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European Academy Berlin

# Greece and the EU in 2035

Scenario report on the first European Future Summit 2017 in the European Academy Berlin

Position as of: December 2017

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## Scenario overview

In view of the continuous crisis in Greece, this paper depicts the following three future scenarios of Greece and the EU, aiming to stimulate a productive dialogue on possible ways to overcome current and future challenges.

### Scenario 1 – Being strangled by the Gordian knot

#### ❖ Under what circumstances might Greece disintegrate as a nation-state?

As the major trend discussed in the first scenario, up to and including 2035, Greece is facing continuous economic, political and social disintegration. The country remains in a state of 'simmering' crisis, which is occasionally characterised by social unrest. Greece exits the eurozone and, by 2035, the country's disintegration culminates in the fall of a - by this stage - authoritarian regime. Hence Greece emerges as one of the losers of a failed European 'differentiated integration', as the country has been 'differentiated' out of Europe.

### Scenario 2 – Untying the Gordian knot

#### ❖ What might it take for Greece to gradually overcome the crisis?

The second scenario proposes the slow but steady overcoming of the Greek crisis. In 2035, Greece's economy is remarkably strong, Greek society shows a high degree of social integration and the country finds itself well integrated in a post-Brexit EU. This result is contingent upon profound reforms concerning the state and its institutions, Greek social systems, as well as economic policies, pressed for by the Greek people and a broadly-based reform coalition in parliament.

### Scenario 3 – Cutting the Gordian knot

#### ❖ What might it take for Greece to overcome the crisis soon?

The third scenario argues that the crisis is overcome comparably quickly. Up to 2035, Greece is challenged by substantial domestic and external shifts. Specifically, following establishment of the European Monetary Fund (EMF), partial restructuring of Greek debt becomes feasible. A centrist liberal reform coalition consolidates and embarks on reforms consistent with liberalisation of the economy. Greece rebuilds its image as a predictable and reliable EU member state and a key ally in stabilising the region of Southeast Europe.

## Background and acknowledgements

This short paper summarises key outcomes emerging from an expert workshop entitled “Greece and the EU in 2035”. The workshop took place in Berlin in June 2017, bringing together an interdisciplinary panel of experts from Greece and Germany, who kindly agreed to engage in an open and innovative debate on the future of Greece and the EU.

The workshop was part of the project entitled “European Future Summits 2017 – Social Cohesion and Transnational Security in Europe – A Scenario Workshop Series on the Future of Greece, Poland and Bulgaria”. The project was conducted by the European Academy Berlin, with the kind support of the Federal Foreign Office. The present workshop was realised in cooperation with the Friedrich Ebert Foundation, whose kind additional assistance allowed a number of Greek participants to attend the workshop in Berlin. We are indebted to all those mentioned above, to whom we wish to express our deepest gratitude.

## Objectives

The overarching aim of this paper is to incite a rich and productive debate on how the challenging situation in which Greece finds itself today can be overcome. Greece is thereby not seen as an isolated case. Instead, politics, economy and society in Greece are debated in the light of present and possible future developments in Europe.

To accomplish this purpose, the contributors of this paper engaged in a scenario exercise along the lines of the 'alternate futures' approach by Michael Oppenheimer.<sup>1</sup> As a result, the arguments presented here take the form of three alternate future scenarios or future narratives, indicating possible future pathways which Greece might follow. In short, each scenario proposes a distinct trend and discusses how this trend might play out in practice.

In outlining the three narratives, the paper does not present an exhaustive analysis, nor does it aim to make predictions on the most likely future of Greece and the EU. Instead, it aims towards plausible assumptions regarding possible future events and developments. By reading and comparing the three narratives and critically debating them further, new ideas and viewpoints on how to overcome current challenges in Greece and the EU are thus intended to emerge.

## Authorship

Crucially, as this document aims to give a voice to all workshop participants and further interlocutors involved in the process, developing it included the difficult task of giving room to varied and at times even diametrically opposing arguments and views. For these reasons, those individuals mentioned above have agreed to give their names and take responsibility for what is said here only to the extent that the paper documents a controversial debate to which they contributed. Hence, the paper reflects neither a common position nor the distinct viewpoint of one of the contributors and organisations mentioned. It is a record of a widely ramified and vivid discussion, presented here in the form of three future scenarios with the objective of igniting an even more thorough-going debate.

