The Effect of Three Rescues of the Greece Debt Crisis from the Perspective of Germany and Greece

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Abstract

This article focuses on and reviews the three times rescue of Greece sovereign debt crisis from 2009 to 2015. The argument is that each and every one of rescues is a result of confrontation and cooperation between creditors and debtors in the face of the crisis. Crucial for understanding the rescue is view about the debt crisis from the two opposing points, which means we should not only think about how to get rid of the debt crisis standing in the angle of the debtors, but also measure the effect of the bailout funds from creditors. As a consequence, from the three rescue of Greece debt crisis in the past, we could realize the real effect and lesson of Greek rescue measures, providing effective recommendations for governments to address the debt problems and establish the crisis rescue mechanism.

Keywords: Confrontation; Cooperation; Greece; Germany; Bailout Packet; Sovereign Debt Crisis

1. Introduction

This article focuses on and reviews the three times rescue of Greece sovereign debt crisis from 2009 to 2015. The argument is that each and every one of rescues is a result of confrontation and cooperation between creditors and debtors in the face of the crisis. Crucial for understanding the rescue is view about the debt crisis from the two opposing points, which means we should not only think about how to get rid of the debt crisis standing in the angle of the debtors, but also measure the effect of the bailout funds from creditors.

At the end of 2009, the Sovereign Debt Crisis occurred in Greece, which became the first developed country entrapped in debt problems. As well as the negative influence on domestic economy, the Greek Sovereign Debt Crisis impacted on other member countries of Euro Zone, resulting to the uncertainties of European Union's economy recovery. To stimulate the Greek economy and resolve the debt crisis, governments began to play a more important role in crisis management. On the one hand, the Greek government tried to repay its debts through fiscal austerity; On the other hand, international lenders were for bailouts to Greece. But these measures were not isolated effecting of the debt crisis: Debtor countries tightened finance, which was

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possible to get more revenue, but caused the citizen dissatisfaction with more austerity; Creditors were unwilling to transfer the debt to theirs' own citizens, but for reasons of impact on the whole Eurozone they still chose to rescue Greece and the rescue effect became the main factor creditors considering in this case.

The remainder of the paper is structured as follows: Section Two briefly deals with the first two rescue process. Section Three discusses the third rescue process. Section Five summarizes and makes some concluding remarks with regard to the situation of three rescues, as well as the suggestion of the issue among governments.

2. The first two rescues

In 2007 the U.S. subprime crisis was ferocious and triggered a global financial crisis. In October 2008, in order to help Greece's Banks ride out the impact of the global financial crisis, the Greek government promised to provide bailout no more than 28 billion euro, and Greece's finance minister claimed the rescue plan has no effect on the government deficit. But in early October 2009, the Greek government suddenly announced the proportion of fiscal deficit accounting for of gross domestic product in 2009 was expected to be 12.7% and the percentage of public debt accounting for gross domestic product was 113%, which were far more than the 3% and 60% limit respectively set by the EU's Stability and Growth Pact. To make matters worse, according to data released by Eurostat, Greece's fiscal deficit is 13.6% of GDP, much higher than the Greek government expected. Markets began to panic, with yields on Greek bonds and CDS (credit default swaps) rising sharply

In December 2009, the Greek government said government debt totaled up to a record high 300 billion euros. According to the Greek finances deteriorated significantly, the three international credit rating agencies Standard & Poor's and Fitch Ratings and Moody's Investors Service lowered Greece's sovereign credit rating. Sovereign credit ratings had been downgraded frequently, making it harder for the Greek government to borrow money on the market. Furthermore, the Greek government needed to meet its funding demands with at least 54 billion euros in 2010. At this point, the insolvent Greece plunged into the worst debt crisis of all time, and Greece's debt crisis erupted. During this period, the European Union believed that this is due to the Greek breaking the fiscal deficit and government debt ceiling of EU's "Stability and Growth Pact" and Greece needed to take responsibility for its loose fiscal policy and implemented the corresponding fiscal retrenchment policy, as well as the EU should not and need not provide support and help.

On March 18th, 2010, the Greek government announced that Greece would seek assistance from the IMF (international monetary fund) if the EU didn't provide assistance within a week. On April 12th, the EU and the IMF agreed to provide 45 billion euros in loans to Greece in the coming year (of that, the EU to provide 30 billion euros, the IMF to provide 15 billion euros). On April 23rd, Greece, mired in debt, formally applied to the EU and the IMF. On May 2nd, at the special Eurozone finance ministers meeting, the history's first bailout of member countries passed, namely in the next three years, members of the EU and IMF provided together 110 billion euros of loans totally for Greece, of which 80 billion euros was provided by Eurozone countries and 30 billion euros was provided by the IMF, and the first payment would be provided before May 19 (Greece's 8.5 billion euro debt maturity date), but the premise condition that gave aid to Greece was the country to implement fiscal austerity strictly. On May 18th Greece received the first loan of 14.5 billion euros.

