CHAPTER III

TROIKA RESPONSE TO THE GREECE CRISIS

This chapter will analyze the Troika as the institution which helped Greece reducing the crisis. Troika consisting of IMF, ECB, and European Commission offered policies which had to be implemented by Greece to get the bailout as the final assistance. However, Greece found the consequences to the economic growth and political stability by receiving bailout and implementing austerity measures.

A. Troika

Dealing with the worsening and spreading crisis, European Union initiated to relieve Greece debt crisis by the Troika establishment. Troika comes from Russian word meaning vehicle of three horses.It also refers to collaboration of three institutions. Regarding the European Union crisis, Troika means a group consisting of three institutions namely European Central Bank (ECB), International Monetary Fund (IMF), and European Commission. The establishment of Troika was an aspiration from the member states because of the lack of governance framework for monitoring and negotiating the adjustment programs. Troika is the key of Greece crisis resolution. Ensuring the maximum efficiency and coherence on the policies to put the economic stability to the sustainable economy is the aim of the cooperation between IMF, ECB, and

European Commission (IMF, 2016). There are three main roles of Troika toward Greece. They are giving financial assistance and stability, coordinating the surveillance and policies, and reforming to foster growth and competitiveness to the country which faced severe economic problem to get better economic condition. The financial assistance coming from the Troika has lower interest rate comparing to the capital market or other institutions since the aim of Troika is helping to recover the financial problem.Troika evaluates the economic policy ofa country and verifies it on periodic time. The conditions for country to receive the money through reforms and measures in form of contract are called Memorandum of Understanding (MoU). Troika provides MoU if the country does not have enough money to repay the loans and postpone to repay in the next term. Troika has strong influence to the country under the national economy and financial policy. Troika took action for the first time in 2010 for Greece by providing bailout package attached with the first MoU.

1. International Monetary Fund

International Monetary Fund is an organization consisting of 189 countries. It was conceived at United Nations conference in Bretton Woods in 1944. The main function of IMF is to give loans to the countries that have liquidity problem. IMF consists of 24 directors of executive board.Each represents a single country or a group of countries. The fundamental mission of IMF is ensuring international monetary system stability by controlling international monetary system and economic and financial policies of the members, providing loans for the members which face imbalanced payment problem, and capacity development. The money comes from the quota subscriptions collected byeach member of the IMF. Total quotas of the IMF by September 13th, 2016 is US$ 668 billion. The purposes of the IMF based on the Articles of Agreement of the IMF are a) promoting international monetary cooperation; b) expanding and creating a balanced international trade; c) promoting exchange rate stability; d) helping to establish multilateral system of payments and eliminate foreign exchange restriction; e) making resources of the fund available to members; f) shortening the duration and reducing the degree of disequilibrium in international balance of payments ("About the IMF", n. d.).

The role of IMF within Troika on Greece crisis is "*a provider of policy advice, financing, and technical assistance. We work independently and, in European Union (EU) countries, in cooperation with European institutions, such as the European Commission (EC) and the European Central Bank (ECB). The IMF's work in Europe has intensified since the start of the global financial crisis in 2008, and has been further stepped up since mid-2010 as a result of the euro area crisis*" (IMF, 2016).

IMF has been handling Greece since 2008 after the crisis announcement happened and intensively treated Greece after the official agreement. IMF provides policy advice, and financial and technical assistance to monitor the standard process for realizing the advanced economy of Europe in periodic time. The purpose of IMF regarding the crisis is to decrease the deficit and restructure the economy condition. Not only managing the crisis in Greece, IMF also provides annual meeting for the Eurozone area to have consultations.

Besides financial assistance, IMF also provides technical assistance for improving the effectiveness of policy making and improving the institution capacity. There are some various actions done by the IMF to transfer the technical assistance. The technical assistance can be in form of the support through the mission of the IMF staffs or the placement of the experts to the country.It also can be a dialogue or technical studies, training, seminars, workshops, etc(IMF, 2016).

2. European Central Bank

European Central Bank (ECB) is the central bank within European Unionestablished on June 1st, 1998 and it adapted Euro as the single currency. The ECB is an official institution in the centre of the Eurosystem and the Single Supervisory Mechanism for banking supervision replacing European Monetary Institution which had been working since 1994. The main purpose of the establishing of ECB is maintaining the purchasing power of single currency and the price stability within the Eurozone. The ECB has six members of executive board which are chosen by the state and government heads for eight-year term. Governing council as the main decision makingdivision of ECB consists of the ECB's executive board and the governors of countries central banks which participate on European Monetary Union (About European Central Bank, n. d.).

