crisis of the euro area, because it had the worst combination of three different deficits: a large budget deficit, which reached 15.4 percent of GDP in 2009 after a number of revisions (Graph 3), being added to an already big public debt (at 127 percent of GDP in 2009, it was already the highest in the euro area); an equally large, indeed unsustainable, deficit in its current account that was almost 15 percent of GDP in 2008 (Graph 4)—a deficit of competitiveness, in other words; and a serious credibility deficit as people realized that Greek politicians had been repeatedly economical with the truth and creative with the use of statistics. Greece was surely not unique with respect to any of those three deficits among members of the euro area and the wider world. But it had, undoubtedly, the worst combination when markets began to panic again, while governments, and notably its own, took their time in trying to take a grip of an, admittedly, very difficult situation.

There was huge government failure and political responsibility in Greece for the mess in which the country found itself. Since Greece joined the euro in 2001, budget deficits have always exceeded the 3 percent Maastricht limit (Graph 3), partly camouflaged through creative accounting but seen as manageable as long as nominal and real growth rates remained high (Graph 5). They did no longer when the international crisis hit. At the time, Greece had a weak government facing the prospect of early elections, and it allowed public finances to get completely out of control in 2008-9.

Greek politics is clientele politics par excellence: political parties distribute money and favours to voters/clients. Greece is, of course, not unique in this respect. But the problem grew bigger with time: the quality of the Greek political class steadily deteriorated, the *enrichissez-vous* culture became dominant after many years of rapidly rising prosperity, while membership of the EU, and the euro in particular, came to be perceived as an all-protective umbrella against adversity, as well as a provider of free or cheap money, rather than an agent for reform. The state became increasingly corrupt and dysfunctional, an instrument of parties in power and a victim of the clientele system which, if anything, grew stronger over the years. There was cheap money to spend. Organized interests and the forces of inertia in a basically conservative society that does not much like change combined to kill any attempt at structural reform: a deadlocked country in many ways, although still enjoying steadily rising standards of living.

It had not always been like this. Greece is a country that underwent a remarkable transformation during the second half of the twentieth century from economic underdevelopment and deeply flawed democratic institutions, interrupted by a spell of dictatorial rule, to high standards of living (being classified before the outbreak of the crisis among the top 25 countries of the world on the basis of UN living indicators) and a fully fledged democracy. It is the country that organised the highly successful, albeit extremely costly, Olympic Games of 2004, the only country of its size to do so for several decades, the one that played an important stabilization role in the Balkan region after the collapse of communist regimes, with Greek banks and enterprises acquiring in the process an important foothold in the area. It could be argued that Greece has often tried to punch above its weight. This has largely to do with history going back a long way. And there is something else: a Greek elite, consisting largely of expatriates, with a strong presence at world level in the arts and sciences, in finance and in shipping, but with little direct participation in the running of the country. From the peak of success and self confidence only some years back, Greece has suddenly come tumbling down. The fall has been big, sudden and painful, while most Greeks now realize that it is far from over yet: hence, a society in a state of deep shock.

Of course, if responsibility and blame are to be attributed for the derailment of Greek public finances and the steady loss of competitiveness during the period of euro membership, the buck cannot stop at the door of Greek politicians. No doubt, the main responsibility lies with those who governed the country and indirectly with those who entrusted them with their votes: in other words, Greek society in general. But at least part of the responsibility also lies with EU institutions and Greece's European partners. Successive Greek governments pretended that public finances were in order and reforms were under way, and the other Europeans pretended for long and for different reasons to believe them. This does not only apply to Greece. The surveillance mechanism set up at Maastricht clearly did not work: the stability and growth pact was inadequate in its conception, and it was poorly implemented. And when the crisis came, we all discovered (or were just reminded) that the EU had no mechanism to deal with it; some had apparently been afraid of moral hazard.

There was also manifest market failure. Greek governments and others kept borrowing at very low interest rates—at times, at negative interest rates. Spreads over German bunds remained at very low levels for many years (Graph 2a), thus implying that Greek government bonds were perceived by markets as presenting almost the same risk as German ones. They did not bother to look at the figures, or ask awkward questions. Now, they know better having often moved to the other extreme, and thus helping to make the (non)sustainability of Greek public debt almost into self-fulfilling prophesy.

The Weak Link of the Euro Chain

Much has happened since the late months of 2009, when the crisis hit as rating agencies, markets and analysts looked more closely at figures and institutional structures and began to doubt both about the sustainability of Greek public finances and also whether Europe had the instruments or the political will to deal with the more general problem that had arisen—and they placed their money accordingly. Those doubts were more pronounced in Wall Street and the City of London, where speculation about the viability of the euro, or even the EU, has been particularly rife since the very beginning. The explanation would, however, require a much longer paper.

The unthinkable has happened since then—and in a big way. Crisis is, after all, the mother of change, helping to transform the unthinkable into action. It has happened in Greece, and in other vulnerable countries of the euro area. It has also happened in the countries of the European core, hence leading to the adoption of European measures that had been completely off the agenda only a short time ago. The trouble is that measures usually come late, they are often poorly implemented, and they invariably end up being judged by markets as insufficient.

