

The Greek Debt Crisis: Continuing Challenges

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Nearly seven years after receiving its first financial rescue package, the Greek government continues to grapple with a serious debt crisis. Most economists believe that Greece's public debt, more than 180% of Greek gross domestic product (GDP), is unsustainable. The ramifications of the debt have been felt throughout the Greek economy, which contracted by more than 25% from its pre-crisis level. Nearly a quarter of Greeks are unemployed.

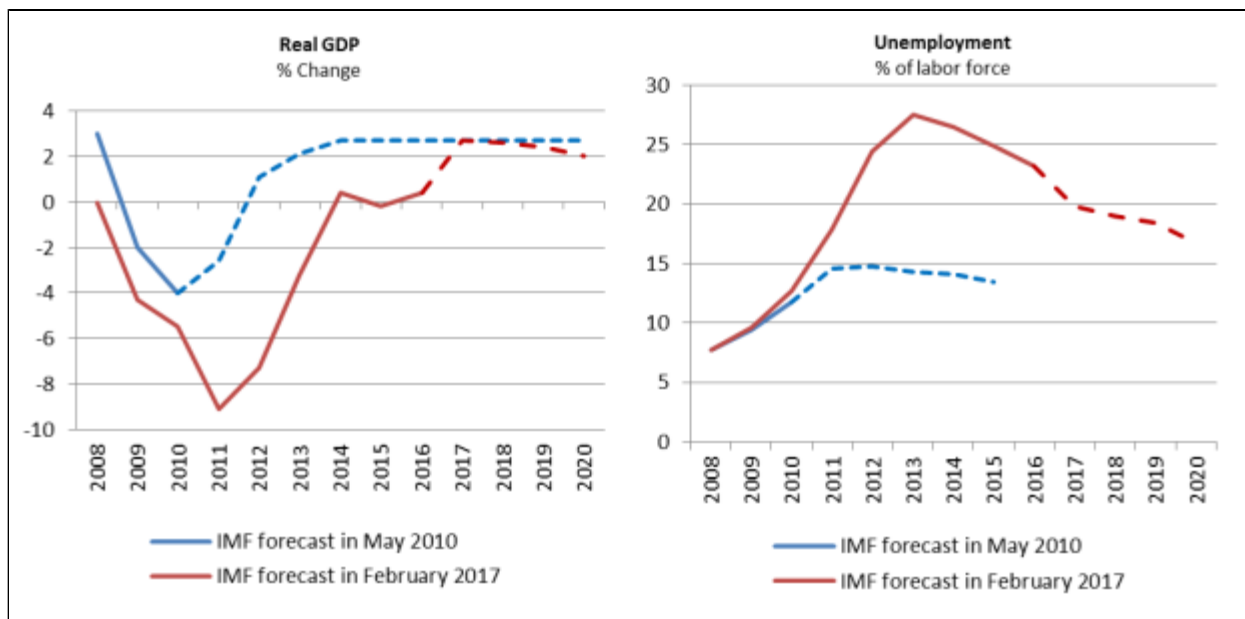
In the [immediate term](#), attention is focused on whether the Greek government will be able to make €6.3 billion (about \$6.7 billion) in debt payments falling due in July. The Greek government, European creditors, and the International Monetary Fund (IMF) are in negotiations to unlock disbursements of financial assistance to the Greek government that would allow it to make the July repayments. If an agreement cannot be reached, Greece may [again default](#) on its debt.

In the longer term, questions are focused on how to put Greece's debt on a sustainable path, revive economic growth in Greece, and address structural problems in the architecture of the Eurozone.

Background

Greece has faced a serious debt crisis since 2009 (see CRS Report R44155, [The Greek Debt Crisis: Overview and Implications for the United States](#)). The crisis has been rooted in concerns about the sustainability of Greece's public finances and high debt levels. The crisis also had broader effects on Greece's economy, including a collapse in economic growth, high unemployment, and instability in the country's banking system ([Figure 1](#)).

Figure 1. Greece: GDP Growth and Unemployment



Source: International Monetary Fund.

