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GREECE CRISIS: REVIEW OF IMPACT ON WORLD ECONOMY AND INDIAN ECONOMY

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ABSTRACT

This study aims at exploring the causes behind the Greece debt crisis and explains how the crisis made an impact on world economy and on Indian economy. Greece is in deep trouble after defaulting on its debt to the international monetary fund (IMF), Greece is facing severe economic crisis and the economy is shrinking. Greece and other countries like Spain, Italy, Ireland and Portugal are not comfortable with the valuation of Euro, as they are facing slow down. The one of the best way is to sell more goods and it is mandatory to devalue the currency. But Euro is the common currency which is used by all the countries of the Euro zone. The Debt with time became so massive that it was nearly impossible for these countries to repay. The focus of the paper is an attempt to study the impact of Greece Crisis on Indian Economy and World Economy.

***Keywords*: Euro, World Economy, Devalue, Currency, Economic Crisis.**

I INTRODUCTION

Greece is in deep trouble after defaulting on its debt to the IMF. Greece is facing severe economic crisis as it has the debt of 175% GDP. Between 2008 and 2013 real GDP fell by 23% and the unemployment rate reached 27.5% in 2013. The EU and the IMF provide Euro 240 billion in emergency funds in return for more Austerity measures. That only gave Greece enough money to pay interest on its existing debt and keep banks capitalized. The measures further slowed the Greek Economy. Since, Many Greeks blame the Austerity measures for the country's situation. Greece and other countries like Portugal (Euro 78 billion), Ireland (Euro 85 billion), Italy (Euro 10 billion), and Spain (Euro 41 billion) are not comfortable with the valuation of currency as they are facing slow down and feel that there is need to regenerate their economy. The best way to do is to sell more goods and it is absolutely necessary to devalue the currency. But unfortunately the Greeks cannot do so because they share their currency with 18 other nations of the Euro Regions.

II OBJECTIVES

The main objectives of the study are:

- Identify the main causes of the Greece Crisis.
- To know whether Greece Crisis affect Indian Economy or not.
- To study the impact of Greece Crisis on various economies of world.

III RESEARCH METHODOLOGY

This study has an exploratory-cum-descriptive research design. The study is based on secondary data, collected from various sources like newspaper, media and various Research journals.

IV REVIEW OF LITERATURE

Manolis Galenianos(2015) concluded that Greece is facing an extremely severe Economic Crisis. According to him, the main cause of the Euro zone crisis is the Public Sector Profligacy. The most important task facing the Euro zone periphery is the recovery of competitiveness and the rebalancing of the current account.

Chrysa, Leventi(2011) explored that Greece is widely expected to have a significant social impact in terms of greater inequality and increased poverty. The result of the Austerity measures and the wider recession in Greece, relative poverty has increased from 20.1 percent in 2009 to 20.9 percent in 2010. This leads to unemployment.

Kovid Kumar Gupta (2015) has highlighted the reasons behind the Greece Crisis and he further explains how the Crisis made an impact on World Economy. He further explored the solutions and suggestions for countries to follow the Austerity measures.

Paul Belkin, Derek E. Mix (2010) explained the Domestic and International causes. Domestically, high government spending, structural rigidities, tax evasion and corruption have all contributed to Greece's accumulation of debt over the past decade. Internationally, the adoption of the Euro and lax enforcement of EU Rules aimed at limiting the accumulation of debt are also believed to have contributed to Greece's Current Crisis.

Daniel Harari(2015) highlighted an impact on Euro zone and UK. He further concludes that there is direct impact on the UK economy of Greece leaving the Euro zone would probably the small, The UK, however would likely be affected indirectly via the Financial markets and via the wider Euro zone Economy.

V OVERVIEW OF GREECE ECONOMY

Greece achieved Independence from the Ottoman Empire in 1829. The Evolution of the Greek Economy during the second half of the 19th century and first half of the 20th century, it gradually added neighboring islands and territories. 1974, Democratic Elections created a parliamentary republic and abolished the Monarchy. In 1981, Greece joined the EU (Economic Corporation) Now the EU (European Union) and became the 12th member of the European Economic and Monetary Union. In 2001, Greece adopted the Euro as its Currency, replacing the Greek Drachma at an exchange rate of 340.75 Drachma per Euro (Paul belkin, derek E.Mix).

The Euro is the tangible proof of the European integration, the common currency in 19 out of 28 EU countries. These countries are collectively known as Euro zone. The Euro was launched on 1st January 1999 by Alexandre Lamfalussy for accounting purposes.

European Central Bank (ECB) is in charge of monetary issues in EU. Its main goal is to maintain Price Stability. Its Head office is located in Germany.

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VI DIAGNOSIS OF A CRISIS

In 2009, Greece kicked off the crisis. It announced its budget deficit would be 12.9 percent of Gross Domestic Product. That's more than the four times the EU's 3 percent Ratings. That scared the investors. Greece could not repay its Euro 320 billion debt which is the largest Sovereign debt in history. In 2010, Greece announced an Austerity measures that would lower the deficit to 3 percent of GDP in two years. But the situation of the Greece remains the same (Anand . M and Gupta,GL)

The EU and the IMF provided Euro 240 billion in emergency funds for more Austerity package. That only gave Greece enough money to pay interest on its existing debt and keeps Bank Capitalized. Greece could not repay its debt and this led to

- Rise in unemployment
- Decrease in foreign investment
- Political uncertainty

VII.MAIN CAUSE OF A CRISIS

Greece problem arises because of following Reasons:

- Low taxes
- Higher salaries
- Large spending on interest payment (loosing 30 billion Euros per year).
- Hiring of more Government Jobs
- Greek Government expenditure approximately 104 billion Euro which is equal to 49 percent of GDP.
- Secretly Borrowing from private and foreign investors to hide deficits
- High pensions
- Welfare schemes

VIII EUROPE'S REACTION TO THE CRISIS

To Help Greece for the repayment of the Debt, Germany would pay Greece's bills but with condition that Greece had to agree certain Austerity Measures like

- Cut spending
- Raise taxes
- Borrow less in the future

This is the condition imposed by Germany and other Countries. So that such incidence never happens again. Greece has received two major Bailouts and both involve severe Austerity measures. On 1 May 2010, First Economic Adjustment Programme was announced and at 21 July 2011, Euro leaders agreed to extend Greek loan repayment periods from 7 years to minimum of 15 years and to cut interest rates to 3.5 percent in Second Economic Adjustment Programme.