In Greece, PASOK was elected in October 2009 with a strong majority and a mandate to spend and further strengthen the welfare state. Of course, it should have known better. Lynched by reality (and the markets), it was forced to make a *volte face* a few months later and ended up reducing the budget deficit by five percentage points of GDP in a year, something that had not happened in an OECD country for decades. However, it was still over 10 percent in 2010. The government raised taxes, cut public sector salaries and pensions, adopted fiscal and pension reform, changed the statistical service, and began to take some measures to restore the international competitiveness of the economy. The latter included liberalization measures in the labour market and closed professions. Surely, these are not the kind of measures that most socialist parties identify with, even less so Greece's PASOK which has a strong populist tradition and with most of the party machine, or what is now left of it, safely and comfortably (or so they thought until very recently!) ensconced in the wider public sector. Internal resistance was, as expected, ferocious.

Macroeconomic adjustment, with the emphasis on fiscal consolidation, and structural reform were the Greek part of a deal reached at the level of the euro area in May 2010. The deal was intended to provide Greece with the necessary finance (€110 billion) until 2013 in order to continue servicing and financing its public debt, while also helping it to restore sustainable public finances, competitiveness and laying the conditions for healthy long-term growth. Since then, Greece has been on European and IMF life support: disbursements to the Greek government have reached by now €65 billion.

Support has also been extended to Greek banks through the ECB. The banks have been the victims of the Greek sovereign debt crisis, not the other way round as happened in Ireland and several other countries. Greek banks are big holders of Greek state bonds. As a result of the crisis, they have been cut off interbank lending, thus leaving the ECB as the only source of liquidity. The total figure is now between €90-100 billion (Graph 6).

After a lot of agonizing and difficult negotiations, a new financial support package was agreed by euro area leaders on 21 July 2011, estimated around €109 billion on top of the money committed fourteen months earlier. It includes provisions for reduced interest burdens, extension of maturities, protection of Greek banks, measures to foster growth including the frontloading of the use of EU structural funds in Greece, as well as some private sector involvement in the refinancing of Greek debt. This is indeed a formidable package: a strong sign of European solidarity to Greece, but also an attempt to correct some of the weaknesses and faults of the earlier package. Private sector involvement was by far the most controversial item on the agenda, and the long intra-European debate leading to the July decision had been highly destabilizing in terms of the effect it had on Greek spreads. If and when it is implemented, it will reduce only slightly Greece's debt burden.

Yet, after a short spell of euphoria following the announcement of the July 2011 package, Greek spreads reached new heights (Graph 2b), and speculation about an allegedly inevitable Greek default, with or without exit from the euro, has resurfaced with greater force. Presumably, markets and many analysts have not been convinced by the solemn declaration of the 17 leaders of the euro area and the EU institutions. There are several reasons for this vote of no confidence, and most had been in play before.

One has to do with the usual gap between official declarations and delivery in the EU. The European system is slow and cumbersome, and implementation often leaves much to be desired. Decisions reached at the European level are constantly prey to national politics, while there is less and less appetite for bail-outs in the creditor countries or for any kind of "transfer union', which is haunting the minds of many German citizens and others.

Only days after the agreement had been reached, the Finnish government was asking its Greek counterpart for guarantees for its part of the bail-out, thus putting the whole operation under risk. Spreads shot up again, as they had done before whenever German officials raised the issue of private sector involvement. There were also doubts about how the deal on the private sector involvement would work in practice. Euro leaders had made the bold statement that 'Greece requires an exceptional and unique solution' in that respect. But markets were not convinced it would work, some clearly did not want it to work, others thought it was too little too late, and not just a few believed that Greece would after all prove not to be unique—just wait for other countries to be forced down the same path of voluntary or less voluntary restructuring of sovereign debt, they mumbled in anticipation.

The Greek government has certainly not proved to be strong on delivery either. True, much has been achieved already, but it is clearly not enough under the circumstances. The government agrees to specific measures under pressure from the 'troika' (Commission, ECB and IMF), but often fails to deliver, or delivers only part of the deal: two steps forward and one behind, at best.

The budget this year is off target, and additional measures keep on being introduced to fill the gap. Admittedly, more austerity is politically difficult, when the recession is deepening (it may exceed -5 percent this year, which is substantially more than forecast), while unemployment has already reached 16 percent (Graph 7). There is an austerity-recession downward spiral at work, reinforced by the shortage of liquidity provided by the banks. How much, it is difficult to say. On the other hand, the government has been slow with structural reform intended to create an environment favourable to investment and growth, while more willing to raise tax levels than cut expenditure. And this has further penalized the private sector, at least those who pay taxes. The private sector has been shedding off labour at a rapid pace as domestic demand shrinks.

