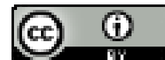
From the Eurozone Entrance to the Economic Restructuring: A Political Economy Analysis of the Greek Economic Crisis



Da entrada na Zona Euro à reestruturação econômica: uma análise de economia política da crise econômica grega

Desde la entrada en la Zona Euro hasta la reestructuración económica: un análisis de economía política de la crisis económica griega

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ABSTRACT

This paper investigates the trajectory of Greece's economy from its Eurozone entrance in 2001 through the Global Financial Crisis (GFC) in 2008 and the Greek Economic Crisis (GEC) in 2010-2018. The analysis surveys the narrative of initial optimism of the entry to Eurozone followed by GEC. In the meantime, the GFC unveiled deep-seated fiscal and competitive weaknesses as well as domestic political incompetence precipitating the GEC. The official response to the GEC, through the Economic Adjustment Programs (EAPs), aimed at economic stability. The discussion focuses on the neoliberal restructuring of Greek economy that led into socio-economic repercussions, highlighting the political economy lessons.

Key Words: Eurozone entrance; Greek Economic Crisis (GEC); Global Financial Crisis (GFC); Economic Adjustment Programs (EAPs); Structural Adjustment Programs (SAPs); Neoliberal restructuring; Troika.

RESUMO

Este artigo investiga a trajetória da economia grega desde sua entrada na Zona Euro em 2001, passando pela Crise Financeira Global (CFG) de 2008 e culminando na Crise Econômica Grega (CEG) entre 2010 e 2018. A análise examina a narrativa do otimismo inicial com a adesão à Zona Euro, seguida pela CEG. Nesse ínterim, a CFG revelou fragilidades fiscais e de competitividade profundamente enraizadas, bem como uma incompetência política doméstica que precipitou a crise grega. A resposta oficial à CEG, por meio dos Programas de Ajustamento Econômico (PAEs), visava à estabilidade econômica. A discussão centra-se na reestruturação neoliberal da economia grega, que gerou repercussões socioeconômicas significativas, destacando as lições da economia política.

Palavras-chave: entrada na Zona Euro, Crise Econômica Grega (CEG), Crise Financeira Global (CFG), Programas de Ajustamento Econômico (PAEs), Programas de Ajustamento Estrutural (PAEs), reestruturação neoliberal, Troika.

RESUMEN

Este artículo investiga la trayectoria de la economía griega desde su ingreso en la Zona Euro en 2001, pasando por la Crisis Financiera Global (CFG) de 2008 y culminando en la Crisis Económica Griega (CEG) entre 2010 y 2018. El análisis examina la narrativa del optimismo inicial con la adhesión a la Zona Euro, seguida por la CEG. En ese período, la CFG reveló debilidades fiscales y de competitividad profundamente arraigadas, así como una incompetencia política interna que precipitó la crisis griega. La respuesta oficial a la CEG, mediante los Programas de Ajuste Económico (PAEs), tuvo como objetivo la estabilidad económica. La discusión se centra en la reestructuración neoliberal de la economía griega, que produjo importantes repercusiones socioeconómicas, destacando las lecciones de la economía política.

Palabras clave: ingreso en la Zona Euro, Crisis Económica Griega (CEG), Crisis Financiera Global (CFG), Programas de Ajuste Económico (PAEs), Programas de Ajuste Estructural (PAEs), reestructuración neoliberal, Troika.

1 INTRODUCTION

At the time of this publication, the Greek Economic Crisis (GEC) of the years 2010-2018 may seem like an issue of the past. However, the aftermath of the GEC, particularly the neoliberal restructuring of the Greek economy, continues to have profound effects on the country's current economic and social reality and its prospects. It would be shortsighted to examine the Greek economy's trajectory solely through the lens of the three Economic Adjustment Programs (EAPs) of 2010-2018, as many studies have done. Instead, this paper takes a broader view, tracing the evolution of the Greek economy from its entry into the Eurozone in 2001 through the eruption of the GEC and the completion of the third EAP in 2018. This time frame was chosen to capture both the structural developments leading to the crisis and the policy responses implemented during the adjustment programs. Our research finds a strong correlation between Greece's Eurozone entrance in 2001, the Global Financial Crisis (GFC) of 2008, and the GEC of 2010-2018.

Methodologically, the paper aims to unravel the events leading to the GEC and provide a comprehensive political economy analysis, along with key lessons learned. In tackling the subject matter, we have striven to sidestep personal ideological biases and dogmatism, instead adopting a balanced perspective. The analysis refrains from framing policy discussions within rigid theoretical binaries, opting instead for a contextualized political economy approach that integrates institutional, socio-political, and macroeconomic factors. The mountain we choose to stand on is the political economy analysis of Greece's protracted crisis. Written in accessible language, this paper targets not only economists but also scholars in development studies, politics, and social sciences, offering them insights from a political economy perspective. Furthermore, the intellectual reader does not need to be conversant with European economics and politics

as proper clarifications about are offered. Lastly, the political economy analysis of the GEC presented here encapsulates policy recommendations.

By adopting a political economy approach, the study integrates theoretical analysis with empirical evidence extracted from the original documents of the three Greek EAPs employing a qualitative research approach combined with descriptive data analysis with quantitative indicators presented in Table 1, and policy evaluation. Policy measures, institutional reforms, and fiscal strategies implemented during the crisis are assessed through direct references to these foundational documents. Furthermore, macroeconomic data from official sources such as the International Monetary Fund (IMF), the Bank of Greece, the Greek Government Law Gazette and the European Central Bank (ECB), were systematically collected and utilized to support the analysis, ensuring a robust empirical foundation. Policy analysis was conducted through direct reference to foundational policy documents, supported by relevant secondary literature. This combined approach allows for a detailed investigation of the GEC, emphasizing how policy responses were shaped by institutional constraints and economic conditions, as extensively discussed throughout the paper. This framework consciously moves beyond conventional classifications, acknowledging the multidimensional nature of crisis management and policy responses in a highly integrated economic and political landscape.