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<sup>1</sup> Michael F. Oppenheimer, *Pivotal Countries, Alternate Futures: Using Scenarios to Manage American Strategy*, Oxford University Press, 2016.

## General findings: Overcoming the crisis in Greece – and in the European Union

In terms of a common denominator, all three scenarios summarised below build upon recognition that Greece is experiencing an open-ended crisis, whereby the Gordian knot metaphor is used here to visualise the crisis and its complexity. By considering the crisis to be open-ended, this scenario exercise highlights that Greece might remain in a state of 'simmering' crisis over the entire timeframe considered in this paper, in other words, not mastering its challenges for the next 15 or more years. The first scenario considers such a negative course of history. The other two scenarios discuss alternative paths out of the crisis.

Furthermore, all three scenarios assume that Greece's future, however much it depends on impulses and actions coming from within Greece, is also contingent on political developments at European level. Hence, the three future narratives not only outline alternate paths for Greece's future, but also indicate different eventualities of European integration.

### Structure of the scenarios: Being strangled by, untying or cutting the Gordian knot?

Each scenario introduces a distinct overarching **trend** which it aims to elaborate in form of a **narrative**:

- **Scenario 1 – “Being strangled by the Gordian knot”** – proposes an accelerating downward spiralling of economic and political stability in Greece. It debates the question of under what circumstances Greece might disintegrate as a nation-state.
- **Scenario 2 – “Untying the Gordian knot”** – proposes a gradual overcoming of the crisis in Greece, i.e. step by step disentanglement of a complex historical situation towards an economically viable and politically sustainable situation. It engages with the question of what it might take to gradually overcome the crisis in Greece.
- **Scenario 3 – “Cutting the Gordian knot”** – also proposes that the crisis in Greece can be overcome. However, it does so with a twist, proposing that Greece can resolve many of its problems more quickly as compared to the scenario number two. Consequently it addresses the question of what it might take to overcome sooner rather than later the crisis in Greece.

Each scenario or future narrative thus depends on a set of individual **drivers**, i.e. “factors that are important in shaping the future of the country or issue”<sup>2</sup>, and the way in which these might interact. Drivers are by no means static. They can lead to different results, depending on how they manifest, play out and interact in the future.<sup>3</sup> It depends on the narrative and, hence, its authors, as to which drivers are put into focus and discussed in detail. The drivers are outlined below prior to each narrative.

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<sup>2</sup> Ibid., 119.

<sup>3</sup> Ibid.

## How to read and what to take from this report?

When diving into the text below, the following aspects come to the fore. As mentioned above, it has been concluded that **any developments in Greece are interdependent with activities at the European level**. A constructive solution to the crisis in Greece is contingent upon fruitful cooperation among European institutions, EU member states, as they are represented on the European level, and national governments. It thus demands a **future-oriented mutual dialogue, characterised by an inherent openness to new, innovative and sustainable policies** among all parties involved.

Furthermore, the Greek government, building on existing efforts, has to set out a **sustainable reform agenda, which has to be as determined as it has to be balanced**, including reforms to the economy, the social system (including the educational system) and public administration. Such a reform agenda must be based on **prudent cooperation among different political actors**, especially given that any parliamentary elections in Greece after that planned in 2019 will be based on simple proportional representation.

When turning to each scenario, in brief, the **first scenario** picks up on a number of general trends in Europe today, namely, **the rise of populist representatives and EU-sceptic parties, hand in hand with the trend towards a gradual fragmentation of the EU along multiple lines**. In this scenario, the concept of 'differentiated integration'<sup>4</sup> becomes a euphemism, as it indicates how the EU leaves Greece behind, i.e. Greece being 'differentiated out'. In the first scenario, this trend translates into **the emergence of an authoritarian and ultimately failed regime in Greece** – bringing the deepest concerns posed during the workshop debate to the fore. This path is indeed highly undesirable and was deemed rather unlikely during the debates surrounding it. It was nevertheless deemed plausible and worthwhile outlining by the workshop participants.