As a part of Troika, ECB has role on behalf connecting the relation between European Commission and IMF for verifying and monitoring the economic policies effect on the financial assistance matter in periodic time. ECB took important role since 2010 for the involvement on financial assistance within the Eurozone. ECB gives proficiency and suggestion to the various relevant issues for financial stability and monetary policy(Partenoster & Dessimirova, 2015).

3. European Commission

European Commission has special role on creating European Union legislation and as the guardian of the European Union treaties. The administration consists of twenty three Directorate Generals. They have different particular kind of duty areas such as justice, freedom and security, economic and financial affairs, agricultural and rural developments, enlargement, and external relation. There are also ten general services, and five secretariat generals.

European Commission has four functions as stated a) assuring applications of treaties requirements and other requirements assigned by the European Union institutions; b) formulating recommendations, suggestions or statements if they are needed by the treaties; c) applying the decision power assigned by the treaties and participating in setting up the Councils and European Parlement Acts; d) implementing rules assigned by the Councils and the competency given by the Councils (Archer, 2008).

European Commission as the representative of European Union to the world works directly to the IMF on negotiating the bailout package which is made by the IMF and ECB through the agreement policy. European Commission works as the medium of managing the bailout package as the borrower. The other action taken by European Commission is ensuring the economic growth and stability for example the particular ratio rules which cannot exceed from the GDP of

Eurozone. The monitoring of European Law enforcement from European Commission is not only for the Eurozone, but also for the whole European Union member states as well as guaranting the agreement (Soares, 2015).

B. Troika Bailout and Policy

In maintaining the funding source, market competitiveness, and stability for preventing the management crisis within the Eurozone, the Troika established main sources of funding for financial assistance and stability policies called European Financial Stabilization Mechanism (EFSM) and European Financial Stability Facility (EFSF). Under the EFSF or ESM, the European Commission actively produces obligations and other debt instrument for being lent under particular program to the capital market. While the commission on behalf of European Union and under the guarantee of European Union budget which is EFSM is allowed to lend for maximum €60 billion then it was lent to European Union without debt service cost.

Greece which had the worst economic problem had programs on bailout package disbursement. Eurozone member states created Greek Loan Facility (GLF) to support Greek government effort on restoring sustainability of fiscal and to implement structural reform for improving the economy market competitiveness. Troika monitored the Greece obedience for the terms and condition for the loan disbursement since it needed the approvement from the IMF Executive Board and Eurogroup within the GLF programs. Stand By-Arrangement (SBA) is the lending tools proccessing of IMF in the developing and developed market countries.The framework enables the fund to respond the external financing and supporting the crisis resolution policy to recover the sustainable economy. Extended Fund Facility (EFF) is giving the assistance under the extended regulation which involves the longer repayment period to help the reforms of medium-term structural.

Table 3.1.The first (2010) and second(2012) Greek financing programmes

Bailout	Amount	Breakdown	Disbursed
First	€110 billion	€80 billion Bilateral EU loan (Greek Loan Facility-GLF)	€52.9 billion
		€30 billion IMF (Stand By Arrangement-SBA)	€20.1 billion
Second	€172.6 billion	€144.6 billion European Financal Stability Fund-EFSF	€141.8 billion
		€28 billion IMF (Extended Fund Facility-EFF)	€12 billion
Total	€282.6 billion		€226.8 billion

Source: Ryan Djajasaputra. *Greece-Bailouts, Debts, and Refinancing Factbox*. United Kingdom:Investec, 2015

The emergency of the Greece condition led the government as well as the European Union to find the solution for avoiding the collapse. In 2010, government and the Troika reached agreement to receive bailout by implementing the structural adjustment programs. The bailout which Greece received was a three-year aid programme. Greece has received bailout twice in 2010 and 2012.

The first Troika bailout was received on May 2010 for about €110 billion ($145 billion). The bailout was divided into two terms. They were €80 billion and €30 billion. However, the disbursed bailout was only €52.9 billion by first term and €20.1 billion by second term while the rest of the money went to the local financial institutions. The first bailout helped the Greece reducing the foreign bank's exposure to Greek public sector debt. Greece had to implement the austerity measures as the Stuctural Adjustment Programme as the requirements to receive the bailout. The government had willingness to pass all of challenging measures to fix up the fiscal and external imbalances and restore the market confidence.