PASOK seems to be married to the state: any ideas about even a velvet divorce are horrifying for many of its members. But so are all political parties in Greece. The big and decisive battle today in Greece is about the restructuring and rationalization of a bloated, inefficient and largely corrupt public sector. This will be the mother of all battles. The government has undertaken to reduce substantially the numbers of those employed in public administration and the state controlled enterprises, to close down and restructure, and also to privatize extensively. Under pressure from the 'troika' and fearing that the next tranche under the economic adjustment programme may be withheld, thus leading Greece to renege on its debt obligations, the government has promised to move fast on all those fronts. And last weekend, it announced a special tax on property, targeting mainly big property holders, to prepare the ground for the next visit of the 'troika' in Athens. The fight for a leaner state will be hard going though, judging from earlier results and the strong opposition encountered.

State assets are very large in Greece in comparison to many other European countries, for historical reasons among others. Hence, the emphasis on the privatization programme, which will bring money to the government coffers while also leading to a better use of resources. The objective is to raise €50 billion by 2015, a highly ambitious target. The objection often raised in this respect is that large scale privatizations will be like a fire sale at a time when prices of stocks have hit rock bottom in the Athens exchange as a result of the crisis: selling Greece on the cheap. It has happened before in other countries in deep crisis, closer to home in the Balkans after the fall of communism and the war in Yugoslavia and also in the Far East following the financial crisis of the 1990s.

Tax evasion is a major problem. According to the OECD, if Greece had the tax collecting capacity of the average (not the best) member of the organization, its tax revenues would have increased by almost five per cent of GDP: not bad, since this would amount to more than half of the total fiscal adjustment still required. Tax evasion certainly reflects the poor state of tax collection in Greece, in turn the product of weak administrative capacity as well as corruption. But it also has to do with the structure of the Greek economy: the highest percentage of self employed in the OECD, coupled with a predominance of small, family run enterprises. Economic structures do not change from one day to the next. Tax collection may do so more quickly though, if the political will is there.

Overall, there are indeed legitimate doubts about the political will and administrative capacity of the Greek government to deliver what it has promised to its European partners and the IMF. To put it unkindly, the government seems to be much better in negotiation than in delivery. There is, however, another side to the story. Greece's creditors are arguably asking too much in a short space of time from a democratic government literally in a state of siege, while the frontloading of fiscal adjustment risks creating a deadly spiral for the economy, especially in the context of a deteriorating international economic environment. The two sides of the story are not mutually exclusive. Most likely, they are mutually reinforcing.

Can Greece Do It?

The task facing Greece is simply enormous: fiscal adjustment of close to 13 percent of GDP in five years time (2010-14) and with about 8 percent still to go, together with internal devaluation and structural reforms, including a major overhaul of the state machine and a wide range of liberalization measures. By the end of this year, real GDP will have registered a cumulative decline of more than 10 percent since 2009. The decline is now expected to continue in 2012, contrary to the forecasts made in the adjustment programme. Admittedly, other countries have suffered a worse fate and survived.

The distribution of pain is crucial in political and social terms. The burden has so far fallen more than proportionately on the better off, although allowance has to be made for the still large number of tax evaders. Dealing with tax evasion is a question of social justice as much as it is a question of macroeconomic balance. Unemployment is now hitting the middle classes, and the fat accumulated over the years of prosperity is being rapidly burnt. Were it not for the

Greek family, which remains by far the most efficient welfare provider in times of need, the social situation would have been much worse. But effective resistance to change does not so much come from the weak. It is organized interests in the public sector and elsewhere (lawyers, pharmacists, owners of lorries and taxis, among others) who have been fighting hard to preserve privileges and rents acquired in the political domain. And they have people in parliament to defend their interests.

International and EU organizations have produced different scenarios trying to prove the sustainability of Greek public debt under various assumptions that include full implementation of measures agreed between the Greek government and the 'troika'. By the end of 2011, Greek public debt will be around 160 percent of a still declining GDP. The decisions reached in July 2011 concerning the reduction of the interest burden for the part of the debt owned by governments and official institutions, the extension of maturities and the 'voluntary' refinancing of privately-owned debt will surely help. But of course, sustainability crucially depends on future growth, in turn a function of domestic reforms and the economic environment, in Greece and outside. And there is no sign of it as yet. For the Greek economy, being still a relatively closed economy, the export environment matters less than for the Irish economy, for example. But it surely does matter: Greek exports have risen substantially since the outbreak of the crisis, thus partially closing the gap in the current account (Graph 4). This is indeed one of the positive signs.

Interestingly enough, the Greek government has so far adopted a very low profile with respect to discussions about a possible restructuring of Greek public debt, including the possibility of straightforward 'haircuts'. Several analysts have argued that Greece—and probably other countries as well among the heavily indebted ones of the European periphery—will be forced, sooner or later, to resort to such measures. And they have been calling for European banks to prepare for this eventuality through recapitalization.