What distinguishes this study is its novel approach of blending primary policy documents with a critical political economy perspective drawing from diverse sources, considering institutional, socio-political, and global economic dynamics. This allows for an in-depth examination of the policy responses. By connecting theoretical insights with empirical data and policy analysis, the paper contributes a multidimensional understanding of the GEC, addressing gaps in the existing literature and offering fresh perspectives on crisis management within the Eurozone framework. By rejecting simplistic theoretical binaries, the study highlights the complex interactions between policy measures, domestic and European institutional structures, and the political apparatus, offering a refined perspective on the GEC.

Let us pose from the beginning some compacted preliminaries for better understanding of the research theme. The narrative of the transition of Greek economy into the Eurozone in 2001 brings financial economic benefits (Kotios; Pavlidis; Galanos, 2011, p. 5). Nevertheless, the initial benefits of the Eurozone membership, such as increased investment and growth, gradually gave way to emerging fiscal imbalances and economic fragility (Nelson et al., 2010, pp. 3–4). The GFC of 2008 exacerbated Greece's existing economic vulnerabilities, precipitating a severe downturn in 2009. The exposed and aggravated pre-existing fiscal deficits and competitiveness issues, propelled Greece into severe economic distress and the GEC. In response, the EAPs, initiated in 2010, aimed to stabilize the Greek economy through rigorous fiscal consolidation, austerity measures, and structural reforms. However, EAPs deepened the economic downturn, leading to significant social and economic challenges. The EAPs' neoliberal underpinnings, emphasizing austerity

and market liberalization, faced criticism for their lack of sensitivity to Greece's socio-economic context and the adverse impacts on the populace, illustrating the complexities of crisis management within the Eurozone's supranational framework. What are the political economy lessons from this process; This is the research question that the following lines scrutinize. Data analysis is designed to answer this question by examining macroeconomic indicators, policy decisions, and socio-economic outcomes.

The structure of the paper has as follows: Section 2 examines Greece's path from the Eurozone entrance to the economic downturn of 2010. Section 3 delves into Greece's political economy from 2010 to 2018, a period marked by the GFC's aftermath and successive EAPs. Section 4 presents the key political economy lessons drawn from the GEC. The paper concludes with Section 5, which summarizes the analysis's key results.

2 FROM THE EUROZONE ENTRANCE TO ECONOMIC DOWNFALL

Greece formally joined the European Union (EU), then called the European Economic Community (EEC) in 1981, following an application in June 1975 shortly after the restoration of democracy, becoming its 10th member. This early accession granted Greece access to vital structural funds, trade liberalization agreements, and policy frameworks aimed at fostering economic modernization and institutional reform. The accession was perceived from the country and its elites as a way of consolidating the newly restored democratic freedoms, as well as ensuring and furthering the social and economic progress of Greece (Alogoskoufis, 2019, p. 2). Portugal and Spain also joined the EEC in 1986, further integrating Southern Europe into the broader European market, prompting crucial economic reforms, including trade liberalization, fiscal consolidation, and market modernization, which facilitated their later participation in the European Monetary Union (EMU) (Royo, 2010, p. 212). Having recently emerged from totalitarian regimes and restored democratic governance, the three Mediterranean nations were effectively committed by their entrance to the EEC, also to democracy in an unwavering and permanent way (Goebel, 2003, p. 19). Greece's early membership played a critical role in for its economy to align with European standards and strengthening its institutional capacity for future integration. However, Greece experienced lower GDP and productivity levels after its EU accession compared to other member states (Campos; Coricceli; Moretti, 2019, p. 93).

This trajectory ultimately led to Greece's entrance to the EMU and the adoption of the euro in 2001, following the currency's initial introduction in 1999. The advent of the common currency marked a significant monetary experiment in global economic history (Dinopoulos; Petsas, 2000, p. 4). To ensure a stable and integrated monetary union, the Maastricht Treaty of 1991 established five key convergence criteria for Eurozone membership comprising economic prerequisites to ensure readiness for common currency adoption. These required countries

to maintain a public deficit below 3% of GDP, public debt below 60% of GDP, and inflation rates close to the average of the three best-performing EU countries. Additionally, long-term interest rates needed to remain within a narrow range of the lowest-performing countries, while exchange rate stability had to be ensured through participation in the Exchange Rate Mechanism (ERM) for at least two years without significant devaluation. These requirements aimed to promote fiscal discipline, price stability, and economic convergence across EU member states (Monteverdi, 2017, p. 9).

At the beginning of 1998, Greece appeared ill-prepared to meet the Maastricht criteria, grappling with 5% inflation long-term interest rates at 9.8%, a budget deficit of -4% of GDP, and public debt reaching 108.7%. Despite these challenges, dedicated efforts over the subsequent two years enabled Greece to achieve the prescribed targets, securing its membership in the Eurozone. This integration immediately ushered in an improved economic climate, bolstering the country's credibility (Neubaumer, 2015, p. 18). To attain compliance, Greece committed to a six-year convergence program (1994-1999), successfully reducing the budget deficit from 13.6% of GDP in 1993 to 3.1% in 1999. Greece showcased a primary surplus, accompanied by robust economic growth and lowered inflation and interest rates. Yet, fiscal rigidities and continuous currency appreciation undermined competitiveness despite declining interest rates that stimulated investment (Karamessini, 2014, p. 98).

Greece adopted the common currency in January 2001, becoming the 12th state following the European Council's confirmation of fulfilling the Maastricht criteria (Papadogiannis, 2015, p. 37). Upon entry into the Eurozone, Greece's central aim, through its participation in the Euro system and the European System of Central Banks, focused on ensuring price stability (Bank of Greece, 2013, p. 11–15). Between 2001 and 2007, Greece experienced significant GDP growth, ranking second among Eurozone members after Ireland. However, this growth mainly stemmed from strong domestic demand fueled by increased consumption, private borrowing, tax evasion, and public spending supported by external borrowing (Baltas, 2013, p. 6; Karamessini, 2014, p. 97). Despite early success, Greece encountered challenges post-Eurozone entry. Policies shifted after adopting the euro, leading to overspending and breaching the Maastricht criterion on budget deficits (Katsimi; Moutos, 2010, p. 3).

The following Table 1 summarizes key macroeconomic indicators of the Greek economy from 2001 to 2018, highlighting trends in GDP growth, inflation, fiscal and current account balances, public debt, unemployment, and government expenditure. These figures provide essential context for assessing the economic conditions that influenced the design and implementation of the EAPs. The table provides a quantitative foundation for understanding the economic realities that the EAPs aimed to address and serves as a reference point for evaluating the effectiveness and socio-economic consequences of the policy measures implemented during the adjustment period.

