Greek Pensions: Tsipras' Last Ditch Fight Versus Troika

Marcello Minenna 16 March 2016

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The Troika is in Athens and will not leave without deep cuts to pensions, even though the country is back in recession. Far from last summer's media glare, a renewed clash of powers is on course between the Troika and the Tsipras government that could severely impact upon the exhausted Greek economy. Among the controversial 48 points of August's "armistice" was the pension reform: the Troika requesting cuts of over €1.1 billion in 2016, to be obtained via a 6% increase in mandatory contributions from pensioners to the health system. *De facto* this measure could be a deadly shock for an economy where the total expenditure on pensions reaches 13.5% of GDP.

So it's not surprising that the Parliament has been stalled since October 2015 around different unviable hypotheses of cuts, trying meanwhile to unlock further tranches of financial aid from the ESM. In November attention focused on the recapitalization of the banking system; at least €15 billion of fresh capital was necessary to avert a looming *bail-in* of depositors, whose accounts were still blocked (it's worth remembering) by the capital controls imposed by the ECB in June 2015. This recapitalization has finally taken place: €5.3 billion of new market resources have been injected into the banking system, while *senior* and *junior* bondholders have been bailed in via a forced conversion into equity, enduring a loss of 60% of the invested capital. This maneuver has freed up a further €3.4 billion of capital. The ESM, after the apocalyptic projections of a €25 billion involvement made during the July psychodrama, has limited its intervention to €5 billion of contingent convertible instruments, in other terms a limited, cashless capital injection.

Up to now, the ESM has reluctantly thrown the battered Greek public finances € 16billion; predictably, they have already disappeared into a black hole formed by maturing debts and salary expenses. The financial emergency endured by the government has never abated and in February the Troika re-imposed its physical presence in Athens. The official reason is the first review of the ESM program but the Greek political establishment is perfectly aware that the Troika is there to enforce the pension cuts.

The stark fact is that the Greek pension system is tottering on a perilous cliff in terms of sustainability: at the end of 2015 over 50% of the financial inflows of pension funds were represented by direct government transfers (which in turn are funded by new debt), while the contribution of the employed is continuing to shrink steadily: from €24 to € 17billion in less than five years. It could be an argument it would be impolite to highlight in official EU circles, but it's incontestable that the destruction of the financial health of Hellenic pension funds can be entirely attributed to the sharp increase in the unemployment rate from 9% to 27% and to the reduction of the average annual salary from €13,330 to €10,300, all direct consequences of the two previous Troika programs of "aid".

The Greek pension system has undoubtedly been lavish and unbalanced towards users, but the Troika "cure" has undermined its sustainability despite a steep cut of up to €10billion in government spending between 2010 and 2015.

The uninterrupted payment of pensions has been one of the few factors that have averted a vertical collapse of the Greek economy in the wake of the third bailout. The system has found a precarious equilibrium at a lower level: after an aborted rebound in the 2nd quarter of 2015 (just before the acute phase of the crisis), Greece's GDP has relapsed into contraction mode, while deflation has never disappeared from the radar screens, with

prices falling uninterruptedly for 34 months out of 35.

Hence the economy of Greece is skating on wafer-thin ice and any “reform” that the Troika manages to snatch will worsen the situation. Probably the Troika will get what it wants. One can infer it simply by observing the changing attitude of the government in recent weeks, from the sharp rebuttal of IMF requests at the end of February (no more cuts!) to the concessions shown in the latest public declarations (possible cuts for pensions over €1300). On the debt side, the concessions granted to the Greek government have been very modest: the talks are centered around a simple freeze till 2022. Only after full implementation of the required reforms, a partial anchoring of the reimbursements to the performance of the GDP (the growth bonds in the initial Varoufakis proposal) may be on the table. But, with ongoing deflation, the size of this debt cannot help but balloon out of control.

In the meantime, the refugee crisis in Greece is also slowly spinning out of control, exerting a mounting pressure on public finances. The Troika has explicitly excluded any connection with its evaluation of the program: any easing of the requirements would be considered as an aid (even!). As was to be expected, the third aid program is retracing the sad path of the first two: wasting financial resources, depressing the real economy and worsening the debt problem to unprecedented depths.