The official line adopted by the government of Mr Papandreou has been all along that Greece will meet all its obligations to debtors. This is one of the few issues on which the main opposition party of New Democracy seems to be in agreement. The ECB has been strongly opposed to any kind of debt restructuring. Since the survival of the Greek banking system is entirely dependent on access to ECB liquidity, this has surely played a role in persuading the Greek government to keep a low profile on the issue. It is more surprising, however, that the government had little to say even when the issue of private sector involvement reached the table of European negotiations. It left others to negotiate on an issue of vital importance for Greece. What came out in July 2011 is not very helpful; it is also extremely cumbersome. On the other hand, as long as the country continues to run primary deficits, a haircut would not make a real difference to the immediate and difficult task of fiscal adjustment facing it in the next one to two years.

The government is engaged in battle on many fronts and experiences great difficulty in keeping the troops together, as social resistance to measures grows and the popularity of the party sinks in the polls. The Prime Minister, together with at least some of his ministers, seems to believe in what he is doing, although he was slow in reacting to the crisis. He is not a hands-on manager, and he is facing strong opposition inside and outside his party. He has been only partially successful at best in articulating a clear, coherent and consistent strategy for economic adjustment and reform, and the narrative to go with it. Thus, much of the good will and tacit acceptance by a significant section of Greek society for painful measures has been wasted. Now, the credibility of Greek politicians has sunk so low that most Greeks will no longer believe in anything they say.

Politics in Greece has always been strongly partisan and confrontational. The crisis has so far failed to produce consensus between the two major political forces in Greece (PASOK and New Democracy), which in good times represented around 80 percent of the electorate.

There has been no consensus at the leadership level between the two main parties, although there are undercurrents of consensus connecting the reformist elements inside them.

The main opposition party bears a huge responsibility for the mess that Greece finds itself in. After all, it was the party that governed the country between 2004 and 2009, while PASOK, in opposition then, competed in terms of populist rhetoric. Under a new leader, Mr Samaras, New Democracy opposes the government and the programme agreed with the European partners and the IMF, arguing that the economic strategy is wrong because it produces a vicious circle of austerity and recession. It calls for tax reductions as an incentive for investment and growth, but remains reluctant when it comes to cuts in the public sector.

Assuming he is right in his basic approach, Mr Samaras, needs to explain where he will find the money to avoid default as long as Greece's European partners remain unconvinced by his arguments and refuse to pay up. He seems to be isolated among his centre-right fellow members in the European Peoples Party and has not found a sympathetic ear either at the highest level of EU institutions or with governments in the key creditor countries. He insists that Greece's margin of negotiating manoeuvre is much wider than it appears, perhaps counting on the threat of a general meltdown if Greece were allowed to go under. This is indeed high risk strategy, with strong populist undertones.

Not surprisingly under the circumstances, populism is on the rise in Greece. Luckily, no charismatic demagogue has emerged as yet to ride the big wave. As for the radical Left, with a strong anti-capitalist platform and in favour of a debt moratorium, it represents today 15-20 percent of the electorate. They are in no mood to compromise with the government, the EU or anybody else.

Although support for European integration has suffered as a consequence of the crisis, there is no wave of anti-Europeanism in Greece. When it comes to the crunch, the overwhelming majority of Greeks apparently still realize there is no future for Greece outside the EU. There is also a clear majority in favour of keeping the euro, which is also reflected in the stance adopted on this important issue by most political parties, including the two main ones: a kind of bottom line consensus. Returning to the drachma is therefore not an issue, although some begin to fear that this could be waiting at the end of the road, if everything else fails.

Populist media have resorted to racist and xenophobic messages, often in direct response to their counterparts, of the *Bild Zeitung* variety, in other countries, and Germany in particular. The exchange of stereotypes and insults is rather depressing. But most Greeks do, even reluctantly, accept that the crisis is basically of Greek making. Looking for scapegoats outside the borders remains therefore a limited exercise.

There is a culture of protest in Greece, coupled with a high degree of politicization of just about everything. Clientele politics is part and parcel of the political culture. Politics is high adrenaline stuff—Greece is not Scandinavia. Street demonstrations and other forms of social protest have increased dramatically as a result of the crisis. Some have become unruly, but rarely dramatic by Greek standards. Admittedly, the rule of law is being stretched. The problem with the young generations is the most serious. With around 40 percent of young people in their early 20s out of a job, and with the grim prospect of having a lost generation in Greece (and in several other countries), this is a time bomb waiting to explode.

The reluctant acceptance of the inevitability of austerity measures, which had been registered by opinion polls in the early stages of the crisis, has been progressively replaced by ever bigger majorities against. Greeks are angry and afraid; they see no light and no end of the tunnel. But there is also a big political vacuum that waits to be filled. Around 40 percent of respondents in successive opinion polls vote for Mr Nobody; it has never happened before in such a scale. A large part of the Greek political class is likely to be swept away by the tsunami caused by the crisis. Most of them will not be missed.

Greece needs a radical renewal of its political class. It may happen within existing parties when the next election comes, and it may also happen with the creation of one or more new parties. An increasing number of opinion formers, intellectuals and businesspeople in Greece increasingly converge on the need for the creation of a reformist political movement, cutting across traditional dividing lines between Centre-Left and Centre-Right, which would articulate and defend the vision of a reformed Greece. Whether the critical mass is already there and, perhaps more importantly, whether there will be somebody to lead it, remains to be seen. It could become a game changer.