The **second scenario** contemplates a gradual Greek recovery. It in this way makes an urgent claim for a **balanced reform agenda**, which pre-supposes **increased cooperation between different political parties** (or movements) and all political views (from left to right). Moreover, as the third scenario also proposes, it operates under the assumption that European institutions agree to a partial **debt write-off**, significantly improving Greece's chances of regaining debt sustainability, continuous access to international capital markets and reasonable refinancing arrangements.

The **third scenario** makes a case for significant changes at European level. It considers that **the establishment of a European Monetary Fund (EMF)** might prove paramount in deepening fiscal solidarity within the EU, while concurrently creating incentives for the reform drive in Greece to pick up energy and credibility. Furthermore, this scenario concentrates on and thus argues in the clearest terms for **reforms to the Greek economy and liberalisation of Greek markets**, for example in energy, services and liberal professions. Moreover, it is the only scenario which considers the potential **regional impact of Greece in Southeast Europe, outlining the country's role as a crucial stabilising regional player**.

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<sup>4</sup> European Parliamentary Research Service. "Differentiated integration in the European Union." Authored by Aidan Christie and Giulio Sabbat. In: At a glance [online publication by the European Parliament] (February 2016). Download at: [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS\\_ATA\(2016\)573961](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_ATA(2016)573961) . Direct link to PDF: [http://www.europarl.europa.eu/RegData/etudes/ATAG/2016/573961/EPRS\\_ATA\(2016\)573961\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2016/573961/EPRS_ATA(2016)573961_EN.pdf). Last accessed: 10 September 2017.

## SCENARIO 1: BEING STRANGLERED BY THE GORDIAN KNOT

### Abstract:

As the major trend of this scenario, this scenario considers how Greece faces continuous economic, political and social disintegration up to and including 2035. The country remains in a state of 'simmering' crisis which is occasionally interrupted by social unrest. Greece exits the eurozone (in 2025) and by 2035, Greece's disintegration culminates in the fall of a (by this time) authoritarian regime, while the country's exit from the EU appears to be a possible development in the years to come. Hence, Greece emerges as the loser of a failed European 'differentiated integration'. Greece has been 'differentiated' out of the EU, also indicating breakdown of solidarity within an EU which has become highly technocratic and fragmented in nature.

### Drivers:

- **Structural transformation of the EU.** This scenario presupposes that up to 2035, EU-sceptic parties consolidate across EU member-states. These parties promote protectionism, focusing exclusively on national economic and political interests. In turn, the EU adopts a model of 'differentiated integration', turning the EU into a framework in which 'those who want more, do more', while other countries significantly reduce their commitment to joint initiatives and shared challenges. However, from the Greek point of view, this means that those who can, do more, while Greece falls behind, being 'differentiated out'. Greece experiences this exclusion, for example, when being left alone in dealing with the European refugee crisis.
- **International economic and fiscal policies.** This scenario assumes that the European Commission (EC), the European Central Bank (ECB), the International Monetary Fund (IMF) and the European Stability Mechanism (ESM) decide not to extend financial assistance for Greece, to deny the prospect of restructuring the Greek sovereign debt. The institutions do so in light of both Greece's apparent economic success (in 2018) and (later) the country's apparent reluctance to implement reforms (particularly privatisation commitments) effectively. Moreover, this development relates as well to an increasing lack of solidarity among EU member states.
- **Demographic developments.** Greek society witnesses a high influx of refugees and migrants. This not only creates a burden on the already strained welfare system in Greece, but also, and increasingly, results in changes in the social and cultural fabric of Greek society. The situation becomes even more difficult when Turkey, as this scenario assumes, to all intents and purposes denounces the 'refugee deal' as it is known. Concurrently, many well-educated young Greeks leave the country, seeking better job and life opportunities elsewhere in Europe and the US, while Greek society ages dramatically.
- **Reform drive in Greece.** The present scenario operates under the assumption of an overall imbalanced reform agenda in Greece, i.e. which puts emphasis either on the social system or on the economy, while neglecting to reform Greek public administration. Over the timeframe of this scenario, the latter creates a situation in which parts of the ruling elites, including influential politicians and key policy makers, seem incapable of improving the effectiveness and accountability of state actions. In the absence of suitable control mechanisms and structural change, the Greek state displays a significant degree of non-transparency and cronyism, undermining good reform strategies (such as with respect to economic policies and EU-sponsored investment plans), as this scenario sets out.

