Wilfried Martens Centre for European Studies

GREECE IN FOCUS

Between farce and tragedy: Four realities of Syriza in power

Summary

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The period since the election of Syriza to power in January 2015 has been marked by increased political uncertainty, economic instability and a growing polarisation of public attitudes in both Greece and the EU. The reality of Syriza in power has worsened the underlying economic conditions of the Greek economy, reduced the ability of the Greek state to provide essential public services and led to a clear breakdown in trust with other EU members. The election of Syriza to power did not result in a fundamental restructuring of the Greek or European economies, rather their lack of a coherent strategy (beyond reneging on previously agreed support programmes) has set the reform process in Greece back by several years.

The coming to power of Syriza marked the culmination of pent-up public anger and discontent at prevailing economic/political conditions and the impact of such conditions across wider society. Notwithstanding several years of support programmes, the Greek economy requires further reform in order to ensure its long term sustainability. The shortcomings in the assumptions underpinning the initial programmes undertaken by the EU/ECB and IMF were complemented by implementation weaknesses which further eroded public support for the structural adjustments required. This resulted in a clear division arising between those in favour of the support programmes and those opposed.

The level of financial adjustment required in Greece – over 20% of GDP – imposed significant socio-economic challenges. In the public mind, ownership of the reform process then passed from national bodies to imposed, supra-national institutions, thus increasing resistance at both public and political levels in Greece. Resistance fuelled by populist political parties seeking short-term political gain.

Syriza in power has sought to deliberately widen the gulf between those who acknowledge the long term importance of the many difficult structural reforms required, and those who seek to blame "austerity" for Greece's current woes. In reality, the experience of Syriza in power has highlighted its complete lack of a defensible economic and political strategy which safeguards Greece's position in the EU, protects the well-being of its citizens and acknowledges the current standing of the Greek economy.

Reality 1 - Closed Banks and a €25 Billion Cost

Syriza's economic gamble – that the EU and the ECB would agree to any deal rather than face a Greek exit – illustrates the core economic contradictions of the Syriza government. In seeking to divide opinion in the European Council, Syriza sought to sow discord in order to achieve its unattainable utopia of debt forgiveness matched by additional funding (but limited conditionality).

Prime Minister Tsipras may have talked of "*a history of unity and not of division*" in his address to the European Parliament, but the actions of his government sought to deliberately encourage division at European level in order to fulfil his domestic party/political objectives regardless of the implications for other peripheral countries, the ECB and the Euro.

The results of such a strategy? The loss of investor (and public) confidence in the Greek government, capital flight from the Greek banks (nearly 8 billion euros in June 2015 alone) and the near collapse of the Greek banking sector.[1] For the ordinary Greek depositor, the practical

[1] *Greek Bank Deposit Flight Slowed in July*, Reuters, 27 August 2015.

implications were closed banks, difficulties in accessing pension/social security payments and cash withdrawal limits. Despite the banking system being fully capitalised at the start of 2015, in the region of 25 billion euro is currently being utilised to support the Greek banking sector as a result of less than 12 months of Syriza in power.[2]

Reality 2 - Zero Reform, Just Higher Debt

Syriza were, however, successful in placing the primary importance of the Greek debt burden firmly in the public consciousness. By stalling on previously agreed reform measures (and rowing back on some measures deliberately) Syriza sought to worsen the sustainability of Greece's debt, thus leaving its European partners with no alternative but to agree to an immediate debt forgiveness programme. As noted by the IMF, the closure of the Greek banks added significantly to the adverse dynamics, thus creating an estimated debt to GDP peak of close to 200%.[3]

This is a level which marked a significant deterioration from 2014 projections which forecast debt levels peaking at 124% of GDP if all reform proposals were implemented.[4] This, therefore, was a clear policy undertaken by Syriza to achieve the "*European Debt Conference*" which assumed pride of place in their Thessaloniki Programme. A conference designed, by Syriza, to take place in the context of a collapsing Greek economy.