Odd Man Out?

So, is Greece the odd man out in the euro area, a patient in the European intensive care unit with little chance of recovery? No doubt, the challenge of adjustment facing Greece is huge. I wrote above about the need for a peaceful revolution. It is not just about macroeconomic adjustment and regaining competitiveness, as if those two tasks were not big enough. It is about a new model of economic development, a radical reform of the state and the renewal of its political system. And it is also about a change of values.

Under normal conditions, the progress registered in the last eighteen months or so would have been truly impressive: more than had been achieved for years. But conditions are not normal. The country is on the verge of bankruptcy. If this were to happen, and in an uncontrolled fashion, it could bring Greece many years back and in uncharted territory. Greece's political forces have not reached any meaningful consensus in these times of crisis. Politicians have lost their credibility among citizens, who are disoriented and in panic. Greece seems to find itself in that intermediate stage when the old is dead and the new has not yet been born.

The programme imposed on Greece by its creditors is punishing, even though considerable improvements were made in July 2011 which are still to be implemented. Arguably, it is more than any government in a democratic country can deliver. And this is not meant as an excuse for a government that has wasted precious time, tried to protect for long the barons of the state sector at the expense of those working in the private one, sat on reform and poorly implemented what it had itself legislated. But at present, this government still seems to be the best bet to carry the task of macroeconomic adjustment and reform. The alternatives on offer are clearly much worse, and this seems to be also the view of Greece's European partners, the ECB and the IMF.

We are now at a crucial turning point. The most difficult battle has begun, while government troops show signs of exhaustion and society at large even more so. The Prime Minister and his close associates look determined to carry on. They have a reasonable chance to win as long as the July 2011 decisions are implemented and the economic situation does not deteriorate much further. It would be crucial for the success of the programme to reach quickly the point when reforms begin to deliver the goods and the economy starts recovering. The political environment could then be radically transformed.

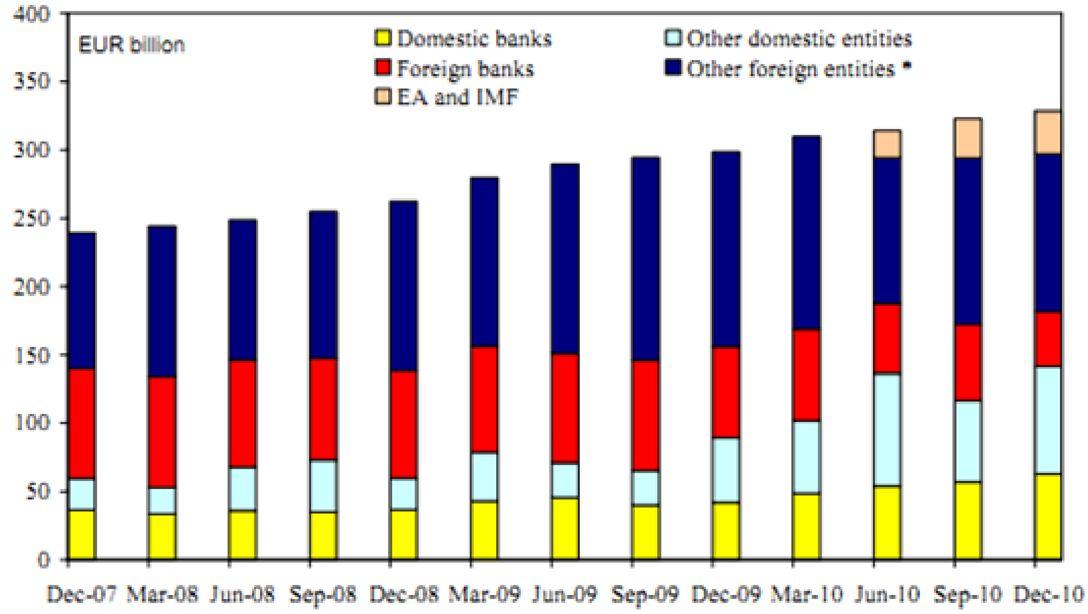
The government is very unlikely to exhaust its remaining electoral mandate which extends for another two years. It is sometimes argued that one of its serious weaknesses is that it was not elected in the first place on a mandate of reform. It was indeed a very different mandate it had asked from Greek citizens back in October 2009, acting like Alice in Wonderland. But if elections were to take place with the worse still to come and citizens in a state of despair, they could completely derail the programme, while also very likely opening the door to a succession of unstable governments.

The European and international context does not help. True, decisions adopted by the euro area leaders with respect to Greece would have been completely unthinkable only two years ago. They have paved the way for similar decisions for Ireland and Portugal. Yet, the time and pain involved in reaching those decisions, the cacophony that often surrounds them and the implementation gap that follows, present very real problems. Alas, such is the European decision making system.