The second financing programmetermwas agreed in March 2010 for about €172.6 billion. Just like the first financing programme, it was divided into two terms. The distribution of financing programme was about €144.6 billion for the first term from the EFSF, and the second term was €28 billion from the EFF. The fund disbursement on the first bailout term was €141.8 billion while €12 billion was received on the second term. The rest of the money went to the financial institutions. Greece had to repay the bailout package in the particular time through some measurement programs since the country was in need to do it for recovering the economy problem. There were several structural adjustment programmes known as austerity measures which had to be done by Greece a) increasing tax and new tax policies for all people; b) merging pension funds and retirement age restriction; c) cutting employee wage, reducing pension funds, eliminating bonuses and holiday allowance; d) reducing social funding and benefits of solidarity; e) carrying out massive lay-off; f) cutting education subsidies, remote areas, family allowances and health; g) implementing extra working duration time.

In the very first austerity measures, there were three main measures which had to be implemented. The elimination of retirement, the elimination of wage salary, and the increasing of Value Added Tax (VAT) and particular excises were the measures which guarantee the decreasing deficit budget. In 2011 and after, Greece tightened the measure to reach the target by cutting expenditure. The significant increasing expenditure after the implementation of euro as the single currency system as well as the public consumption, social transfer, and public wages became big burden to the country. These burdensenforced the government to cut the entitlement program cost and public wage since these matters represented the biggest government budget expenditure. The government also had the government budget reduction and shifted time by time on 20% of the retiring employees by integrating local and municipalities councils. The adjustment was important to distribute on some aspects and the investment needed to be rationalized to be used intensively. There were international experts to be the independent reviewers to identify the state behavior to increase social program target.By the adjustment implementation, the income would be increased for about 4% of GDP until 2013. The increasing of liberal taxation professions, the increasing of luxury good taxation, and the surcharging on highly profitable entities, and other actions fight against taxation fraud by implementing tax reform acts to increase the higher income.

The long term budget and public financial management of technical assistance by the IMF and European Commission were prioritized for covering the short term challenges. General Accounting Office (GAO) had responsibility on reporting and monitoring the general government data. The government introduced the standard of commitmentcontrol procedures preventing arrear re-emergence, top-down budgeting for the state budget on midterm expenditure framework, sufficient contigency, and ceiling production ("The Economic Adjustment Programmes for Greece", 2010).

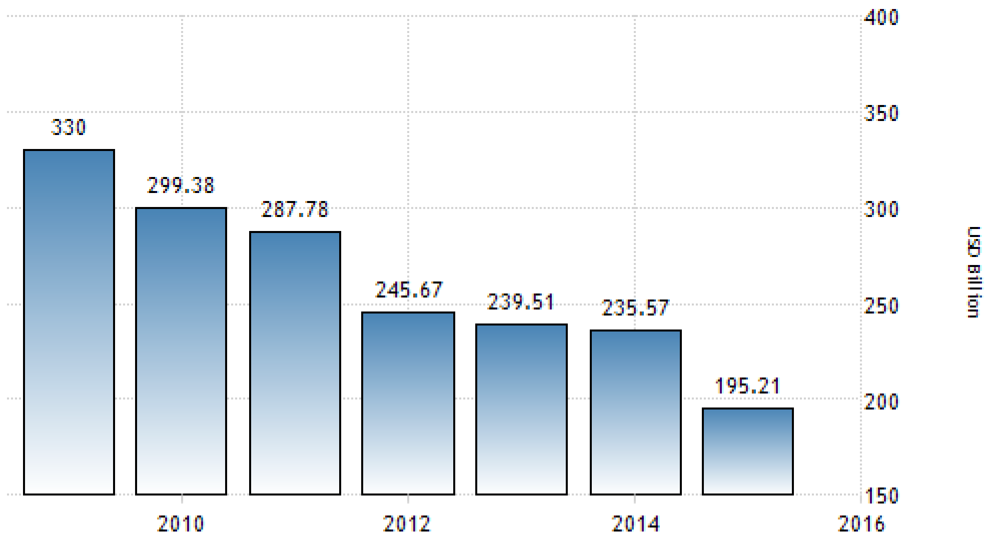
The second Troika bailout package was agreed by the government and Troika in March 2012 since the first bailout package was not enough to pay the debt. The first bailout package was funded by bilateral loans, while the second bailout package was funded by the EFSF. For improving the sustainability of Greece debt, there was the involvement of private sector on the launching of the second bailout package. In the second bailout package, Greece still struggled for the structural programmes implementation in some areas.