In order to obtain the EU and the IMF aid, Greece implemented tighter fiscal austerity program, but faced with the decline in economic growth, actually its debt paying ability brought by the debt crisis was on the decline. And a large number of maturing debt repayment pressure made Greece can only continue to seek assistance, requesting the EU to reduce aid money lending rates and extend the payback period. On July 21st, 2011, EU summit officially approved a 109 billion euros financing package for Greece. Also, loan interest rates fell by 1%, from 4.5% to 3.5%, as well as the maturity of the loan extends from 15 to 30 years differently. Greek government also would get 37 billion euros in aid from the private sector.

In March 2012, Greece, which had all borrowed money to repay its maturing debt, was facing an insolvency of 14.5 billion euros. So on February 21, 2012, the Eurozone G7 finance ministers agreed to provide Greece with the third round of bailout plan, namely introducing total up to 130 billion euros to the Greek bailout loans, providing bond swap to private bondholders, in order to reduce or restructure Greek debt. Greece's private creditors were expected to bear the losses as high as 53.5% of the total face value of bonds, as part of the debt transfer agreement, to reduce Greece's debt by 100 billion euros.

This round of bailout shows two obvious characteristics: With the addition of capital contribution of the private sector, the new bailout loan limit is more than the previous round, and the extension of loan term and lower interest rates, which is a guarantee for Greece to effectively solve its debt problems; Second, the private sector, involved in bailing out Greece, can share the risk of a debt crisis. This rescue plan is expected to reduce Greece's debt-to-GDP ratio from 160% of GDP in 2013 to 121% by 2020.

Accordingly, there were three conditions put forward by the Eurozone finance ministers, of which Greece won the third round of bailout loans: First, the Greek parliament must pass the new austerity measures; Second, Greece needs to cut of 325 million euros structural spending specially in 2012;Third, Greece's ruling coalition leaders need to ensure future fiscal austerity measures. Specific austerity and reform measures included increasing tax, cutting wage and pension benefits, cutting civil service, selling state asset and going ahead with its privatization, etc.

Greece had to pay the cost of bail-out and to accept international creditors' Greece's longer-term draconian austerity condition. Since then, under the strict supervision of troika, Greece's right-wing coalition government curbed massive rise of the government fiscal deficit to some extent, and back a little the credibility of the Greek debt. Greece issued bonds to raise successfully in the international bond market, and the macro economy was showing a trend of improvement, which got the

0.8% positive growth in 2014, it was the best performance during the European debt crisis.

3. The effect of the first rescue

In December 2009, after the Greek sovereign debt crisis erupted, Greece has received twice assistances in 2010 and 2012 for 110 billion and 130 billion respectively, which the troika provided totaling 240 billion euros in aid. In this period of time, Greece, as the debtor, has been seeking all aspects of the way to break through the debt bondage, while the attitude of the creditors led by Germany, had experienced the change from no aid to aid.

From December 2009, the Greek debt crisis erupted, to March 2010, before the EU decided to rescue Greece, Germany and Greece were in a fierce confrontation about the problem of whether it should be external assistance. Greece asked for external assistance, while the German opposed it.

There are three aspects of the German position:

First, since the Eurozone members' fiscal are independent, the consequences and responsibility of financial crisis should be at their own risk, other members have no obligation to help.

Second, external aid for the debt crisis countries will lead to moral hazard and encourage indebted Eurozone members to transfer crisis cost to other member states by free rider.

Third, the outbreak of sovereign debt crisis is the result of excessive prodigal indebted Eurozone members' government. Greece's per capita GDP in 2009 to 21,379 euros, was equivalent to only 70% of Germany's per capita level (30,166 euros). But before the crisis, Greece's welfare level was quite with Germany, and even in some areas such as retirement age, was higher than Germany's, so the Greek debt crisis was to blame and Germans would not agree to use their own money to pay for Greece's luxury life.