Euro leaders hoped in May 2010 that Greece would be a unique case requiring special treatment. They were proved wrong a few months later, when other countries followed Greece asking for European support. Again, in July 2011, euro leaders reiterated the same hope, while agreeing on a second and more generous rescue package for Greece. The new test is ahead of us.

Greece is, indeed, different and weaker in several respects. The crisis is deepening. If Greece does not make it in the end, other countries could follow. But many of the problems it is facing are far from unique. The euro area will need to move further along the road of fiscal union as the necessary counterpart to the single currency. This being a long and sometimes painfully slow process, the role of the ECB (and the EFSF) will be crucial in the meantime. In a double-dip recession, existing European mechanisms will prove to be highly inadequate, while resistance to austerity will grow in many places. And Greece could then be once more the precursor of things to come. This is indeed a scary scenario.

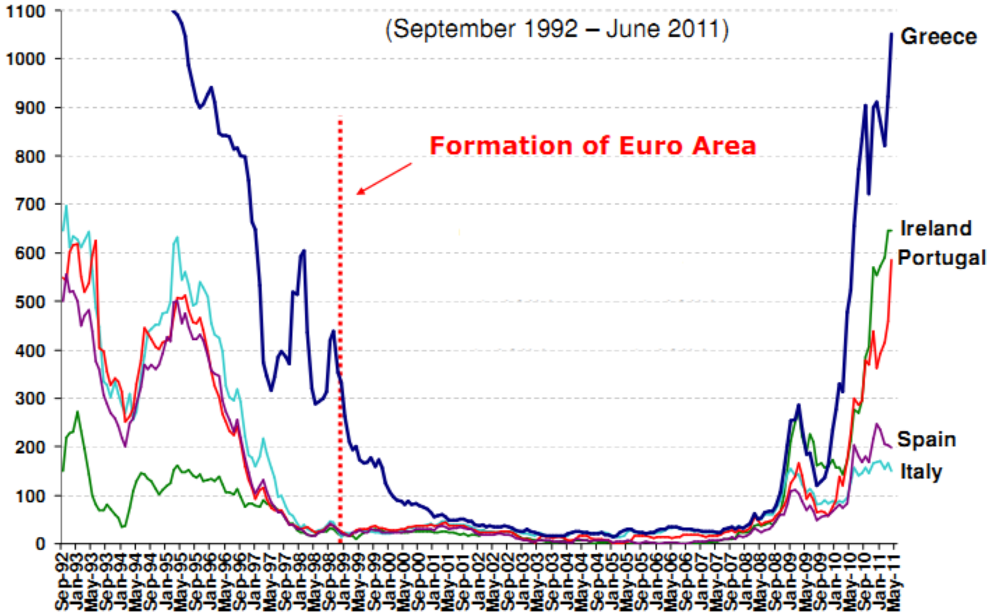
Graph 1. Holding of Greek government debt



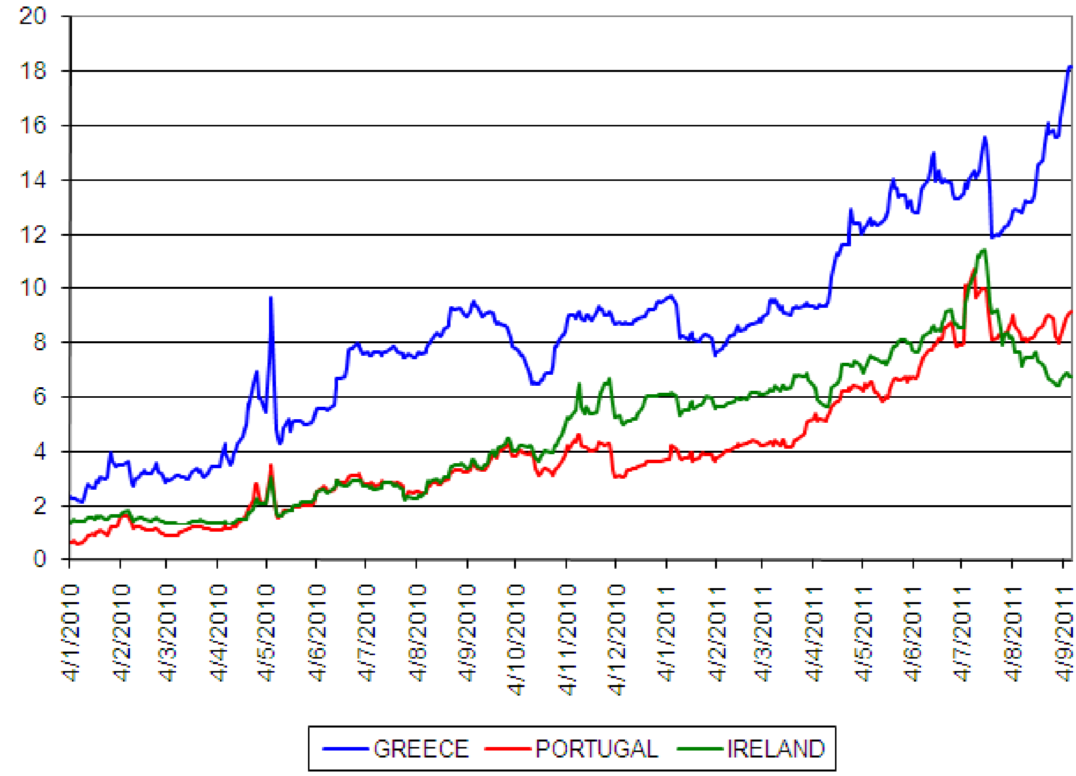
Note: "Other foreign entities" includes ECB.

