Greece goes bankrupt (again). Know why you should care.

In this session, our notable speaker, Prof. Sankarshan Basu from IIM-Bangalore, spent an hour with our students on the financial and political crisis that has currently crippled Greece. Greece has spent 90 years in financial crisis and was in talks for a $96 billion bailout recently (16th July, 2015). But how exactly did it get there?

Greece became a member of the European Union and adopted the Euro in 2001. The Greek debt crisis started in late 2009, which can be pinpointed to the global recession as well as structural weaknesses in the Greek economy. In 2009, revelations were released about Greece misreporting its government debt and deficit levels, leading to doubts about Greece being able to fulfill its debt obligations and resulted in a crisis of confidence.

Greece had the largest sovereign debt default in history 2012 and in 2015 became the first country to default on an IMF loan payment. The Debt-to-GDP level also kept rising and it reached 146% in 2012. Subject to several austerity measures, Greece received its first bailout of €110 billion in 2010. A worsening recession as well as a delayed implementation of the conditions of the first bailout meant that the Greeks had to take a second bailout of €130 billion in 2011. For the same reasons above, they received a third bailout of €8.2 billion in 2012. The economy seemed to improve; however a fourth wave of recession hit Greece in Q4 2014.

In July 2015, Greece was faced with the prospect of revised terms for their bailouts, which were put to a vote, sending panic across its citizens and causing them to withdraw money from ATMs. 61% citizens voted to reject the updated terms, however, later on, Greece accepted the revised terms.

So now that we know about the Greek crisis, what were the reasons for it? Some of the reasons were increased government spending. Also, Greece was the most corrupt country in the EU, and Greece had huge tax evasion problems, costing the government $20 billion. The current account deficits as well as the decline of Greece's once famous shipping industry too had a huge hand in the Greek crisis.

The Greek Crisis resulted in reduction in their GDP by 26% over the last 6 years. Also, many Greek companies started going bankrupt, and unemployment levels reached record highs. Their debt to GDP ratio reached a staggering 177%, which was the third highest in the world, after Japan and Zimbabwe. Greece was spending €20 billion annually on interest payments alone. In 2014, a shocking 44% of the population was living below the poverty line. The damage was not just financial, as the situation resulted in great political turmoil and unrest in the country.

Prof. Basu then went on to suggest a few options that face Greece. Greece would have to make severe structural reforms, rationalize its tax structures, try to curb corruption, and in extreme cases, maybe even look at negotiating another bailout or possibly exiting the Euro.