In the case of rescuing Greece, Germany faces multiple choices. On the one hand, without timely rescue, the debt crisis would drag down the Euro and the Eurozone. On the other hand, the rash aid will cause adverse selection, encouraging peripheral weak states such as Greece to indulge deficit for a long time and to kidnap the states with strict fiscal discipline and good national economic conditions in Eurozone. This is the main reason that Germany as a backbone, sacrificing Mark to join the Eurozone, was reluctant to make assistance.

Greece's position has two aspects:

First, everyone in the same boat, the bankruptcy of Greek will cause serious negative effect to the euro, and to drag the whole European economy.

Second, saving Greece actually also is saving Germany himself. The German Banks hold a lot of Greek government bonds (accounts for about 9% of the total amount of Greek government bonds), and if the bankruptcy of Greece, Germany losses are likely to be higher than the cost.

In terms of Greece, using the subtle mentality of core countries such as Germany and France which dare not run the risk of collapse of the euro and the break-up of the Eurozone, also are unwilling to see the IMF involvement in the affairs, Greece bargains on austerity and reform plan, striving for the best interests. In the end, Germany agreed to provide aid to Greece for saving euro which is very important to German.

4. The effect of the second rescue

During the period, from April 2010, the EU's bailout plan for the Greece formulated, to September 2012, the EU implemented emergency rescue plan for indebted Eurozone members on a big scale, Germany and indebted Eurozone members such as Greece launched a fierce confrontation about issues of external assistance conditions. Germany insisted that recipient must implement strict fiscal austerity and deficit-reduction plan as the precondition of aid (according to German standards, deficit as a share of GDP should be reduced below 0.5%). Indebted Eurozone members were against it.

There are two aspects to the German position:

First, the crisis is rooted in indebted Eurozone members ignoring fiscal discipline in the Eurozone and their unrestrained expansion of fiscal expenditure. So these indebted Eurozone members must reform fiscal discipline, cut the deficit on a large scale according to Germany's standard, and carry out a responsible fiscal policy. To those crisis-hit countries such as Greece, the basic attitude of Germany, the Netherlands, Finland and other northern creditor's is: the crisis-hit countries were in a long-term borrowing consumption. So the accumulated huge "mountain of debt" is suffering from their own actions and they must stabilize finance.

Second, in order to prevent the moral risk and the next crisis, recipient must accept the harsh fiscal austerity and deficit-reduction plan as the premise condition to obtain relief. Germany even think that the crisis is a "most seldom" opportunity for the Eurozone to develop, which could force the debt-laden southern European countries to cut public deficits, reorganize the national finance and regain economic competitiveness. Consequently, the north-south economic imbalances in the Eurozone could be narrowing, and to become a real "stability union".

As the enlargement of the crisis, Germany's willingness of rescuing tended to be strong. Because of the northern countries represented by Germany are the EU's bailout funds providers, their claims also are accepted by the EU to a large extent and the survival of the Eurozone is depends on the attitude of the German to a great extent. In early December 2011, Chancellor Angela Merkel was speaking in the Bundestag, stressed the determination to defend the euro once again. Germany has turned to programme the euro zone's future from passive response to the crisis, to launch the euro zone as a "stability union". Germany has determined to promote the EU changing treaties, and managed to create a "fiscal union" in the Eurozone finally by the strict finance management, to achieve a higher degree integration of the Eurozone's fiscal and economic policy.

In spite of these relief concept and measures of Germany for the debt crisis had not an immediate effect, it should be noted that, at the insistence of Germany, Greece, Portugal, Spain and even Italy and France were already seriously reforming domestic welfare system and the labor market, which were hard to imagine in the past.

Indebted Eurozone members such as Greece have three aspects:

First, the harsh austerity plan inevitably lead to mass unemployment and continuing economic recession, which would damage long-term fiscal capacity of the recipient countries. Thus it was no help in the solution of the crisis.

Second, the only way to carry out the strict deficit-reduction plan is sharply cutting number of civil servants and treatment, and greatly reducing the social welfare level way, which inevitably lead to strong opposition from domestic people, causing social chaos, so that the recipient countries economy fell into the abyss.

Third, Germany has got a huge gain from the common currency, so it is seemed reasonable to help the Eurozone members who were paying a high price because of it. And it would be unrealistic and unfair to ask countries in crisis to implement German fiscal discipline.

As a result, Germany although made a few concessions on the condition of deficit reduction, dominated the European Union who forced indebted Eurozone members accept the terms of most of the rescue through the way of cut off aid to Greece. In 2010-2010, in the face of massive debt service pressure and in order to keep receiving aid, the Greek government has implemented actively or passively six rounds of deflation. However, the economic recession forced the government effort to expand fiscal spending, the Greek government deficit remaining high. And severe austerity intensified the contradiction between the recipients' government and their domestic publics, causing that indebted Eurozone members accepting bailout regime change.

