

Greece: Back from the Brink

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Introduction: Greece provides a lens on Europe

Contemporary Greece is peripheral to Europe and the EU in many ways, particularly in terms of its location, small economy, and great political and cultural differences from the rest of Europe. (The Greek islands are even farther removed.) Despite this, Greece has had an outsized impact on the EU's economic and political agenda over the past decade. And, in many ways, developments in Greece—the financial crisis and economic stagnation; the rise of populism, extremism, and euroskepticism; and migration pressures—have presaged or exemplified the existential challenges facing greater Europe. It also feels like Greece is turning a corner right now. For these reasons, understanding more about Greece also gives insight into Europe's economic, political, and social trajectories.

Economic developments: Rounding an economic corner, but problems persist

Greece has been an EU member since the union was founded and a eurozone member since 2001, but in 2004 news spread that Greece had been overstating the strength of its economy for the last few years and had essentially fudged its way into the eurozone. In 2008, the global economic crisis hit Greece particularly hard, ballooning its already large budget deficit. One year later, the newly elected center-left government in Athens admitted that the country was at risk of default. Rating agencies quickly downgraded government debt, interest rates soared, and the economy contracted further. The crisis in Greece ultimately threatened to undermine the eurozone.

Athens turned to the EU, the IMF, and the ECB, which resulted in three bailout programs totaling \$346 billion that entailed strict austerity measures and massive write-offs for domestic bondholders. Severe budget cuts slashed funding for hospitals, schools, public sector wages, and social security programs, subsidies to industry were cut, and a privatization program was instituted. The downturn was followed by years of stagnation.

Greece formally exited its bailout program on August 20, 2018, and returned to borrowing on financial markets, marking an end to the economic crisis. The year 2018 also marked the first economic growth in a decade (2.1%), and the IMF projects 2.4% growth in 2019—significantly better than the eurozone forecast of 1.3%. FDI inflows have also been steadily increasing, and China, the US, and Switzerland are the major non-EU investors.

The engines of growth in Greece are tourism, shipping, energy, and agriculture.

- Tourism has always been one of Greece's best-performing sectors. A record number of tourists (30 million) visited in 2018, and the market is poised to keep growing. The market also is changing quickly, with platforms such as Airbnb capturing a considerable amount of rental space in Athens, Thessaloniki, and popular islands. But this boost to the rental market has forced some lower-income Greeks out of their homes. ►

- Golden Visas are booming. First offered in 2013, these renewable five-year Schengen-area visas are provided in exchange for purchasing property worth at least €250,000 (about \$282,000)—plus taxes and fees. This scheme has brought in thousands of investors, especially from China, Russia, Turkey, and the Middle East. FDI in property rose 90% in 2018, and this real estate resurgence will be evident on Rhodes.
- The government is in the third round of privatizing port facilities—the country’s most strategic economic assets. The largest of these, the port of Piraeus, was bought in 2016 by the Chinese SOE COSCO, which subsequently invested in and revitalized operations. (Privatization is a thorny issue among Greeks, and local bureaucrats recently announced much of the port property is of archaeological importance, setting back key infrastructure projects.) The deal was China’s first major infrastructure acquisition in the EU, and it was welcomed at a critical moment of need for cash, but the EU is becoming more concerned about China’s growing presence in key Mediterranean shipping routes and ports.
- Renewable energy is another growth area, with 100 deals worth €111 billion (about \$125 billion) announced in 2017–18. In December, Greece moved forward with plans to develop the EastMed natural gas pipeline from offshore fields in Israel via Cyprus and Greece. The US-backed, \$7 billion pipeline skirts Turkey (Ankara and Athens have historically had a tense relationship) and has renewed the political relationship between Greece, the US, and Israel.

Yet the Greek economy is still one-quarter smaller than it was prior to the global financial crisis, and pressing problems persist. Greece has the highest unemployment rate in the eurozone (18.6%), and for youth under 24, it is close to 40%. As a result, the country has suffered from acute brain drain, as educated and entrepreneurial Greeks have sought opportunities in other EU countries. The debt-to-GDP ratio has risen one of the highest in the world (179%)—way above the target set by the ECB, EU, and IMF in 2012—and Greece remains under EU financial supervision. And, according to Transparency International, Greece ranks as the second most corrupt country in the EU, after only Bulgaria. Given all of this, it is perhaps not surprising that a common phrase among Greeks is “Greece is good for everyone but the Greeks.”

Political developments: The establishment regains its footing

A general election will be held this October, and a leadership change is likely, as polling shows that Prime Minister Alexis Tsipras’s ruling party, the left-wing and populist Syriza, has only 26% of popular support. In 2015, Syriza assumed power in a surprise victory after running on a platform to repudiate the bailout terms that spoke deeply to Greeks’ suffering under the yoke of austerity. (“No” to the EU was their rallying cry.) Yet, Tsipras failed on his promise to deliver an alternative strategy, and his party’s popularity suffered, even among left-wing Greeks.