Table 1: Macroeconomic overview of Greece, years 2001-2018

Year	Real GDP Growth %	Inflation Rate (CPI) %	Current Account Balance as % of GDP	Fiscal Balance as % of GDP	Public Debt as % of GDP	Unemployment Rate as % of total labor force	Government Total Expenditure as % of GDP
2001	4.1	3.6	-6.9	-5.46	107.1	10.8	47.46
2002	3.9	3.9	-6.3	-6.02	104.9	10.4	47.11
2003	5.8	3.4	-6.3	-7.83	101.5	9.8	47.87
2004	5.1	3	-5.5	-8.82	102.9	10.6	48.82
2005	0.6	3.5	-7.3	-6.18	107.4	10	46.60
2006	5.7	3.3	-10.9	-5.94	103.6	9	45.86
2007	3.3	3	-13.9	-6.70	103.1	8.4	47.77
2008	-0.3	4.2	-14.5	-10.17	109.4	7.8	51.53
2009	-4.3	1.3	-10.9	-15.2	126.7	9.6	54.82
2010	-5.5	4.7	-10	-11.39	147.5	12.7	53.08
2011	-10.1	3.1	-10.1	-10.50	175.2	17.9	55.07
2012	-7.1	1	-2.6	-6.84	162.1	24.4	57.92
2013	-2.5	-0.9	-2.6	-4.01	178.8	27.5	63.85
2014	0.5	-1.4	-2.5	-4.26	181.8	26.5	51.50
2015	0.2	-1.1	-1.5	-3.01	179.1	24.9	54.76
2016	-0.5	0	-2.4	0.28	183.7	23.6	50.29
2017	1.1	1.1	-2.6	1.05	183.2	21.5	48.58
2018	1.7	0.8	-3.6	0.78	190.7	19.3	48.60

Source: constructer with data from the IMF (https://www.imf.org/external/datamapper/profile/GRC) and the ECB https://data.ecb.europa.eu/data/data-categories

The transition into the new millennium marked a transformative period for the Greek economy, witnessing a significant structural and productive shift towards market liberalization, privatization of state-owned entities and banks and a burgeoning concentration of capital within the private sector. This transformation corresponded to a shift from primary sector activities towards the tertiary sector, encompassing industries such as tourism, services, telecommunications, and shipping (Karamessini, 2014, p. 98–99). Greece experienced consecutive years of accelerated GDP growth, notably since 1996, that was attributed to macroeconomic adjustments and the implementation of structural reforms. According to De Haan and Parlevtiet (2018), structural reforms encompass policy measures aimed at enhancing the functioning of labor and product markets, improving market competition, and strengthening economic resilience. These reforms target institutional frameworks, regulatory settings, and economic policies to increase productivity, reduce unemployment, and boost long-term growth. They also cover fiscal reforms, governance improvements, and institutional adjustments that support sustainable economic development.

The alignment with Eurozone policies facilitated fiscal consolidation, minimized inflation rates, and fostered open markets, thereby yielding substantial economic expansion. These reforms, though politically

demanding, were essential prerequisites to meet the stringent Maastricht criteria for accession into the Eurozone (Vamvakidis, 2003, p. 4–6). The advent of a stable macroeconomic environment laid the foundation for sustained long-term economic growth. The elimination of exchange rate risks, significant reductions in inflation, historically low government bond interest rates and increased accessibility to affordable loans for enterprises and households all contributed to this growth trajectory (Bank of Greece, 2013, p. 13–14). Additionally, this period witnessed the amelioration of several social issues, positioning Greece as a leader among EU countries in terms of convergence speed (Christodoulakis, 2006, p. 60).

Nevertheless, the credit expansion triggered by low interest rates drove up domestic demand and imports. The influx of capitals from European structural funds and the 2004 Olympic Games generated prolonged excessive demand. As observed by Paraskevopoulos (2017, p. 11), this period of high growth was funded by readily available cheap credit, contributing to a rising public deficit. This unsustainable economic model, characterized by inflated real wages and easy access to bank loans, fostered a deceptive perception of enduring prosperity (Baltas, 2013, p. 7). Greece's inability to enhance productivity and competitiveness stemmed from persisting issues such as inflation, high public debt, rampant tax evasion, and inadequate public administration, exacerbated by pervasive corruption undermining trust in the rule of law (Pagoulatos; Triantopoulos, 2009, p. 36). The excessive reliance on demand-driven growth and the failure to implement structural reforms led to substantial public sector recruitment. Additionally, increased taxes without a proportional rise in revenues and absorption of private corporate losses fueled a cycle of debt accumulation (Katsimi; Moutos, 2010, p. 9). The resulting current account deficits and reliance on external credit played a pivotal role in the design of the EAPs, which imposed severe restrictions on public spending. The Troika's response to these enduring structural issues, thoroughly explored in Section 3, included sweeping public sector reforms and institutional restructuring, aiming to reverse this trend, but triggered widespread social discontent.

The policy trajectory adopted post-Eurozone entrance failed to address crucial structural deficiencies, particularly in fiscal policy, deviating from necessary austerity measures critical for convergence with other Eurozone members and debt reduction (Bank of Greece, 2013, p. 20). Throughout the decade following Eurozone entrance, Greece pursued policies marked by a lack of requisite structural reforms. Escalating wages and public expenditure further derailed the economy, perpetuating an output gap (Arghyrou, 2015, p. 6). This unchecked rise in public spending along with credit expansion left Greece vulnerable to the harsh conditionalities later imposed by the EAPs, as examined in Section 3. Prior to GFC of 2008, Greece displayed indicators of macroeconomic imbalances and competitive weaknesses. Worsening fiscal and current account deficits, increased government spending, rising debt-to-GDP ratios, and declining competitiveness set the stage for an impending crisis (Provopoulos, 2013, p. 4–5). Moreover, systemic tax evasion, particularly among firms and self-employed individuals, exacerbated by selective tax

privileges, diminished state revenues and strained the sustainability of Greece's pension system (Karamessini, 2014, p. 105). In the mid-2000s, Greece's fiscal situation deteriorated further with relaxed fiscal policies, particularly from 2007 to 2009, that led to substantial increases in government expenditures, budget deficits, and a subsequent surge in public debt, exacerbating the country's economic woes (Papadogiannis, 2015, p. 141).