The Greek government has received three financial assistance packages, funded by [European creditors](#) and the International Monetary Fund (IMF) in 2010 and 2012, and again by European creditors in 2015. Greece concluded the largest debt restructuring with private creditors in history in 2012, cut public spending significantly, and embarked on a host of policy reforms. The implementation of [structural reforms](#) (reforms that improve the competitiveness of the economy) has been uneven, but Greece achieved a substantial fiscal adjustment even as the economy contracted sharply. It shifted from a primary government budget deficit (the budget balance excluding debt payments) of 10% of GDP in 2009 to a primary surplus of 0.9% of GDP in 2016.

Greece is a member of the Eurozone, a group of 19 European Union (EU) countries that have adopted the euro as a common currency. The crisis in Greece has exposed problems with the institutional architecture of the Eurozone, whose member states share a common currency and monetary policy but retain national control over fiscal and banking policies. Some analysts have argued that the structure of the Eurozone created imbalances that contributed to the crisis and have made it more difficult for countries to respond to crises. At various points during the crisis, there were discussions about whether Greece should exit the Eurozone and adopt a national currency ("Grexit"), but ultimately Greece and fellow Eurozone members have remained committed to keeping the currency union intact.

Current Negotiations

In current negotiations over financial assistance to prevent a Greek default in July, a key issue is the role of the IMF. In the summer of 2015, the IMF declined to participate in the third financial assistance package for Greece funded by the European rescue fund (the European Stability Mechanism, ESM) due to concerns about Greece's debt sustainability and reform commitments. [European creditors, including Germany](#), want the IMF to be involved in the program, citing the IMF's expertise in responding to economic crises. The IMF left open the possibility of participating if Greece agreed to a comprehensive set of reforms and Eurozone governments agreed on substantial debt relief for Greece. Some expected the IMF to make a decision about Greece's third program by the end of 2016, but no decision has been taken to date. It is not clear whether some countries, including Germany and the Netherlands, will approve further ESM disbursements to Greece without an IMF "stamp of approval."

[The IMF recommends](#) specific reforms in Greece, particularly for pensions and taxes; a primary surplus of 1.5%; and debt relief for Greece from European creditors. [The IMF notes](#) that the Greek pension system has a record high deficit (10.5% of GDP, almost four times the Eurozone average), half of Greek wage earners are exempt from personal income tax, and unpaid taxes to the government amount to about 70% of GDP. [The IMF argues](#) that Greece does not require additional fiscal austerity and that a primary surplus of 1.5% of GDP remains appropriate, even as European partners are

pushing for a 3.5% primary surplus by 2018.

Even with additional reforms, the IMF does not believe that Greece's economy can or will grow out of its debt problem and that European partners need to provide substantial debt relief for Greece. European assistance to Greece is in the form of loans, and writing off any principal is widely viewed as a political non-starter in Europe. The IMF argues that debt relief could be achieved through extensions of maturity and grace periods and lower interest rates.

Issues for Congress

Europe is an important economic and political partner of the United States, and ramifications of the crisis in Greece have been a key issue for Congress over the past seven years. IMF involvement has been a particular source of congressional interest, given that the United States is the largest shareholder at the IMF, contributing 17.46% of the IMF's "core" (quota) resources. Concerns over IMF lending to Greece resulted in 2010 legislation requiring the U.S. Executive Director at the IMF to oppose loans to high- and middle-income countries with large public debt levels (greater than 100% of GDP) if it is "not likely" that they will repay the IMF ([P.L. 111-203](#)).

Some Members of Congress also expressed concerns about the IMF Board decision to [change IMF lending rules](#) to allow the Greek program to go forward, despite IMF staff concerns about the sustainability of Greek debt. In 2015, Congress passed legislation tying U.S. participation in a major IMF reform package to repeal of the change to IMF lending rules ([P.L. 114-113](#)). See CRS In Focus IF10134, [IMF Quota and Governance Reforms](#).

Current negotiations over the parameters of IMF involvement in Greece (if the IMF participates at all), in addition to the effects of the crisis on broader U.S. economic and political interests, are likely to be a source of continuing congressional debate. Treasury Secretary Steven Mnuchin [views](#) the Greek crisis as primarily a European issue, and is encouraging the IMF to hold a "hard line" on Greece. It is not clear how or under what terms European support for Greece would continue without the IMF, and whether "[Grexit](#)" would be revisited.