5. The Third Rescue

On October 15th, 2014, as the news – all rescue measures of the Eurozone and the IMF completely might exit from Greece – out, the Greek debt crisis situation deteriorated again. On January 25th, 2015, the anti-austerity Greek left-wing radical alliance headed by Alexis Tsipras, historically won a parliamentary election in power. Tsipras used various means and ways to compete with the European Union and other international lenders on relieving Greek debt and renegotiating bailout terms, including asking help for Russia and China. The debt crisis in Greece was set off again and sparking a political crisis in the Eurozone. Greece "exit (euro)" has gradually become a reality.

On June 25th, troika, the European Union, the European central bank and the international monetary fund, put in the draft agreement "Cash-For-Reforms" to Greece while had been rejected. On June 29th, Greece was forced to shut down the bank, carrying out capital controls (no more than 60 euros per day from the cash). On June 30th, due to refuse to pay the fund of 1.6 billion euros in loans, Greece became the first default developed country in Eurozone.

On July 5th, Greece hold a referendum on whether accept the "Cash-For-Reforms" plan put forward by the troika. 61.3% of the Greek people, especially the younger generation, clearly and firmly said "no" to this solution of international creditors, which further unequivocally expressed their anger for the first two rounds bailout giving priority to tighten during nearly five years. Nevertheless, in order to avoid a government comprehensive default, further collapse of the banking system, and a depression of economy for a long time, the Greek government made concessions, and submitted the economic reform proposals on July 9th.

On July 13th, after a bargain, the Greek government accepted the creditors' "Cash-For-Reforms" plan comprehensively. On August 11th, the Greek government and creditors reached to an agreement on the content of the third round of aid. Greece and Germany's parliament passed the bailout plan on August 14th and 19th respectively. Since then, the Greek crisis came to an end temporarily.

The final agreement between Greek and international creditors as follows:

First, Greece promised to increase the value added tax and corporate tax, cancel the reductions for shipping enterprise's tax, cut pensions, and implement reforms to financial market and privatization;

Second, through privatizing state-owned assets, the government added a total of 50 billion euro privatization fund to pay the debts which is subjected to the supervision of the relevant European institutions. And 25 billion euros of the fund is used for bank recapitalization, the rest is used to repay debt and investment.

Third, Greece agreed IMF continuing to participate in the supervision and financing activities of the bail-out for Greece.

Fourth, Greece is no longer insisting to the original request about debt restructuring and relief. As a feedback, in the next three years, Greece would receive more than 86 billion euros from international lenders.

According to the agreement, the first 26 billion euros bailout funds were in place on August 20th. The Greek government paid 3.2 billion euros due debt for the European central bank immediately. Of the rest 13 billion euros, 10 billion euros would be used for capital injection of Greek Banks, 3 billion euros would be subject to the effect of the Greek government fiscal austerity after two months. Greece debt crisis eased significantly.

But, as a condition of the bailout loans, international lenders required a long-term implementation of strict austerity in Greece with piecewise and strict review on its execution. And the Greek reacted intensely to the hard times due to rescue policy with tightening and reform policy.

6. The effect of the third rescue

The German position has three aspects:

First, Greece must continue to implement austerity plan, no room for negotiation.

Second, Germany thinks that reparations matters of the Second World War are already settled and rejects Greece's requirement about taking German reparations of the Second World War into debt negotiations.

Third, refuse to the requirements of the Greek debt relief, and suggest that the Greece exiting from the euro for the time being.

For Germany, as a creditor representatives, has won the victory.

Benefit from economic or political equilibrium, the creditor countries such as Germany is the biggest gainer in the Eurozone, the result according with the supreme interests of Germany and related core nation. In the negotiations, the German threatening Greece with a plan B, Greece exit from Eurozone temporarily with a period of five years, forced Greece to accept a series of tight structures and reform terms. The strict of terms even more than the original draft agreement, which means the punishment of Greece, especially the left-wing government with anti-austerity actions such as the capricious unbridled referendum, warning other countries, and safeguarding the Eurozone’s discipline and order.

Asking the Greek parliament to approve reform bill before starting the third round of aid, asking the Greek government to set up a 50 billion euros entrust fund responsible for the privatization of state-owned assets and subjected to the supervision of the creditors, actually were the equal of controlling sale of the Greek related state-owned assets, and preventing the Greek government change again.