Furthermore, the GEC was deeply intertwined with domestic political failures, marked by delayed and half-hearted implementation of necessary public policy reforms. Political uncertainty, driven by governance instability and confrontational policymaking, intensified Greece's economic downturn. Section 3 elaborates on how these political dynamics influenced the implementation and outcomes of the Economic Adjustment Programs, intensifying the crisis rather than resolving it. Successive governments struggled with tax evasion, inefficient public administration, and resistance to structural reforms due to entrenched clientelistic practices and union opposition (Tsarouhas, 2012, p. 84). Furthermore, political mismanagement in critical moments, such as the 2015 confrontational strategy with EU lenders, exacerbated fiscal instability and led to heightened market uncertainty (Hardouvelis, Gikas *et al.*, 2024, p. 1202). Over the past decade since the outburst of the GEC, there has been a noticeable decline in political governance indicators. Despite the adoption of new institutional frameworks through the MoUs, the country's political and institutional governance has continued to deteriorate, underscoring a broader failure to address the political conditions that influence overall quality of life and societal well-being (Maris; Sklias; Maravegias, 2022, p. 16).

However, Greece's fiscal and structural challenges must be understood within the broader context of the PIIGS crisis, which included Portugal, Ireland, Italy, Greece, and Spain. These countries faced severe economic difficulties following the GFC, suffering a sudden stop in credit financing and facing the prospect of debt-defaults (Christodoulakis, 2019, p. 2). Strong financial interlinkages between US and European banks allowed the crisis to spill over into Europe, exposing fiscal and institutional weaknesses in peripheral Eurozone economies. The PIIGS' economies experienced major structural vulnerabilities due to unsustainable capital inflows, which fueled consumption booms and asset bubbles, leaving them exposed when the crisis struck. As the crisis intensified, the Eurozone's fixed exchange rate system constrained their ability to adjust through currency devaluation, making fiscal adjustment the only available policy response (Frieden; Walter, 2017, p. 378). Among the PIIGS countries, Greece emerged as the most vulnerable due to its high public debt, persistent budget deficits, and politically unstable environment. As global financial markets reacted, Greece's debt quickly spiraled out of control, intensifying the sovereign debt crisis within the Eurozone (Sapir *et al.*, 2014, p. 23).

Amid these escalating challenges, the GFC of 2008, originating from the U.S. subprime mortgage crisis, abruptly disrupted the economic and financial landscape. This global upheaval resulted in a drastic

contraction of internal gross demand and plummeting prices, leading to stagnating GDP and economic activity. GFC had far-reaching implications, significantly impacting the European periphery countries, triggering what was termed the most severe financial crisis since World War II (Paraskevopoulos, 2017, p. 1). Countries in the European periphery, Greece prominently, grappled with the aftermath of the "Great Recession" witnessing a collapse in housing and asset prices, coupled with mounting debts. This dire scenario, culminating in a substantial rise in the debt-to--GDP ratio due to a sharp decline in the denominator, heralded a profound economic downturn, posing a grave threat to the European common currency structure (Frieden; Walter, 2017, p. 376).

By January 2009, amidst the 10th anniversary celebrations of the common currency, European leaders lauded the euro's role in stabilizing the global economic crisis (Copelovitch; Frieden; Walter, 2016, p. 814). However, this optimism overlooked the looming crises within the Eurozone. By the end of 2009, Greece economy public debt had soared to €301 billion, reaching 126.87% of GDP, a significant escalation from €181.5 billion, constituting 101.5% of GDP in 2003 (Eurostat, 2020). The ballooning deficits and diminishing GDP growth underscored a trajectory toward financial instability (Lyrintzis, 2011, p. 9; Pagoulatos, 2016, p. 62). The newly elected Greek government disclosed a staggering threefold upward revision of the fiscal deficit figures previously announced. The revised deficit for 2009 stood at €36 billion, constituting 15.2% of GDP, a stark contrast to the earlier forecast of €14.36 billion, representing 6% of GDP (Pagoulatos, 2018, p. 6). This unforeseen revelation of an enormous deficit not only shocked global economic and political spheres but also triggered a debate regarding the manipulation of statistical data, eroding international market confidence. Greece, already burdened by high public debt, faced soaring borrowing costs as bond yield spreads widened alarmingly against German counterparts(Mavroudeas, 2017, p. 28). These persistent fiscal deficits and rising public debt later became central targets of the Troika's austerity-driven EAPs, as discussed in Section 3.

The global financial turbulence following the 2008 crisis, heightened market aversion to risk and magnified scrutiny of the Greek economy, laying bare chronic imbalances and deficiencies. Notably, fiscal imbalances in the form of a burgeoning fiscal deficit and escalating public debt, alongside current account imbalances that deteriorated international competitiveness, became conspicuous (Karamouzis; Anastasatos, 2019, p. 13–14). Greek economy found itself in a state of "twin deficits", signifying simultaneous deficits in both the fiscal budget balance sheet and the current account balance. Public debt soared to 127% of the GDP, while private debt exhibited a consistent upward trajectory (Tsakloglou *et al.*, 2016, p. 20). Ultimately all the above culminated in the eruption of the most severe economic crisis in modern Greek history.

3 THE ECONOMIC ADJUSTMENT PERIOD (2010-2018)

The year 2009 witnessed significant fiscal challenges in Greece, characterized by a staggering deficit of 15.1% of GDP and public debt

reaching 127% of GDP (Eurostat, 2020). Notably, for the first time in fifteen years of growth (1994-2008), Greece experienced a GDP contraction of 3.2% in 2009, despite substantial fiscal expansion. Public expenditures surged from 47.87% of GDP in 2003 to 54.82% in 2009 (Papadogiannis, 2015, p. 40). These events translated into deteriorating creditworthiness and a significant widening of bond spreads between Greek and German bonds signaling a markedly negative international evaluation of the Greek economy, with an impending collapse (Katsikas, 2012, p. 7). With the newly elected government (PASOK) taking office in 2009 and revealing the revised fiscal deficit, the Greek economy faced unprecedented market turmoil. International financial markets lost confidence in Greece's creditworthiness, initiating a downward spiral (Mavroudeas, 2017, p. 28). By April 2009, Greece was unable to secure international funding without facing exorbitant interest rates (Pagoulatos, 2018, p. 6). On April 27, Standard and Poor downgraded Greece's credit rating to junk status, triggering a rapid escalation in yields between Greek and German bonds, hitting 1,000 basis points from the previous 200 within three months, marking the initial phase of the crisis (Matsaganis, 2013, p. 4). Subsequently, Greece was aided from the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF), namely the "Troika".