The political instability in 2012 caused the uncertainty of the capacity of Greece ability to implement the structural programmes and the acceleration of capital outflows. The election led the government which consisted of three partiescoalition to strictly implemented the structural adjustment programmes for securing the Greece future within the European Union. However, the government faced difficulties to fulfill the requirements on identifying and implementing the measurements programme.In the end of 2012, the IMF and the Euro Finance minister agreed to extend the fiscal adjustment programmes by two years by decreasing the primer surplus for 2014 from 4.5% of GDP to 1.5% of GDP and the annual adjustment for 1.5% of GDP until the primary surplus was achieved in 2016. The Eurozone members had initiatives reducing the Greece's debt a) the interest rate charged to the Greece on the loans provision lowered to 100 bps; b) the guarantee fee cost paid by Greece on EFSF loans lowered to 10 bps; c) the Greece maturities of bilateral and EFSF by 15 years and a defferal interest payments on EFSF loans by 10 years were extended; d) the Greece segregated account to be passed on as the commitment by member states("Financial Assistance to Greece", 2016).

C. Economic Growth

The implementation of the structural programmes by Greece which has purpose on achieving the economy, social, and political stability met the result. Some of the programmes met the developments, but some met deteoriorations. The bailout package which was given by Troika since 2010 gave the big impact to Greece economy stability where the Prime Minister Papandreou had to cut the subsidy and increase the tax up to 30 percent. The Prime minister also had to privatize the government assets for spending cut reason. However, the policies made by Troika did not give significant development toward the crisis on GDP growth rate, unemployment, and sustainable competitiveness. The austerity measures triggered the GDP growth rate, the companies bankruptcy, and the rise of unemployment. Many people lived in poverty. The government had to privatize the government assets to survive from the debt and restructure the amount of the employee.

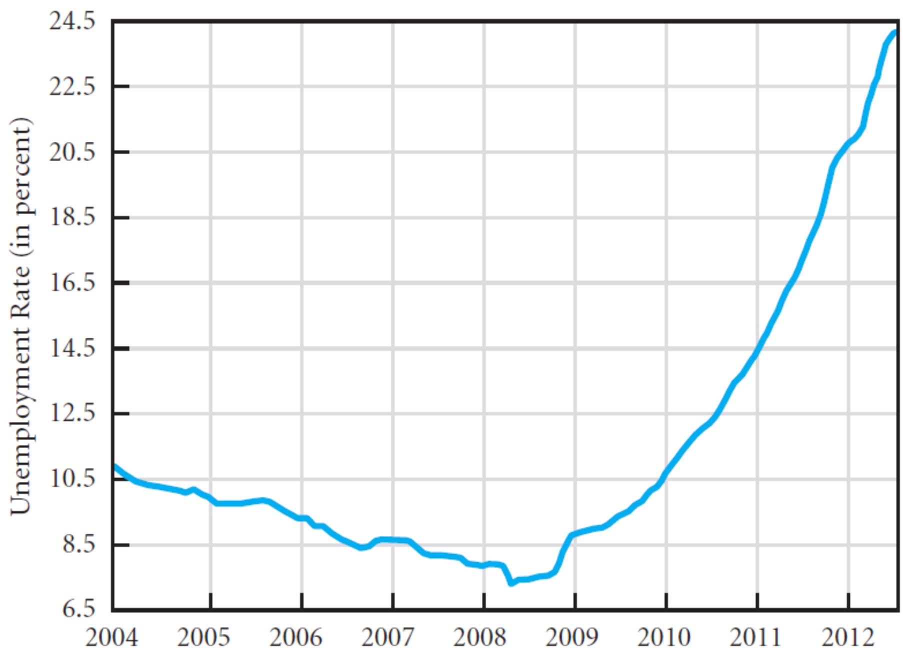
Figure 3.2.Greece GDP growth rate



Source: *Greece GDP*. Trading Economics.http://www.tradingeconomics.com/greece/gdp

GDP is the total expenditure as the result of domestic production within the state in particular time. GDP is used as the measurement of income and output for country's economy. Under the Troika regime, Greece lost 25% of total GDP. Based on the figure, the GDP growth rate fell over years after implementing the structural programmes in 2010. Greece's GDP fell from $299.38 billion in 2010 to $195.21 in 2015 after the structural adjustment programmes implementation (Greece GDP).