The long-time establishment center-right party, New Democracy (ND), has reemerged as a contender, and the latest polls show its support at 37%. At a time of growing nationalism and extremism across Europe, Greece appears to have already gone to the political brink, and it is now returning to its historic center. For older Greek voters, ND represents the old guard, a feeling of “Greekness,” and symbol of stability against a wave of refugee immigration, economic depression, and potential loss of the EU anchor. ND’s new leadership has been campaigning against the populism of Syriza, although in reality, it has at times been as polarizing as its rival. Yet ND’s leadership has shrewdly distinguished itself from far-right political parties rising across much of Europe, and it has also been vocal against Golden Dawn, Greece’s neo-Nazi political party, which experienced an upsurge in the past election. (Golden Dawn currently has only 7% of national support.) ND’s reemergence is welcomed by international markets, based in part on a campaign plank to reduce the corporate tax rate from 29% to 20%. ▶


	Greece	Italy	Spain	Turkey
Key data points				
Population	11 million	59 million	46 million	83 million
0–14 years of age	14%	14%	15%	25%
Male youth unemployment	38%	31%	34%	18%
Real GDP growth (2019 forecast)	2.4%	0.9%	2.5%	-2.5%
FDI inflows (2017)	\$4.0 billion	\$17.1 billion	\$19.1 billion	\$10.9 billion
Gross national income per capita (2017, PPP)	\$27,620	\$39,640	\$37,990	\$26,170
Central government debt to GDP	179%	132%	97%	28%
Indices (percentiles; 1=best performer, 100=worst performer)				
Longview Good Governance Index*	41	34	21	47
Gender gap	52	47	19	87
Inclusive growth	20	14	13	51
Investment and business climate	88	63	37	43
Ease of doing business	26	27	16	23
Government effectiveness	34	30	18	45
Corruption perceptions	37	29	23	43
Innovation environment	33	25	22	40
* Average of the percentiles across the seven indices.				

Sources: IMF, World Bank, CIA, Transparency International, Cornell University, Milken Institute, WEF, UNCTAD, and Longview Global Advisors.

As a small European country, Greece has always relied on the US—even though it is sometimes a vocal critic of US foreign policy. Despite political differences between Tsipras and President Donald Trump, Athens and Washington have a positive relationship, especially as US-Turkey tensions have escalated. There is a large NATO/Greek naval base on the island of Crete, and the US is planning to increase its participation in Greek military drills and station more drones at military bases in Greece. The US is also in talks to help modernize the Greek military.

Greece: The EU's migration hotspot

While migration of refugees is a pan-European issue, few political leaders are willing to try to tackle the problem. This is also the case in Greece, where the issue is most acute. The migration crisis peaked in 2015—with over 3,300 people arriving daily—during the zenith of the economic crisis. That year the EU allocated \$541 million to refugee support in Greece, but much of that money has been woefully mismanaged. Senior aid officials have estimated that as much as 70% of it has been wasted, and aid organizations such as the UN High Commissioner for Refugees and Médecins Sans Frontières have curtailed operations. NGOs have filled some of the gaps, but they have neither the resources nor the funding to fully address the issue. ►



Most of the 67,000 asylum seekers living in Greece at the end of 2018 come from Syria, Afghanistan, Iraq, and Pakistan. Until 2018, the majority of arrivals landed on the islands of Lesbos, Chios, and Samos, which are about 20 miles off the Turkish coast. (Rhodes is more difficult to reach.) In the last year, an increasing number of migrants have been crossing the Greece-Turkey land border farther to the north.

Although the 2016 EU-Turkey deal that allows migrants to be sent back to Turkey cut the number of arrivals, the Balkans border was shuttered that year as well, effectively trapping refugees in Greece. So camps are overflowing and characterized by squalid conditions—accounts of violence, rape, and suicide are commonplace. Desperation is growing: In April 2019, after false reports circulated on social media that the Balkans border had been reopened, hundreds of migrants from a Thessaloniki camp clashed violently with police.

Integration of migrants also continues to be an issue, as it is elsewhere in the EU. There are no mandatory language classes for migrants, as there are in Germany, and job placement is exceedingly difficult. Drug dealing and prostitution have plagued central Athens. Though many Greeks have been very generous despite the difficult economic times, the police have recorded a steady increase in racially motivated hate crimes against immigrants. Brussels, too, has been vocal in its frustration. The European Commission has called the camps in Greece “a shame on Europe.” German Chancellor Angela Merkel has also called out Greece’s legal system for not rejecting asylum seeker applications at a faster clip. Many Greeks feel there is a lack of solidarity within the EU, as Brussels and Berlin shape migration policy, but many northern and central European countries are viewed as not fulfilling their quotas for accepting migrants, and some have refused them entirely. ■