Source: European Commission.

Graph 2 10-year interest rate spreads over bunds
Graph 2a

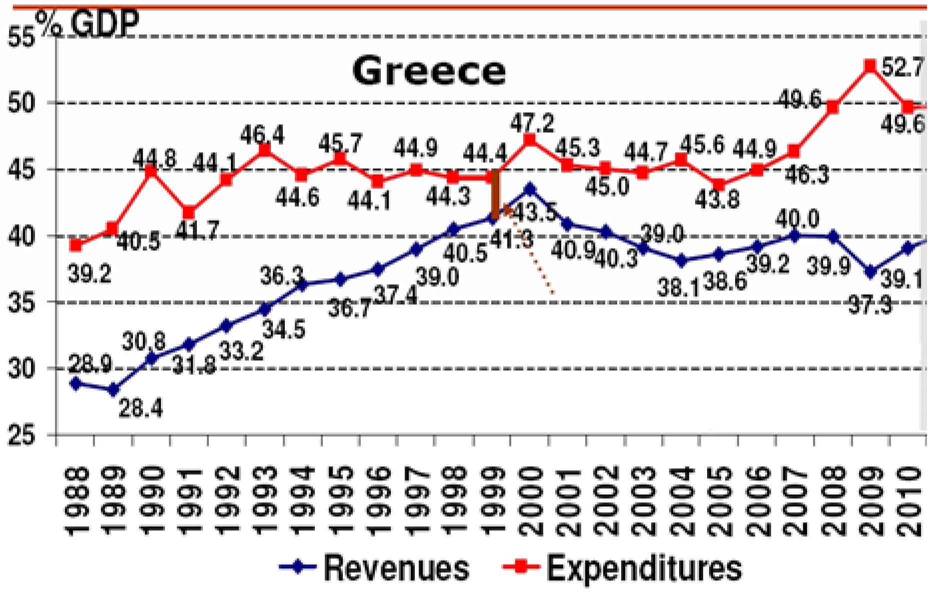


Graph 2b



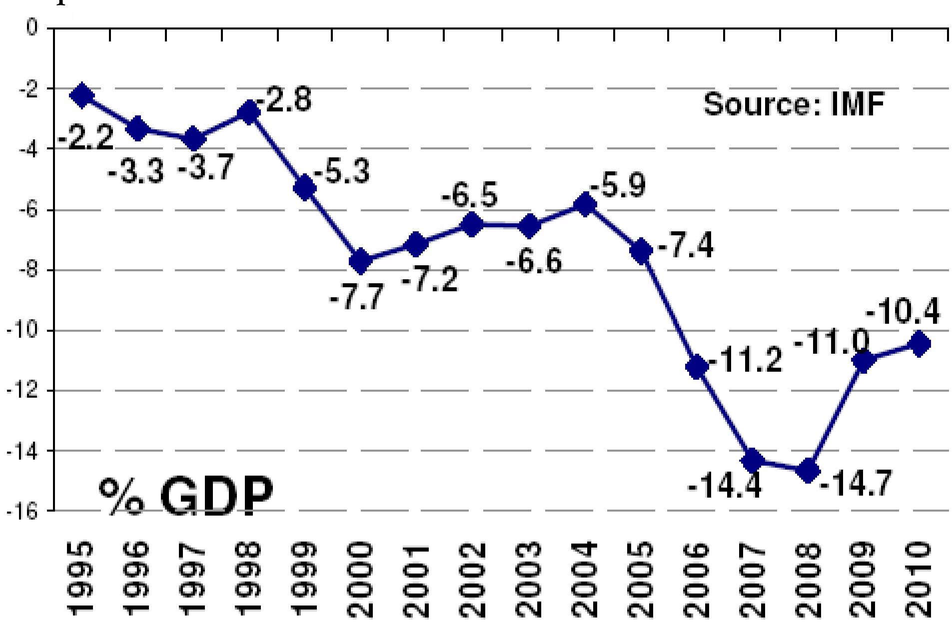
Sources: Eurobank EFG (G. Hardouvelis); Bank of Greece.