Considering the first two rounds of rescue, Germany invested 68.2 billion euros, at the top of the all countries, so that to avoid a Greek default partly is to avoid German taxpayers' money not to be repaid. And by refusing the Greek debt restructuring (relief) requirements, sticking to the bottom line, Germany placated the domestic public, showing that it is a better choice for core countries.

The Greece position has four aspects:

First, radical left-wing government led by Alexis Tsipras refused to pay IMF and ECB totaling 5 billion euros in debt expired in June and July in 2015, and asked for debt relief again.

Second, the Greek government called for taking German reparations of the Second World War into debt negotiates, and demanded that Germany compensates 162 billion euros.

Third, refuse to accept the "Cash-For-Reforms" plan, and not accept continued austerity plan proposed by the EU by the form of a citizen referendum.

Fourth, if cannot attain a new agreement with the EU, Greece will leave the Eurozone and open the EU border to the immigration.

The obvious result is, the extremely weak Greece, without bargaining capital while reluctant to give up the euro, whose threats from Greek public opinion and Grexit as the final negotiations card had no effect to face the extreme strong and unyielding Germany, were forced to accept the tougher new EU bailout agreement which was described as "humiliating" by the media.

In terms of the Greece, the third round of aid agreement is not looser than the original conditions in some part, even more rigorous and humiliated, for example, the international creditors refused to debt restructuring (relief), resisted the IMF to participate in supervision and financing, and even asked Greece to establish the 50 billion euros fund supervised by the European institutions and to privatize state-owned assets, which were the sovereign of deprivation to some extent.

However, Greece taking off the Eurozone, will lead to Greek sovereign default, enterprise credit default, banking and financial system collapses, foreign trade interrupt drastic devaluation, inflation surge, currency depreciation , mass starvation, regime instability and change, etc. In the face of more serious consequences, "two evils choose the light", Greek political elites and the public only can accept the deal.

7. Conclusion

This paper reviews three rounds of rescue process from Greek sovereign debt crisis in 2009, and stands on the nature of the debt crisis expressed by the creditors and the debtors, with the point of view of dialectical unification between cooperation and confrontation, and analyzes the attitudes and results of Germany and Greece to face of the crisis, then draws the following conclusion: Between the debtor and creditor countries, the relationship not only can develop to harmonization, but also may develop to confrontation.

If the debtors can effectively improve production, increase trade and promote economic growth by foreign debt, so the debt is guaranteed, and there can be a good cooperation between the creditors and the debtors. Otherwise, the claims and debts confrontation will occur on both sides, until formed as a debt crisis.

From the point of the whole rescue process, creditor countries led by Germany were unwilling to lend a helping hand originally, and the conflict between debtors and creditors was deep. Greece and Germany were in a state of confrontation.

Although the first round of aid had carried out, Germany was forced to choose, which didn't want citizens to pay for the behavior of the debtor, and Greece as recipient attained the financial aid, with the tighten fiscal policy to prove its active service for the creditors.

With the development of the debt crisis, Germany determined the behavior of aid policy gradually, and the rescue mechanisms were implemented step by step.

During the period of first two rounds of rescue, the Greek government and the creditors led by Germany were in relative peace, work together in the face of the debt problem. The Greek debt crisis eased for a moment.

But the gradually deepening Greece's fiscal tightening policy made the contradiction between the debtor and creditor countries a highlight again. The dissatisfaction of Greece for austerity policy was competed with the toughness of Germany, which led to Greece in trouble again in 2014. It is obviously that the Greek government must compromise, because Greece cannot afford to the price of refusing to accept aid.

The change process of relationship between Greece and Germany, which was from confrontation to cooperation to confrontation again, can be concluded that the cooperation is the best choice to face a debt crisis. The essence of the European sovereign debt crisis is the adversarial relationship between the creditors and debtors.

And to solve crisis fundamentally, can only rely on the mutual cooperation of EU countries.

In addition, the particularity of the sovereign debt crisis in Greece compared with other financial and debt crisis reflects in that, it is neither a debt crisis nor an internal debt crisis.

Greece is one of the Eurozone countries, who denominated in euros to borrow debt. For the debtor, euro is domestic currency they used, so their debts appear to be internal issues. On the other hand, the debt of debtor Greece is mainly from countries such as Germany, France, so the debt also has the characteristics of external debt.

Losing the monetary sovereignty, there would be no ability to adjust their international balance of payments. To solve the debt crisis can only rely on the rest of the Eurozone's full support and cooperation.

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