- **Populism.** Picking up on the general trend of upswing in populist political currents in Europe, this scenario considers populism becoming a significant political force in Greece. A populist political figure, as this scenario proposes, uses migratory flows in an instrumental manner on the Greek political scene, while also promoting the narrative that the EU is to blame for the continuing crisis in the country.

## Narrative:

### 2018-2019 – SYRIZA's fall

In summer 2018, Greece records continuous, if modest, GDP growth. Given this development, the EC, the ECB, the ESM and the IMF conclude that Greece's sovereign debt is sustainable. This results in ending international financial assistance for Greece, without a fourth MoU (Memorandum of Understanding) being established. Hence, the Greek government, headed by Prime Minister Alexis Tsipras and the SYRIZA party-alliance, has failed to negotiate substantial debt restructuring measures. Interest rates, however, are kept fairly low; Greece regains the opportunity to borrow money on international financial markets, with the aim of providing Greece with the opportunity to take back fiscal sovereignty for its future.

Crucial to this result is the general trend in Europe that many Europeans increasingly support EU-sceptic and nationalistic political parties, which promote protectionist political agendas, frequently including the demand to prevent any further financial support for other eurozone members. The decision by the European institutions to end financial assistance to Greece while keeping repayment claims intact, hence also caters to the interests of the constituents in many European countries, including many German voters.

However, Greek GDP growth does not include positive effects for the Greek real economy. While some big businesses thrive, trickle-down effects remain absent and the great majority of Greeks continue to live in dire social and economic circumstances. Small and medium-size enterprises (SMEs) remain barely profitable, wages remain low, unemployment stays high and non-performing loans on banks' balance sheets continue to grow. Concurrently, the educational system is overburdened as well as underfunded, and access to affordable health care dramatically declines for the majority of Greek citizens.

In consequence, when the national elections in 2019 draw closer, Tsipras and his party, as it appears to many, have caused even greater problems than Greece experienced before SYRIZA came to power in 2015. In the eyes of large segments of society, they have been unable to pressure international institutions to agree to a debt 'haircut', and they have been unable to implement effective economic reforms and investment strategies, while overburdening the Greek middle class with taxation in order to repay the country's sovereign debt.

### 2019-2025 – Rise and fall of the opposition

SYRIZA's increasing loss of support provides political leverage to its challengers. Against the background of the continued difficult economic and social situation in Greece, SYRIZA loses the 2019 general elections, while its liberal-conservative opponents can garner a small relative majority of parliamentary seats in a coalition government.

The new government concentrates on boosting the economy by innovative economic and investment strategies. Reforms focus on key areas for economic growth, such as tourism, energy and agriculture, while concurrently trying to create a genuinely business-friendly environment (for example, by reducing taxes, especially for SMEs, and unpopular taxation on property). The new economic strategy presupposes that

economic growth will spill over and yield positive effects for other sectors of society, including education and health, and that it will help settle disparities between urban and rural areas.

However, as it turns out in the years to come, the strategy does not produce the desired positive effects. While the economy shows first signs of growth, the reform programme in place turns out to be rather imbalanced, putting too little emphasis on policy fields such as education and health, welfare and pension systems as well as on integration of refugees. Other fields in which reforms move only slowly concern public administration and state-owned companies.

In consequence, despite the new government's initial successes and re-election in 2023, over the years until 2025, inequality remains high and the social system can hardly be improved – while Greece remains under obligation to repay its debt to international creditors.

As the situation worsens and – as it appears to the Greek people – no political alternative among the established parties can be found, the Greek people rally against the state and seek new political leadership. Eventually, a new charismatic leader<sup>5</sup> comes to power through snap elections in 2025.

### **2025-2030 – Populism, radicalism, desperation**

By 2025, Greek society has changed considerably. Given a consistently low birth rate, society ages and a high number of people are of retirement age, dependent on their declining public pensions payments, while the labour force continues to shrink. In addition, productivity in Greek society is affected by continuous emigration by the labour force, including university graduates, many of whom seek work outside the country.

