Greece Crisis-A Lesson for India

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Abstract: ***This paper emphasis on the Greece crisis, and what India can learn from it. This paper presents the contemporary situation of Greece, its past mistake that lead it to a situation like crisis. Basic reason of crisis, various measurements Greece could use to tackle its domestic situation are roofed under this paper. This paper depicts how situation in India is same that of Greece and a crash like Greece can occur in India if Indian don't take it seriously and what are the various lesson India can learn from Greece to defend itself from an economic fall.***

Keywords: Financial measurement, IMF debt, debt induced Growth, government expenses, public policies.

1. Introduction

The lesson of history is that you do not get a sustained economic recovery as long as the financial system is in crisis. Somewhere same happened in Greece. Greece is a developed country with high standard of living and high Human Development Index. Greece was a 43rd largest economy by GDP and 52nd largest by PPP in 2013. In 2009 it ranked 7th most visited country in the European Union and 16th in the world by the United Nations World Tourism Organization) and merchant shipping at 16.2% of the world's total capacity. But game totally changed in 2015. All Greece banks including foreign branches are closed. ATM withdrawals are limited to euro 60 per day. Greece is now under the burden of debt euro323 billion. The Roots of this crisis are very deep.

Greece became the member of euro zone in 2001 and it was expected to mark a transformation in the country's economic providence. But, in beginning of 2009, everything changed as Greece became the center of a major financial crisis. Greece crisis is having so many reasons:

The 1999 euro was introduced as a common currency to reduce trade costs among the Euro zone countries and to increase overall trade among EU countries. But, labor cost increased more in peripheral countries. It results budget deficit of Greece was significantly rising. A Budget deficit means that expenditure of a country is more than its income. Both the Greek trade deficit and budget deficit rose from below 5% of in 1999 to peak around 15% of GDP in the 2008–2009.

Another driver of the investment inflow of dollars into Greece was its membership in the EU. It helped lesser the yields on government bonds over the 1998-2007. Greece was seemed as a higher credit risk than it was as a member of the EU, which means investors felt the EU would bring regulation to its finances and support Greece in the event of problems.

As U.S. crisis in 2007–2009 spread to Europe, in flow from funds from the European countries to the periphery began to shrink. In 2009 of fiscal mismanagement and deception increased borrowing costs. The permutation intended Greece could no longer borrow to finance its trade and budget deficits.

Greece is facing a sudden stop in private investment and a high debt load. Typically this situation allows its currency to depreciate to encourage investment and to pay back the debt in cheaper currency in case of a country having independent currency, but this is not an option to Greece. Wages fell nearly 20% from mid-2010 to 2014, a form of deflation. It led to a significant reduction in income or GDP. It resulted in a severe recession and a significant rise in the debt. Unemployment has risen to nearly 25%, from below 10% in 2003.

One of the main reasons of the Greek sovereign debt crisis is defective governance system. The Greek government has failed to address the economic issues present almost in every country. Parliamentary, where legislative and executive branches tend to be dominated by the same actor, usually spend more, save less. In case of Federal systems of governance there are district separations of powers and regular checks on authorities, will be more careful about the expenses. Greece might be powerful case for this argument.

2. Political scenario of Greece

In Greece, the two main political parties are there, one is the conservative, pro-business "ND" and another one is socialist "PASOK". Both parties lost the track of their ideological beginning and policies times of yore. Under this system, innovation of policy was doomed to fail. With no real counterbalance to its authority, successive governments ruled with an iron instead of using their powers to fix the public issues. They abstained from politically risky policies and used their control of the public purse to stay in power. Usually within two terms the people got sick of the ruling party, and overthrow the government by electing the opposition party which promised them to fix the ailing economy. During the past 30 years, Greece has been through this scenario five times.

3. Greece turmoil hit Global Market

"The crisis is serious due to many reasons. One is because of the risk association to government debt of Greece and the events of the past couple of days do not really improve confidence in the country so foreign investors are very concerned. Greek crisis is a sign of a larger economic problem in Europe. Members of EU like the Netherlands and

Germany who have spent too little and their economies are driven by exports. On other hand, southern countries like Portugal, Greece have spent too much and cumulative debts as a result.

The risk due to Greece crisis is spilling over other southern European countries. Even problems are also spilling beyond Europe's borders. Ultimately, Greek problem reflects a world economic problem. Cost of European borrowing for Spain, Italy, and Portugal bore the brunt and yields of government bond jumped.

Greece crisis could trigger capital outflow from India. It could have indirect impact on India by way of its outcome on euro. BSE lost its 500 points. Britain's top share index FTSE fell sharply by 1.6% and pressured by 1.8% drop in UK.