Figure 3. 3. Greece unemployment rate



Source: GiorgosArgitis. *Greece: Caught Fast in the Troika's Austerity Trap*. Levy Economics Intitute of Bard College. 2012

The unemployment rate for the productive age was getting significantly higher after the first bailout. In 2010, the household income was getting lower.The main cause was the rising unemployment in Greece. Greece got the worst unemployment rising among other European Union member states. The figure above shows that the unemployment rate was 10.5% by 2010 then rose significantly in 2012 to 20.5%. The unemployment rate remained steady after 2012. The significant unemployment rate happened because of the insecurity, low wages, lack of labor right, deregulation of labor agreement, and uninsured works as well as the closure of companies and private business units.

One third people of Greece were under poverty who couldnot afford their needs. The implementation of austerity measures made the gap between the poor and the rich wider. The poor people were getting poorer and the inequality was getting higher. The household people with no income rose from 10% in 2010 to 17% in 2012. The homeless people reached for about 25% after implementing the austerity measures since 2009. The rampant poverty triggered the people to do suicide especially for women. The increasing of Greece suicidal rate was from 377 people in 2010 to 477 people in 2011 for about 26.5% as well as the suicidal rate for women for about 104.4% increasing. The access to the public health service was getting more difficult to reach by poor and marginalized people. This condition was supported with a fact that most of them did not posses any health insurance (Cavero, 2013).

The high class and educated people decided to migrate from Greece. The people who already stayed abroad mostly did not desire to go back to Greece due to the situation. This situation made the immigration was getting higher.

The high rate of unemployment, poverty, and the weakening social service led to the rising of crime rate and got big risk on the highest poverty rate and social exclusion among the European Union member states. On the other hand, the high class and educated people choseto migrate to other countries.

D. Political Stability and Rejection Third Troika Bailout 2015

Aside from the economic growth, austerity measures gave influence to the political stability of Greece. The sustainable economic recession of Greece created distrust toward the government on the era of receiving first bailout called Papandreou era. The implementation of austerity measures got mass protest from the society and decreased Papandreou'spopularity rate as well as PASOK as the supporting party. Although the government received protest from the society and the opposition party, Papandreou insisted the country to implement the austerity measures for three years to get the money. However, the implementation of austerity measures did not meet the solution.

The electoral politics significantly changed after the austerity policies. It was not surprising if there was severe political recession started with the five new parties establishment during 2010 and got the peak in 2012 election. There was shocking bad result for the two big dominating parties since the post-dictatorship. The popular leading party which was Socialist PASOK got the decreasing votes from 43.92% in 2009 to only 12.28% in 2012 while the conservative New Democracy (ND) got votes for about 29.66% by 2012. SYRIZA (left socialist-radical) as the biggest main opposition party got the significant popularity rate comparing to vote in 2009. SYRIZA got 26.89% votes. The minor parties which supported bailout did not give significant contribution to win the parlement. The communist party KKE got serious loss of votes for about 4.50% in 2012. The

Golden Dwan which was ignored in 2009 electoral got the chairs on the parliament for about 6.92% in 2012.

The election in 2012 surprised the bipartite or traditional two-parties system which survived since 1974. The old parties were collapsed especially in the urban areas. This condition was opposite to the SYRIZA, Independent Greeks, and Golden Dawn which got the high votes especially from the youth who were experiencing the unemploymentand they wished for better condition. The rise of the votes toward some parties was not only because of nationalistic mindset for erasing the austerity measures but also the racist violence against migrant groups, neo-NAZI discourse, sexism, and facism activity (Markantonatou, 2013).

The condition has remained worst steadily and this triggered the people to lose the confidence toward the government and the lenders. The election in 2015 gave result to the Alexis Tsipras as the new prime minister of Greece from the radical left SYRIZA party with platform rejecting the bailout package and wiping out the austerity measures. Tsipras government gave promises to the society such as reversing the revenue hikes, outrighting of some debt, and restoring spending cuts. The result shows that Greece people wanted to have movement for Greece to get out from the crisis. Under the Tsipras era, Tsipras did negotiation to create new agreements with the creditors to get light policies. However, the creditor insisted to have similar policies in creating new agreement. The turmoil of rejecting the requirement which was proposed by the International creditors became stronger yet Greece could not afford to repay the debt based on the due date on June 30th, 2015. The chaos which happened was getting worse after

Greece did not get the significant advantages on receiving bailout packages. This led Tsipras to announce to reject receiving the third Troika Bailout in 2015.