Concurrently, most European countries remain or have become highly reluctant to welcome further refugees in their societies, common European refugee policies have reduced to heightening border security and joint control of the Aegean and Mediterranean Seas. Moreover, Turkey has de facto denounced the 'refugee deal', as it is known, with the EU, as it has reduced control of EU-borders to minimum levels, channelling refugees towards Greece and Bulgaria.

Greece's new leadership responds to such challenges with a staunchly protectionist political agenda.<sup>6</sup> As one of their first propositions on gaining power in 2025, the government puts forward Greek exit from the eurozone. The argument that the 'new drachma' would allow Greece to regain its allegedly lost sovereignty as well as its economic strength prevails in the debate. Thus, Grexit becomes a reality, a decade after it was only just avoided in July 2015. The new leadership stays in power, partly by populist propaganda and partly by questionable legal measures.

### **2030-2035 – After the end of the euro in Greece**

Between 2030 and 2035, it becomes clear that the new leadership cannot deliver, as the desolate situation in Greece has not changed. It loses touch with European institutions, while the willingness of

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<sup>5</sup> This turn in the narrative as well as the figure of the 'charismatic leader' were intensely debated during the workshop. What additional drivers or shocks might condition this development, namely, snap elections and the rise of a 'charismatic leader'? Furthermore, this leader figure itself was postulated to be a business billionaire with no prior political experience, having lived in the US for decades, has a reputation as a maverick entrepreneur and comes 'home' to Greece to 'save the country from imminent collapse'. Concurrently, he or she was also discussed to be a populist figure from the political right, with an EU-sceptic and protectionist political agenda, in the context of which the latter argument picks up on the trend to increase in populist political currents in Europe.

<sup>6</sup> As was debated during the workshop, a new government such as this – coming to power in the middle of the electoral period – could promote a right-wing political ideology, promising law and order, catering to anti-European sentiments by blaming the EU for the continuous crisis and speaking out against the refugees in Greece (against their culture and religion and blaming them for burdening the country's social systems).

other EU member-states to cope with Greece's humanitarian crisis dramatically decreases. While many Greeks wish for an even more autonomous course in the country, propagating Greece's exit from the EU, others continue to rally against the new government, with the result that the country witnesses increasing political instability and social polarisation.

## SCENARIO 2: UNTYING THE GORDIAN KNOT

### Abstract:

The second scenario proposes a slow but steady overcoming of the Greek economic crisis. In 2035, Greece finds itself well integrated in the EU. The country's economy is considerably stronger, the society shows a high degree of social cohesion, and the political system is stable and functions efficiently. This result is contingent upon far-reaching reforms concerning the state and administrative bodies, the Greek welfare system, as well as the economic policies, pushed for especially by the Greek people, civil society and a broad-based reform coalition in parliament. The process of overcoming the crisis does not, however, develop quickly. It is a gradual undertaking, affected by political backlash and social pushback. Furthermore, the process takes place in the context of profound policy shifts regarding Greece at European level, including debt restructuring early in the scenario timeframe.

### Drivers:

- **Structural transformation of the EU.** This scenario operates under the assumptions that Greek authorities successfully negotiate a change in the EU-wide approach towards managing the refugee and migration crises in the Mediterranean. EU member states agree on a new set of tools and approaches designed to respond more efficiently to the continuous influx of refugees and migrants. Moreover, following Brexit, an increasing number of EU member states wishes actively to engage in actions aimed at preventing further disintegration of the EU. Hence their willingness increases to engage with policies directed towards preventing Greece exiting the eurozone (and the EU).
- **International economic and fiscal policies.** In the present scenario, the EC, the ECB, the ESM and the IMF negotiate significant debt restructuring (a debt 'haircut') for Greece. This decision is triggered by the IMF, which, in the present scenario, unexpectedly retreats from its 'approval in principle'. Furthermore, debt restructuring for Greece is contingent upon the wish to prevent further disintegration of the EU as well as on successful reforms by the Greek government.
- **Reform drive in Greece.** This scenario assumes that the Greek state implements an increasing number of additional reforms. Up to and including 2035, the Greek government implements reforms concerning, broadly speaking, 'good governance' measures (such as transparency requirements, improvement of state efficiency and effectiveness), recalibration of the welfare system (including healthcare and pension systems), as well as the economy (i.e. efforts undertaken to strengthen the economy through investment programmes and market liberalisation). Crucially, apart from the pressure exercised by European institutions, the success of the Greek reform agenda through 2035 is based on arduous work by a broad-based political reform coalition in parliament and civil society, effectively pressing the government to undertake transformative policies. The full implementation of a balanced research agenda, however, happens gradually over the timeframe of this scenario.
- **Demographic developments.** It is assumed that up to and including 2035, Greece faces continuous decline in the birth rate as well as emigration in the labour force, including significant numbers of highly-skilled workers and university graduates. Furthermore, the influx of refugees remains a challenge to Greece (and the EU).