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Strategically, Syriza's "*debt above all else*" strategy suffered from two observable weaknesses. First, the previous restructuring of Greek debt by its international partners removed the immediate fiscal need for debt forgiveness. By 2014, the average maturity on Greece's debt was already over 16 years compared to 11 and 12.5 years for Portugal and Ireland

[2] *Assessment of Greece's Financing Needs*, DG ECFIN, European Commission, August 2015.
[3] *Update of IMF Staff's Preliminary Public Debt Sustainability Analysis*, IMF, 14 July 2015.
[4] Ibid.

respectively. Total interest payments as a percentage of GDP in 2014 were 2.6% for Greece. This again was a level considerably below that evident in Portugal, Ireland, Italy and Spain.[5]

Second, by halting the reform process the Syriza government also reduced the ability of returning economic growth to lower the debt/GDP indicator. Here the example of Ireland is relevant. The Irish national debt exploded from 23.6% of GDP in 2006 to over 120% by 2013.[6] However, a successfully completed support programme, allied to a range of key structural reforms, have returned growth to the Irish economy (4.8% GDP in 2014).[7] As a result, Ireland's debt to GDP level is now estimated to fall below 100% as soon as 2017 and below 85% by 2020.[8]

Reality 3 - Returning Uncertainty to Greece

Strategically, the election of Syriza has undermined the progress made in reforming the Greek economy in the period up to the end of 2014. Forecasts for the Greek economy up to April 2015 recognised that the conditions to support sustainable and long term growth were in place. In 2014, real GDP grew for the first time since 2007.[9] The return of economic activity was also driven by private consumption, increased exports and investment. Based on the condition of the Greek economy in late 2014, it was forecast that GDP growth would accelerate significantly to 2.9% in 2016 with exports rising by a cumulative 9.1% in 2015-16.

However, the economic and political uncertainty introduced by Syriza since assuming power in early 2015 have caused the prospects of the Greek economy to worsen considerably. A return of uncertainty has decreased investment and led to a deterioration in overall economic performance.[10] Any short-term gains associated with a fall-off in imports

[5] Greece's Debt Pile: Is it Really Unsustainable?, Financial Times, 25 January 2015.
[6] *Funding and Debt Management: Historic Debt*, National Treasuary Management Agency, undated.
[7] *European Economic Forecast*, European Commission, May 2015, p. 79.
[8] *Funding and Debt Management: Debt Projections*, National Treasuary Management Agency, undated.
[9] *European Economic Forecast*, European Commission, May 2015, pp. 80-1.
[10] *Greece: Economist Forecast Summary*, OECD, June 2015.

reflects the unsustainability of Syriza's economic programme as a decline in imports reflects primarily declining domestic demand.

The performance of Syriza in 2015 also compares unfavourably to the situation in Spain – another EU member state which has successfully implemented a wide ranging reform programme. Although faced with long established (and deep seated) structural unemployment issues allied to significant public debt, the current Spanish government of Mariano Rajoy has created an environment conducive to both employment growth and debt reduction. The latest projections for the Spanish economy forecast growth of 2.8% in GDP for 2015 with debt due to stabilise at 100% of GDP in the same period.[11]

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Overall, the data is clear in highlighting that the experience of Syriza in power in 2015 has worsened the prospects of the Greek economy, thereby rendering the long term sustainability of their economic programme obsolete. Their strategy – in deliberately facilitating economic catastrophe in order to achieve a quick (and practically) unconditional debt write-off – has failed. The issue of debt unsustainability is a key long term issue which has been misused by Syriza as a tool for achieving short-term political goals.

Reality 4 - Worsening Relations with European Partners

Syriza have, singlehandedly, managed to significantly worsen bilateral relationships between Greece and most other EU member states. Their negotiating tactics, multiple failures to bring forward meaningful proposals on previously agreed dates and their attempts to create artificial divisions among member states have worsened relations at both an individual and collective level. Their attempts to use EU mechanisms – such as the European Council – to gain special treatment ignored the political realities

[11] *European Economic Forecast*, European Commission, May 2015, pp. 80-1.

of other states who utilised support programmes (such as Ireland, Spain, Portugal and Cyprus), sought to ignore the concerns of many Central and Eastern European states and deliberately attempted to utilise France and Italy as conduits for their economic policies.

Syriza in power has not reshaped Greece's or Europe's economy. In reality, their uneven approach to economic strategy has veered between farce and tragedy. Unfortunately, it is the Greek people who will pay the price.