

# [In used to seek further economic growth,](https://assignbuster.com/in-used-to-seek-further-economic-growth/)

In 2001, Greece became the newest memberof the European Union. In the years leading up to the adoption, borrowing costsand interest rates began to drop substantially, as interest rates saw an 18%decrease on 10-year Greek bonds between 1993 (24. 5%) and 1999 (6. 5%).

Althoughthere were many strenuous measures Greece was required to reach in order toenter the European Union, such as complying with the rules set forth by theStability and Growth Pact. (Nelson, 2011) This entering this agreement, it” limited government deficits (3% of GDP) and public debt levels (60% of GDP). These limits were enforceable through fines of up to 0. 5% of GDP.

” (Nelson, 2011) With these limitations put in place, confidence from investors andcredits grew immensely as Greece began to get on the right track. (Nelson, 2011)At this point in time, the Greek economyheld a fairly positive outlook with 4. 13% GDP growth (WorldBank, 2016), andadopting the euro which led to abundant access to cheap capital, stimulated by flourishingcapital markets coupled with increased investor confidence. Although the issuesoon arose when the Greek government took advantage of the cheap credit, andborrowed excessive amounts of money to offset tax returns and excess importsfrom a horrific trade deficit. They spent no time in driving themselves intomore debt, and worst of all the capital inflow and borrowed money was not usedto seek further economic growth, as there was no attempt to investment orincrease competitiveness of the economy.

Greece was funding current consumptionwith zero streams of revenue to repay the debt they were incurring. This beginsthe start the most recent start of the country’s downfall, and further exhibitsa reoccurring issue in the Greek government. (Nelson, 2011)Greece’s reliance on borrowing frominternational capital markets started to gain attention from investors andcreditors as confidence began to drop dramatically resulting in a loss oflenders.  This only served as a catalyst inregard to the 2008 Financial Crisis, where public finances were exhausted andchatter of fabricated statistical data escalated Greece’s borrowing costs. (Nelson, 2011) According to the International Monetary Fund in 2011, public debt inGreece rose from 106% (2016) to 126% of GDP (2009). More issues began to ariseregarding the fabrication of statistical data, as Prime Minister GeorgePapandreou under-reported the budget deficit in 2009 on three occasions. Initially, he claimed it was at 6.

7%, then 12. 7% and finally to up to 15. 4% ofGDP all within 2009, nearly doubling the initial reporting. (Nelson, 2011)These allegations drove investor, creditor and moral confidence in the Greekgovernment essentially into the ground. Those who invested and loaned to theGreek economy grew nervous of the possibility they may default on their publicdebt, as it grew larger and larger. They began “ demanding for higher interestrates for buying and holding Greek bonds” (Nelson, 2011) and in do so, drove uptheir borrowing costs and debt levels only directed Greece close and closerinto default.

(Nelson, 2011)