Greek debt crisis and its ripple effects are bad news for all corners of the world and there is a strong collective interest in containing the problem. The risk is that a weak control strategy limits the immediate damage but leaves the underlying problems festering and creates bigger problems in the future.

1) Greece and the PIIGS: Greece has been given one year to settle its domestic condition. It is sure that it can't accomplish the burdensome conditions of IMF. The main question is whether there will be measurable progress, including reduction in the budget deficit.
2) If there is progress, IMF could continue to support Greece after a year on the cost of some conditions. And IMF can impose some restructuring debt condition on Greece and suggest it to change its domestic policies. In any event, sovereign debt crisis is going to increase at the level of discomfort, about rising debt levels in other economies. It could ultimately lead to further instability in financial markets of the world.
3) China: The debt crisis will have adverse affect on short-term growth of EU countries and euro will remain weak as compare to dollar. It will create a double hit on the exports of China in its most vital foreign market. It will delay a shift on the renminbi if current effects of the Greece crisis further lead to strengthening of the dollar. This development has equipped the hands of officials in China who are firmly opposed to renminbi appreciation due to the fear that it could dampen the employment growth and export.
    a) Other emerging markets: one side the wave of horror related to the Greek debt crisis passes and another side continued low interest rates in advanced economies, could lead to surge in capital inflows in emerging markets and with lower growth in their export markets and rising exchange rates, industrial sectors of these countries could come under sharp pressure.
    b) Global economic recovery: The turmoil in world currency and financial markets could weaken economic regions in the world and could drop down the growth. The best-case scenario is that Europe will not drag on growth path. It will not make a significant positive contribution to world economic growth. On other hand US goal to double its exports in the next five years is going to be deterred by the dollar strength and weaker import demand from Europe which is going to increase exports to pull itself out of the crisis.
    c) International monetary system: Authority reform at the IMF to give more appropriate level of presentation emerging markets, which is already working at just a hostile pace, could crush to close down. The crisis has shown deep fractures in Europe zone and the prospects of European countries coming together to unite their voting shares at the IMF now seems more distant than ever.

There are so many similarities in Indian economy and that of Greece:

Public expenditure was one of the reasons of Greece crisis. In 2014 revenue of Greece amounted to Euro 90.6 billion and its spending was around Euro 111.63 billion. On another side in India Government Spending was 2764.12 INR Billion in the fourth quarter and it was all time high of INR 3286.95 Billion in the third quarter of 2014.

Corruption and Tax evasion were another problem in Greece. Around Euro 30 billion per year was going uncollected. India has shown some improvement in addressing the problem of corruption. India ranked 85th in corruption and Greece ranked 69th among 175 countries in 2014.

Greece recorded a Government Debt 177.10 percent of the country's GDP in 2014. India's external debt on March 31, 2014, was $440.6 billion.

Around 6.3 million Greeks are threatened by poverty out of 11.03 million. 2.5 million Greeks are living below the poverty line and 3.8 million are in direct danger of passage the poverty line, the report said. In 2011-12, India had 270 million persons below the Poverty Line out of 1.21 billion.

4. Lessons for the India

In Greece, like in the India everyone knew what needed to be done to improve the collection of taxes, reform the entitlement system, and free the many small and medium size entrepreneurs from overbearing government regulations.

5. Several Lessons Emerge Clearly

1) As we discussed roots of Greece crisis are very deep so we should constantly look out for incipient problems when times are good—it doesn't take long for market sentiment to change when problems surface.
2) Growth of a country should not be a debt induced growth like Greece but Growth should be based on country's own capital and its fundaments.
3) The countries which are having their own independent currency are safe as compare to other countries which are not having an independent currency because at the time of market fall these countries can't use financial measures to save their market.
4) "Cut your coat according to your clothes." Expenditure of government should be limited as per its GDP.

5) Withdrawals of Greece's Fund from the capital market of India by foreign institutional investors in last two three months after the worsening of Greece crisis is not a good sign for India. India needs to consider it seriously.

6. Conclusion

What Greece is going through right now is the result of bad policies of course, and policies were predictable considering the system of governance. India needs to learn a lesson from Greece crisis. The lesson for the India is not only "excess government spending" that leads to more government debt and bankruptcy. But, the lesson for the India should be politicians need to make reasonable choices and expect to be judged for that by the people. The main reason for having a government, and a governed system is that it can make decisions, implement the decisions, and tackle critical domestic and international issues that cannot be solved individually. In case the system cannot deliver all these things then the system itself needs to be changed.

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