3.1. The First Economic Adjustment Program (2010-2012)

The first bailout program attached within a Memorandum of Understanding (MoU) and executed through an EAP, totaling €110 billion, was signed between Greece and other EMU countries for €80 billion and with the IMF for €30 billion over three years. The primary aim was to enable Greece to regain access to financial markets at affordable interest rates after the program's conclusion (Ardagna; Caselli, 2014, p. 294). The loans from the Troika imposed policy conditionalities on Greece to rebalance its macroeconomic and financial aggregates by reforming its economy towards stability (Hardouvelis; Gkionis, 2016, p. 6). However, the parliamentary vote on the agreement sparked massive demonstrations, dividing the Greek society into factions either in favor or against the MoU (Matsaganis, 2013, p. 5). The parliament's vote on the bailout agreement caused internal divisions within parties, resulting in expulsions and reshaping of parliamentary groups (Gemenezis; Nezi, 2015, p. 9).

The first EAP aimed to restore confidence, secure macroeconomic stability, and enhance Greece's competitiveness through necessary reforms. Fiscal consolidation, financial stability and internal devaluation were primary objectives to attain a budget surplus and address debt dynamics (Catsambas, 2016, p. 62; Karamessini, 2014, p. 108). Achieving internal devaluation means reducing a country's production costs, mainly through wage cuts, labor market reforms, and fiscal austerity, to boost competitiveness without adjusting its currency value. This approach was used in the case of Greece, because currency devaluation is not possible, as the country is a member of the Eurozone (Stockhammer; Sotiropoulos,

2012). The EAP included fiscal adjustment measures in order to reduce deficit well below 3% of GDP and put the debt on a downward path ii) incomes and social security policies with measures to improve competitiveness iii) financial sector policies to maintain stability of the banking system iv) structural reforms to modernize the public sector and create a friendly environment for investors (Greek Government Law Gazette, 2010).

Instead of the forecasted improvements, the initial two-year implementation of the neoliberal policies of the EAP led to an unprecedented economic downturn. The country's GDP plummeted by 21.5% from 2009 to 2012, exacerbating fiscal deficit and public debt to GDP ratios. The steep decline in demand triggered a cycle of rising unemployment, widening current account deficits, and persistent inflation (Mavroudeas, 2017, p. 29–30). The stringent fiscal measures induced a drop in real GDP by 14.1% during 2009-2011, alongside a significant spike in unemployment, peaking at almost 18% in 2011 (Hardouvelis; Gkionis, 2016, p. 6). This unleashed widespread public outrage, manifesting in large-scale protests, leading to an unusual polarization of the Greek populace along pro and anti-memorandum lines rather than traditional right and left affiliations (Matsaganis, 2013, p. 4–5). Despite implementing reforms outlined in the MoU, the program failed to meet expectations, necessitating modifications and additional funding. The steep GDP decline derailed the program from its targets, leading to a deepening recession, 6.9% GDP fall in 2011, 17.7% unemployment, and public debt surging to 155% against program projections (Katsikas, 2012, p. 9–10).

In October 2011, Greek Prime Minister (PM) George Papandreou attended an EU summit that agreed upon a 50% debt reduction via a voluntary debt restructuring program and a new loan of €130 billion. However, reactions against this agreement created new uncertainties. Papandreou's decision to call for a referendum to navigate the complex agreement exacerbated the economic climate (Papakonstantinou, 2016, p. 303). The call for a referendum triggered rapid political developments. Greek PM was pressed to retract his decision, leading to the government's resignation and the formation of a new coalition government in November 2011, led by Lukas Papademos, a former vice-president of the ECB, tasked with implementing decisions from the EU summit (Gemenis; Nezi, 2015, p. 14).

At the end of the first EAP, only €52.9 billion out of the agreed €80 billion had been disbursed due to the replacement of the program by the second EAP.

3.2. The second Economic Adjustment Program (2012-2014)

In the May 2012 election, supporting the adjustment programs took the form of meaning the backing to the Eurozone presence of Greece, while rejecting the EAPs posed a challenge to that membership (Katsanidou; Otjies, 2016, p. 263). The main opposition conservative party of ND emerged victorious but fell short of a complete parliamentary majority. Concurrently, SYRIZA, the anti-austerity left party, ascended as the largest opposition force in Parliament (Liakos; Kouki, 2014, p. 52).

Antonis Samaras, leader of ND assumed the role of PM, forming, a new coalition government between ND, PASOK, and DIMAR (Democratic Left) a smaller left-wing party, approving the second EAP. Despite this unprecedented coalition, achieving broad political and social unity remained an ongoing challenge in the recent political landscape of Greece (Featherstone, 2016, pp. 3–4).

Amid prolonged negotiations, the new transitional government signed this second MoU, which included an additional loan of €130 billion from the European Financial Stability Facility (EFSF) and the IMF. This program also encompassed the Private Sector Involvement (PSI), entailing a debt restructuring plan and extensive recapitalization of Greek banks. As part of the PSI, holders of Greek government bonds accepted a 50% nominal cut in bond value in exchange for new bonds with adjusted terms (Arghyrou, 2015, p. 7). The restructuring of Greek government bonds during the PSI resulted in a substantial reduction in the Net Present Value (NPV) of these bonds, averaging around 21%. This restructuring aimed to reduce Greek debt to 120% of GDP by 2020, involving a nominal bond value discount of 53.5%. Ultimately, this exchange, involving bonds amounting to €199 billion, was completed by April 25, 2012, with 96.9% participation among private sector investors (Bank of Greece, 2012, p. 12). Despite achieving a substantial debt reduction of over 50% of Greek GDP in 2012, criticism emerged regarding the PSI's limited effectiveness due to its voluntary nature and the smaller scale of the process (Zettelmeyer; Trebesch; Gulati, 2013, p. 2). The debt restructuring negatively impacted Greek domestic bond investors, leading to substantial losses, particularly affecting Greek banks. Consequently, a considerable portion of the second bailout funds was directed towards recapitalizing the banking system (Tsoukis *et al.*, 2017, p. 16). Besides, the outcomes were deemed unsatisfactory as they led to a transfer of debt from private to official hands, causing bankruptcy for banks and welfare funds that required additional state support (Mavroudeas, 2017, p. 39). The PSI also had broader repercussions, such as the loss of confidence in the Greek financial sector and subsequent challenges in accessing ECB funding (Alcidi; Capolongo; Gros, 2020, p. 40).

