



PERSPECTIVES

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Greece Faces the End of the Bailout Era and a Dispute with Russia

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EXECUTIVE SUMMARY: Greece is now facing the end of the eight-year bailout and an unexpected diplomatic crisis with Russia. While PM Alexis Tsipras is trying to take credit for the former and manage the latter, his government may pay a price in voter discontent.

Greece reached an important milestone on August 20. The eight-year bailout programs, through which Greece received €320 billion from the “Troika” (the EU, the European Central Bank, and the IMF), came to an end. Greece will no longer receive bailout loans. Nor will its creditors be able to dictate new terms, as they did in the various despised Memoranda that Greece was forced to sign.

The bailout schemes started in 2010 as the economic crisis in Greece worsened. The huge and unprecedented loans were intended to rescue the country and prevent an economic collapse of Greece and possibly of the entire European economy.

As expected, Greek PM Alexis Tsipras is now trying to take credit for himself and his Syriza party for what he describes as an historic achievement. Several days after the bailouts came to a close, Tsipras delivered a speech on the island of Ithaka, home of the mythological hero Odysseus, as described in Homer's *Odyssey*. The underlying idea of the speech was that Greece's bailout troubles parallel the struggles of Odysseus. Tsipras blamed his predecessors in power, the Conservatives and the Socialists, for the economic crisis and the hated terms of rescue and austerity, and praised the actions of his own government. He claimed that a new era has begun for Greece.

However, the celebrations are premature. During the eight bailout years, the Greek economy shrank by one quarter. Unemployment skyrocketed to 28% and

has stabilized at “only” 20%. Among the young, unemployment remains much higher. Half a million Greeks, most of them young and educated, have left the country.

When the Troika decided to bail Greece out, it presented a number of demands, including shrinking the huge and inefficient public sector, improving the tax collection system, combating corruption, and reducing the state’s deficit. The Socialist Pasok government led by George Papandreou, and later the Conservative New Democracy government led by Antonis Samaras, tried to implement these demands by raising taxes and putting various austerity measures in place. As a result, many Greeks fell below the poverty line.

This was the backdrop for of political demise of Papandreou in 2011 and of Samaras in 2015. The Greek voters were disappointed by both the Socialists and the Conservatives. In January 2015 they brought to power the left-wing Syriza party and its leader, 40-year-old Alexis Tsipras. The new PM quickly discovered that rhetoric and election promises aside, he had to continue his predecessors’ policies under the dictates of the EU, the IMF, and the Memoranda.

As said, Tsipras is now trying to take credit for real or imaginary successes. The future is still unclear, however, as Greece will have to pay its huge debt while trying to revive its staggering economy.

In the meantime, a new crisis has erupted on a totally different front. Greece and Russia have traditionally had good relations, based among other considerations on the fact that the two nations share the same religion, Eastern Greek Orthodoxy. These relations were recently damaged for an unexpected reason.

Greece expelled two Russian diplomats on the charge that they had tried to influence politicians and senior officials, using bribes, to object to the agreement reached between Greece and Macedonia regarding the latter’s name. Macedonia and Greece have been quarreling for years as Greece demanded its neighbor change its name, since Macedonia is also the name of a vast area in northern Greece. Greece refers to its neighbor as Fyrom, the acronym for Former Yugoslav Republic of Macedonia.

After lengthy negotiations, the two countries reached an agreement according to which Greece's neighbor will now be known as “The Republic of North Macedonia.” If this agreement is approved by a Macedonian referendum set for September 30, Greece will remove its objection and Macedonia will be able to join NATO and the EU.

Unsurprisingly, Russia objects to NATO’s expansion by an additional member. According to the Greek government, the Russian diplomats tried to create

unrest in Greece over the agreement; hence their expulsion. The Russians reacted by expelling two Greek diplomats and by cancelling the visit of Foreign Minister Sergei Lavrov to Athens in September.

These events may force Tsipras to call an early election in the hope that he can benefit from the end of the bailout era. Syriza's majority in Parliament is razor-thin – 152 out of 300- and the government is based on a strange coalition with a small, extreme right-wing party, “The Independent Greeks.” The election is currently scheduled for the fall of 2019. In preparation, Tsipras has reshuffled his cabinet and appointed younger and more centrist ministers. However, the most sensitive ministries, such as Finance, Foreign Relations, and Defense, remain intact.

Tsipras has reason for concern. The Conservative New Democracy party led by Kyriakos Mitsotakis, whose father Konstantinos was also PM, is leading in all polls. The Socialists and the Conservatives were overthrown due to public anger caused by the bailout and its consequences. The left-wing Siriza may encounter a similar fate.

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