IX THIRD BAILOUT PROGRAMME NEGOTIATION

At a 12 July 2015 meeting of Euro zone leaders, a provisional agreement was struck on a third bailout programme for Greece which could total up to Euro 86 billion loans over three years.

(i)TERMS OF THE AGREEMENT

The deal that was reached was an agreement in principle for a third bailout programme of loans totalling around Euro 82- Euro 86 billion to Greece in return for a series of reform packages. Formal Negotiations on the terms of the full legal Memorandum of understanding between Greece and the European stability mechanism(ESM), the Euro zone bailout fund, would now be able to proceed should a number of conditions first be met.

These conditions involved the Greek parliament legislation for a series of measures, including VAT increases and some pension reforms. Greece is expected to implement a reform agenda including:

- Improve Financial Stability by strengthening the Banking Sector.
- Tackle Tax evasion and fraud and improve Tax administration.
- Reform of the pension system, removing exemptions and ending early retirement.
- Fight corruption by improving efficiency of the public sector and judiciary.
- De-regulate labour and product markets, with the aim of increasing competition, competitiveness and investment in the Economy.

  The agreement requires Greece to introduce a supplementary Budget in October 2015 that will either cut spending or raise revenues in order to hit the agreed Budget Target.

(ii)FINANCIAL ASSISTANCE

In return for implementing this agenda, on 14 august 2015 Eurozone Finance Ministers agreed to launch a 3rd bailout programme for Greece. They will receive loans of upto Euro 86 billion over a three year period. This will be distributed in a series of Tranches.

The First Tranche will be of Euro 26 billion- Euro 10 billion to recapitalize Greek Banks and Euro 16 billion in several installments, the first of which-Euro 13 billion will be made by 20 August 2015, when Greece must repay about Euro 3.2 billion to the European central Bank (ECB). Greece had agreed to a MOU drafted by institutional Negotiations with some additional Austerity measures. A second loan Tranche of upto Euro 15 billion will be available for bank recapitalization after the first creditor's review of the programme's progress.

The IMF are not initially involved in this programme. Some Euro zone countries, including Germany, are so keen on the IMF's participation in this third bailout. If it did so it would provide some of Euro 86 billion in loans earmarked for Greece (probably between 10 percent and 30 percent of this), lowering the amount the Eurozone would have to contribute. The IMF has said it will only participate if Greece receives some form of debt relief(Kovid kumar gupta)

X .IMPACT ON WORLD ECONOMY

Greece crisis have negatively impacted the world economy. A Greek default would means billions in losses for European Banks and Government. There can be several mechanisms which explained as follows:

First one is Stocks and Shares. Falling shares can cause cash flow problems which affects the trading companies.

Another is Currencies. People might want to get rid of their Euro and buy other currencies, so these other currencies become Stronger. This affects the companies and the Economy at large scale(Wolf, Martin, Merkozy).

XI .IMPACT ON INDIAN ECONOMY

The Greece debt crisis is not likely to have any direct impact on the Indian Economy. There could be some indirect effects on trade flows depending on how European Economies perform in the future. Greek imports from India include cotton, synthetic fibers, vehicles, iron and steel and fruits (Kulkarni, Satish). While Greek exports to India include fibers, fertilizers, leather goods etc. only 0.05% of India exports go to Greece. So, India is not directly affected by the crisis. But India has to worry if the crisis spreads across Europe. If the Euro zone is hit by the crisis then probably India has to bear the consequences.

Also, Indian Banks have virtually no direct exposure to Greece. So Indian Banks have no worry from Greece Crisis. So, there is no danger for India from the Greece Crisis.

XII PRESENT CONDITION OF GREEK ECONOMY

European authorities have authorized handling 7.5 billion Euros, in bailout aid to Greece, which will allow the country to keep paying its bills in the coming months. Greece’s creditors committed to debt relief, although not until 2018 at earliest, provided the country continues to carry out painful changes.

“Proto Thema” newspaper cited the opinion poll carried out by marc polling firm and reported that about 79.7 percent of Greeks believe that the Fourth bailout is nearing. However, Government spokesman Dimitris Tzanakopoulos said in an interview with Nation newspaper that “we will not accept additional measures…The only scenario we are working on is the completion of the second review (of the Bailout)”.

XIII WHAT IF GREECE LEFT THE EUROZONE?

Many experts worried that Greece’s problems would spill over to the rest of the world. If Greece defaulted on its debt and exited the Euro zone, it might create global financial shocks. However, some people believe that if Greece were to leave the currency union that will be known as “GREXIT”.

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XIV CONCLUSION AND SUGGESTIONS

The Greece crisis is temporarily sorted out. As Greece accepted 3rd Bailout to avoid its banking collapse. The solution and suggestions which economists found practical to bring Greece out of the crisis was the recommendations to countries to follow the Austerity policy. This would prevent the countries from indulging in more spending. The government will have to agree to strict borrowing rules and this will result in a strong integrated Government. This will also lead to greater confidence.

The crisis in Greece should act as a reminder to a country like India that it should rethink on its policies of Growth.

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