The second EAP, enacted in February 2012, introduced more severe conditionalities than its predecessor, totaling an additional €164.5 billion in loans. A substantial portion of this funding, €50 billion, was allocated to recapitalize the Greek banking system, which suffered substantial losses due to the PSI (Frangakis, 2017, p. 58). The main objectives of this second MoU were to ameliorate the competitiveness gap of the Greek economy, to enhance growth and employment, to ensure fiscal soundness, to secure financial stability and to provide a fair distribution of the adjustment cost. The government committed to achieve a general government primary surplus of 4½ percent of GDP by 2014 by implementing a series of reforms (Marangos *et al.*, 2024, p. 67).

mid-term fiscal strategy framework was introduced in October 2012, followed by commitments to reduce Greek debt levels to sustainable, supported by extending loan maturities and reducing interest rates (European Counsil, 2012). Although by 2014, Greece recorded positive

but sluggish economic growth rates for the first time in five years, still, the prolonged economic recession had deeply affected domestic demand and caused substantial drops in GDP and employment. The neoliberal policies and austerity measures, combined with a deflationary economic policy, created a cycle of contraction that strained the economy further (Karamessini, 2014, p. 119–120). Critics emphasized the Troika's underestimation of the recession's impact and its persistent focus on austerity, which exacerbated the economic downturn (Pigasse, 2015, p. 33–34). Moreover, societal turbulence ensued, with opposition parties inciting public resistance against government measures, reflecting a significant shift in Greek political dynamics (Papadogiannis, 2015, p. 203–204).

3.3. The third Economic Adjustment Program (2015-2018)

Before the January 2015 elections, the Greek populace had endured five years of deep austerity and recession, with national income plummeting by 26% from 2008 to 2014. This discontentment against the established political entities elevated anti-memorandum parties amid the crisis (Varvitsioti; Dendrinou, 2019, p. 31). After five years of non-performing austerity strategies the Greek population instigated a change in the political landscape (Shin, 2017, p. 166).In January 2015, SYRIZA, a left party, in collaboration with ANEL, an anti-memorandum party of the right, came in governance.

As the Greek government engaged in a months-long debt-relief strategy, aiming to pressure lenders into sustaining financial support, it faced mounting pressure from EC officials to commit to agreed-upon reforms to maintain aid. Ultimately, Greece defaulted on an IMF loan installment in July 2015, a move considered unacceptable for a developed country (Catsambas, 2016, p. 66). With the looming end of the extension of the Greek program, negotiations faltered, and Greece faced financial strain. The state treasuries depleted, compelling the government to resort to unconventional measures to meet financial obligations (Nelson, 2017, p. 6). As the four-month extension of the bailout program neared its end, Eurozone members offered a further extension without additional funds. Rejecting the offer, the Greek government called for a referendum on the proposed program, intensifying bank deposit outflows and necessitating capital control measures (Tsakloglou *et al.*, 2016). The government advocated for a "No" vote in the referendum, which prevailed with 61.3% support. However, this "victory" led to a more burdensome agreement signed by Greek government, marked by societal division and financial turmoil (Featherstone, 2016, p. 8). Eventually, SYRIZA and ANEL government coalition abandoned its anti-memorandum agenda and embraced policies aligned with the third EAP of €86 billion (Marangos; Triarchi; Antrhakidis, 2020, p. 16).

The third EAP's intended effects, focusing on macroeconomic stabilization, fiscal sustainability, financial stability and growth, led to significant social and welfare state challenges, increased pressure on incomes, and led to declining investments and heightened poverty rates (Hazakis, 2018, p. 202). The final MoU closely resembled its predecessors in terms

of internal rationale and content, also allocating substantial funds for bank recapitalization. However, the agreement entailed measures surpassing those proposed before the referendum, setting a target of a 3.5% GDP primary surplus and introducing a €50 billion fund as collateral (Papakonstantinou, 2016, p. 384).

By the end of 2015 the Greek GDP had decreased by 0.4%. The crisis extended into 2016, when GDP fell by 0.2%. However, starting from the third quarter of 2016, the Greek economy returned to a growth path. However, this growth was weak, not reaching 2% per year and did not overtake growth in the Eurozone until 2019 (Revuelta, 2021, p. 5). The third program's ambitious targets for structural reforms faced challenges as political economy factors significantly influenced its pace of implementation. High levels of private and public debt, coupled with many non-performing loans, continue to hinder economic growth. Greece's taxpaying capacity has been exhausted, with minimal revenue impact from increased taxation (Hazakis, 2018, p. 201).

4 THE POLITICAL ECONOMY LESSONS

Solely attributing the root causes of the GEC to macroeconomic instability and the GFC would be insufficient for a comprehensive analysis. Political economy factors, including an immature domestic political system and institutional underdevelopment, played pivotal roles. In any case, to our research, the political economy design and implication of the EAPs accelerated the neoliberal restructuring of the Greek economy.

The macroeconomic and political conditions of the country were compounded by the neoliberal strategy of the MoUs, leaving little space for moderate reform adjustments. As addressed in Clifton et al (2018), the policies imposed by the Troika were "brutal, intrusive and long-lasting" due to a disconnect between the strategies outlined in the EAPs and the national political economy and ideological structure of the country. The Troika aimed to enforce its "ideologically-motivated" harsh measures to mitigate market volatility and align the Greek economy with the political and economic standards of the broader Eurozone (Clifton; Diaz-Fuentes; Gomez, 2018). Within this context, certain policies of the EAPs reflected a rigid and uncompromising ideological stance, appearing to lack substantial rationale.