Graph 3. General government revenues and expenditure



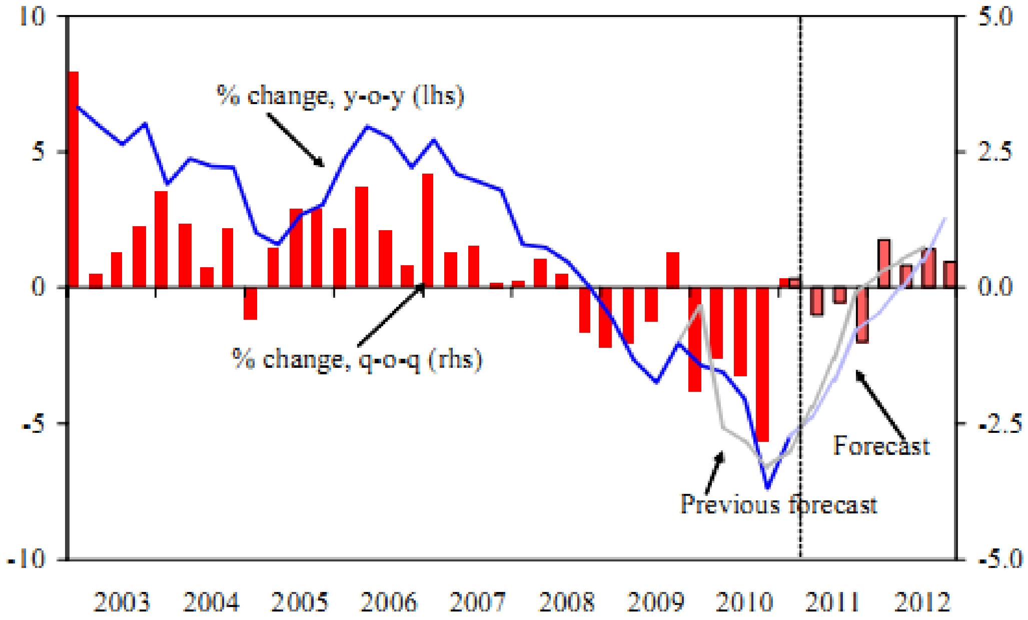
Source: Eurobank EFG (G. Hardouvelis).

Graph 4. Current account balance



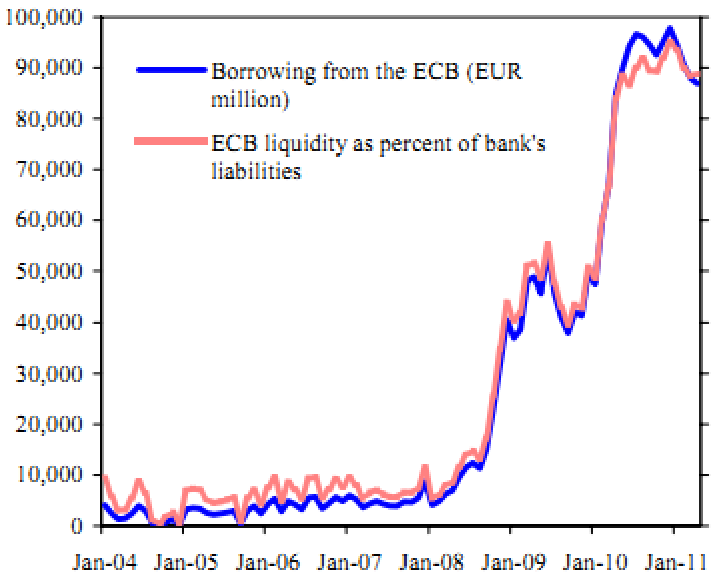
Source: Eurobank EFG (G. Hardouvelis).

Graph 5. Real GDP growth



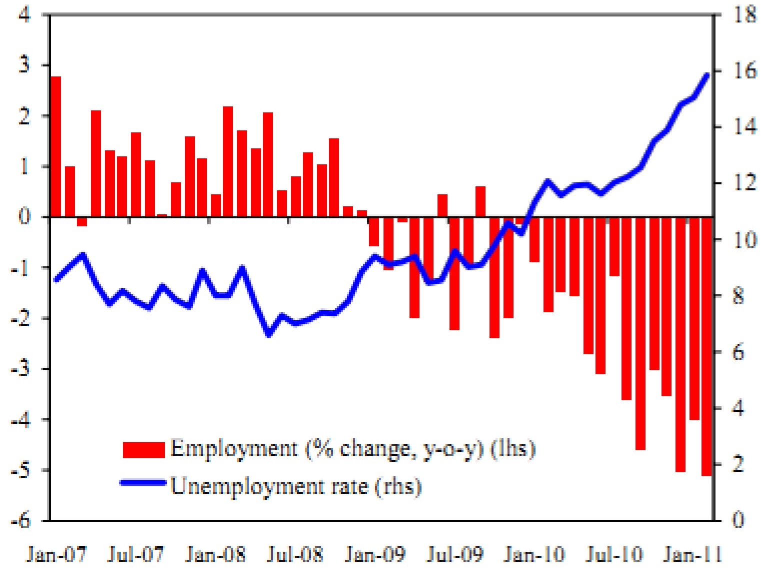
Source: EL.STAT. and Commission services.

Graph 6. Greek banks' borrowing from the Eurosystem



Source: European Commission.

Graph 7. Employment and unemployment rate



Source: EL.STAT (labour force survey).