Though, the institutional adjustments embodied in the EAPs failed to guide the Greek economy towards the desired recovery. As shown by the deterioration of macroeconomic variables (refer to table 1) and the World Bank Governance Indicators, Greece has faced the most severe consequences of the crisis (Christodoulakis, 2019, p. 27). Hence, the failure of the Troika to account for the initial conditions of the country when estimating the government fiscal multiplier resulted in a sharper and larger-than-expected decline in GDP. The macroeconomic overview in table 1 indicates a GDP contraction of -4.3% in 2009 and -5.5% in 2010, reinforcing how underestimated fiscal multipliers led to deeper-than-expected recession. IMF economists Blanchard and Leigh (2013), highlighted that "fiscal multipliers were, on average, underestimated for both sides

of the fiscal balance, with a slightly larger degree of underestimation associated with changes in government spending" (Blanchard and Leigh, 2013, p. 3). This was exacerbated by flawed design of the EAPs, which disregarded the actual economic circumstances of Greece (Petrakos, 2014, p. 12, 21). The measures introduced concerned comprehensive and fundamental alterations in the collective bargaining procedure and the labor market institutions unsettling the established tradition of social dialogue (Koukiadaki; Kokkinou, 2016, p. 195). As Fragakis mentioned since 2015 the Troika's emphasis on austerity, deregulation, and privatization in Greece could ultimately reduce aggregate demand, affecting consumption, investment, output, and employment (Frangakis, 2015, p. 298). Finally, this happened. Even if IMF principles shaping the formulation of conditionalities encompass several key elements: the principle of national ownership over the adjustment programs, prudence in decision-making, transparency in outlining program conditions, customization tailored to the unique circumstances of each country, and efficient coordination with other relevant organizations (Krokow-Fritz; Ramlogan, 2016, p. 25). In the case of Greece, these principles were not always followed.

Searching the lessons derived from the EAPs' design and implication, we firstly could argue for the ideological parameter. The core framework of the Troika's conditionalities is firmly rooted in neoliberal ideology. In this manner, the Washington Consensus (WC), as outlined by Moosa (2021, pp. 2–3), refers to a set of ten economic policy recommendations aimed at promoting market-oriented reforms. These measures include fiscal discipline, tax reform, trade liberalization, privatization of state-owned enterprises, deregulation, and securing property rights. In the context of the GEC, these principles -adjusted for an economy with strong idiosyncrasies- influenced the EAPs, emphasizing austerity, structural reforms, and market liberalization to stabilize the economy and boost competitiveness (Marangos, 2021, p. 400). Alongside, the EU, as outlined in the Maastricht Treaty, institutionalized the neoliberal paradigm in accordance with the principles of the WC. This integration involved the incorporation of fiscal constraints and the enforcement of austerity policies (Fontana; Sau, 2023, p. 7; Hein; Paternesi; Tridico, 2019, p. 28; Monteverdi, 2017, p. 8). The European Commission (EC) functions as the executive arm of the EU and is entrusted with the role of overseeing countries' adherence to EU law, effectively serving as the "guardian of the European Treaty" (Borzel, 2003, p. 1, 29). Established in 1998, the ECB serves as the second member of the Troika, acting as the central bank for the 19 Eurozone countries. Its primary mandate revolves around ensuring price stability within the Eurozone, following also the same neoliberal logic (Scheller, 2004, p. 28). The third member of the Troika, the IMF, is the emblematic international organization that applies the neoliberal agenda in a global scale (Visvizi, 2012, p. 30).

Troika's policies, throughout the three consecutive EAPs, reflect the neoliberal approach, resembling the traditional Structural Adjustment Programs (SAPs) endorsed by the IMF (Behrend, 2015, p. 40–41; Greer, 2014, p. 75). The agenda of SAPs was originally conceived to address critical issues in Latin America, but latter has evolved into

a globally embraced framework by scholars and policymakers alike, serving as a comprehensive blueprint for development (Gore, 2000, p. 790). In cases where a nation encounters financial challenges and seeks aid from the IMF, the distribution of funds is organized into installments, contingent upon meeting specific policy conditions. The recipient country must implement specified policies and meet predetermined targets to access IMF assistance. These conditionalities are put in place to ensure prompt repayment of funds to the IMF and allow member nations to address the root causes of their economic challenges (Bird; Willett, 2004, p. 426; Joyce, 2003, p. 3). To be more specific, the IMF's involvement in the Troika bolstered austerity measures within the Greek bailout program, echoing its traditional policy conditionalities of layoffs, wage reductions, and pension cuts, following a similar logic observed in typical SAPs (Greer, 2014, p. 60; Karger, 2014, p. 37–45). The conditionalities enforced by the Troika in Greece mandated liberalization, privatization, deregulation, and strict austerity measures with tight fiscal policies, mirroring the structural SAPs of the IMF. The economic theory underpinning the imposed conditionalities on Greece, as manifested through the EAPs, is grounded in neoliberal principles, reflecting to a large extent the standard agenda of the WC (Behrend, 2015, p. 26).

The second lesson is that the Troika's imposition of neoliberal economic policies on Greece was influenced by the concept of "expansionary austerity", a neoliberal theory which advocates for fiscal consolidation alongside market deregulation as a means of addressing fiscal deficits and public debt over the medium to long term (Tsoukis *et al.*, 2017, p. 375). This approach highlights the need to boost economic growth by encouraging higher levels of private consumption while simultaneously restraining public spending. The main objective is to achieve internal devaluation, which involves reducing domestic costs and prices, thereby enhancing the economy's competitiveness internationally (Botta, 2016, p. 4; Fontana; Sau, 2023, p. 4; Papadimitriou; Nikiforos; Zezza, 2013, p. 3). As shown in Table 1, unemployment soared from 9.6% in 2009 to 27.5% in 2013, reflecting the social costs of austerity-driven policies aimed at internal devaluation.

A third lesson is that neoliberals interpret the fiscal crisis as stemming from a balance of payments crisis, primarily due to a loss of competitiveness. Therefore, neoliberal recommendations for Greece to navigate the crisis entail fiscal discipline, austerity measures, and adherence to the Stability and Growth Pact (SGP) and Maastricht criteria (Caldentey; Vernengo, 2012, p. 19). The SGP is a fiscal framework designed to ensure sound public finances and fiscal discipline within the EMU. It sets limits on government budget deficits (a maximum of 3% of GDP) and public debt (a maximum of 60% of GDP), enforced through preventive measures and corrective actions under the Excessive Deficit Procedure (EDP), which is a corrective mechanism triggered when these fiscal thresholds are exceeded (Angerer, 2022). The prolonged socio-economic crisis in Greece, spanning over a decade, has greatly eroded the credibility of the prevailing neoliberal economic theory underpinning

the EAPs. The GEC, coupled with the imposition of the austerity measures, led to a deterioration in the living conditions of the Greek populace and had significant repercussions on the labor market (Karamanis; Beneki; Ioakimidis, 2018, p. 103). Greece, as a peripheral European country, struggled with stagnant domestic demand and turned to internal devaluation as a means to improve competitiveness and spur recovery. This underscored wider gaps between core and non-core Eurozone nations (Caldentey; Vernengo, 2012, p. 19).

The neoliberal approach adopted by the Troika can be characterized as a "shock therapy" or "big bang" strategy, aimed at rapidly implementing a comprehensive reform agenda (Anthrakidis, 2024, p. 133; Karamessini, 2015, p. 109). This calls for the forth lesson. The IMF embraced the belief that the "faster the better", indicating that a quicker pace in implementing reforms could result in a more significant adjustment (Berg *et al.*, 1999, p. 54). However, Table 1 clearly illustrates the severe contraction that followed these rapid reforms. Between 2009 and 2012, Greece's real GDP plummeted by over 20% and until the end of the EAPs in 2018, it fell cumulatively by over 25%. Also, for the same time reference (2009-2012) unemployment surged from 9.6% to 24.4% while it peaked at 27.5% in 2013 and remained above 19% through 2018, and public debt soared from 126.7% to 190.7% of GDP in 2018. On the one hand, the rapid fiscal consolidation, due to the underestimated fiscal multiplier, led to a significant reduction in aggregate demand and income (Skalkos, 2018, p. 175, 180). On the other hand, the Troika's intense pressure on Greek officials to rapidly implement reforms resulted in adverse outcomes, diminishing political ownership of the programs. Instead of building momentum for reform, international lenders enforced severe austerity measures through unclear procedures, rapidly depleting the domestic political system's capital (Featherstone, 2015, p. 18; Spanou, 2015, p. 51).

A fifth lesson can be seen in the neoliberal agenda of "one-size-fits-all" strategy (Gkasis, 2018). The neoliberal policies imposed by the Troika in Greece aimed at implementing the WC reforms agenda, taking a "one-size-fits-all" approach (Marangos, 2022a, p. 12). In this context, the Troika's detailed policy directives primarily focused on quantitative fiscal targets and "horizontal measures" leaving little space for qualitative reforms and diminishing national ownership of the programs. This approach made the programs less socially and politically accepted (Spanou, 2015, p. 49). Instead of granting political ownership of reforms to the Greek government, the Troika micromanaged the process, undermining Greek sovereignty and democratic processes in a manner perceived as humiliating (Kotios; Roukanas, 2013, p. 101; Tsoukis *et al.*, 2017, p. 26). Now, it seems as a common space that the EAPs were externally imposed and lacked social dialogue and consultation with social partners. The macroeconomic data in Table 1 illustrates how Greece's structural weaknesses and socio-economic dynamics were overlooked by the standardized policy approach. For instance, the fiscal deficit remained alarmingly high at -15.2% of GDP in 2009, despite severe austerity measures. Additionally, the

soaring public debt, climbing from 107.1% of GDP in 2001 to 190.7% in 2018, reveals how debt sustainability targets were persistently missed under the uniform austerity framework. Unemployment, which surged from 9.6% in 2009 to a peak of 27.5% in 2013, underscores the socio-economic damage caused by rigid labor market deregulations. These trends reflect how the uniform fiscal targets failed to account for Greece's economic and political realities, undermining the program's effectiveness leading to "growthless employment" (Missos; Rodousakis; Soklis, 2022, p. 313).

5 INSTEAD OF A CONCLUSION

Initially driven by aspirations of integration for economic development, Greece Eurozone entrance in 2001 marked a transformative period characterized by robust growth. However, the unsustainable economic model, compounded by fiscal imbalances and structural deficiencies, led to a severe crisis aggravated by GFC in 2008. Subsequently, the GEC unfolded against a backdrop of political and economic turmoil, offering valuable insights into the interplay between neoliberal policies and the dynamics of a struggling democracy. The initial EAP (2010-2012) aimed to address fiscal imbalances through austerity, yet its neoliberal economic policies contributed to a severe economic downturn. The subsequent EAP (2012-2014) involved a substantial debt restructuring but failed to meet targets, deepening recession, and societal discontent. In the third EAP (2015-2018) despite stabilization efforts, the prolonged economic recession persisted, posing challenges to fiscal sustainability and social welfare. The GEC offers political economy lessons, unraveling the consequences of neoliberal policies. The EAPs imposed by the Troika exemplify the pitfalls of a rigid adherence to neoliberal principles. Despite their stated objectives of fiscal consolidation and economic stability, the EAPs resulted in internal devaluation and expansionary austerity. The Troika's strategies, rooted in the neoliberal agenda of the WC, reflected a disconnect between their imposed measures and the Greek political and economic reality. GEC had socio-economic repercussions, with GDP contracting by over 25%, a surge in unemployment, and a notable brain drain. The Troika's brutal, intrusive, and long-lasting measures not only failed to align with Greece's political economy but also showcased a flawed understanding of the country's initial conditions. The neoliberal framework, emphasizing fiscal consolidation and austerity, proved inflexible and unsuitable for addressing the challenges in a Eurozone member state economy. The absence of social dialogue and consultation with social partners diminished the political ownership of reforms, eroding democratic legitimacy. Perhaps, the key lessons learned underscore the importance of tailoring economic measures to a country's specific conditions, the fostering of social dialogue, and the preserving of democratic processes within the European heritage. Ultimately, the Greek experience highlights the need for challenging the "one-size-fits-all" mentality inherent in rigid adherence of the worldwide neoliberal policies

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