## Narrative:

### 2018-2019 – A 'reformed' reform agenda is set in motion

In 2018, SYRIZA is increasingly under pressure. The Greek economy remains in dire straits, negatively influencing the conditions of life of society. In early September, when the pressure increases and Greek default appears highly likely, it is the IMF which pushes for a major change in European economic and financial strategy towards Greece.

As the IMF is unconvinced that Greek debt can be made sustainable, it announces deep-freezing of any financial means designated for the joint rescue plan for Greece until a new economic strategy towards the country is put forward. Most observers read this decision as a decisive proposition in favour of debt restructuring.

Against this background, Tsipras manages to excel in his role as an effective mediator between the Greek people and the European institutions. The ensuing negotiations result in debt restructuring, including a partial debt write-off which becomes effective in 2022, based on policy conditionality to be observed by the Greek authorities.

These negotiations and their results are contingent upon several factors. Many EU member states realise that Greece will continue to be burdened by the constant demand to admit, provide for and eventually integrate large numbers of refugees entering the EU, predominantly via the Aegean. The Greek state can convincingly argue that the northern, and especially the eastern, EU states have barely kept their word to support sufficiently EU border countries such as Greece, successfully making the case for deepening solidarity among EU member states. Concurrently, after Brexit, an increasing number of European states are worried about further EU disintegration.

Most importantly, however, a new reform agenda is proclaimed by the Greek government and set in motion. In line with the priorities of the European institutions and the IMF, the Greek government starts a new campaign for increased transparency and effectiveness in public administration.

However, while the prospects of a debt write-off give the Greek economy fiscal space and the financial sector lending leverage for new investment into the real economy, the novel debt-restructuring measures do not free Greece entirely from its financial obligations towards its official creditors. Austerity measures stay effective and prospective growth is expected to develop slowly. In short, a (permanent) low growth economy characterises the status quo in Greece.

Nevertheless, against this background, the SYRIZA party-alliance regains support from the Greek people, as the alliance can convincingly claim that it has been successful in negotiations with the European institutions and the IMF. As the Greek economy slowly returns to growth above two per cent of GDP in 2019, the party can gather sufficient support to win the September 2019 national elections and remain in power.

### 2019-2023 – Giving hope for sustainable change

SYRIZA's main achievement in the years to come is to establish new trust in the government and public administration. In this context, the government's new reform initiatives build, among other aspects, on eloquent and consistent implementation of e-governance measures, for example, concerning public tenders, transparency and predictability of tax administration, but also in improving dialogue between state and civil society. At the same time, the government is deeply committed to improving access to

social services, including the retirement and health systems, while making many efforts to integrate refugees better into Greek society.

SYRIZA's success is connected to effective work by the opposition inside and outside parliament, with political parties, activist mayors in Athens and Thessaloniki as well as civil society pressuring the governing party to conduct prudent politics focusing on social inclusion and reaching across the (political) aisle.

Against the background of successful negotiations with the European institutions, reforms geared towards increased transparency and state accountability, and modest but continuous economic success of the country, SYRIZA remains in power.

### **2023-2027 – Backlashes on all levels**

Though the government does follow its reform agenda in the years to come, gaining trust from some segments of Greek society and appeasing the country's creditors, Greek economic growth develops painfully slowly. New arrangements both to enable innovation and investment, and also to initiate programmes which could effectively reverse emigration by highly-skilled workers and academics, seem either absent from the government's agenda or are ineffective in practice.

Furthermore, being highly critical of the idea of market liberalisation, major government intervention moves in the economy remain part and parcel of the reform strategy. Concurrently, opposition parties (including the political far-right) gain support, as government policies regarding integration of refugees appear to them lop-sided and are claimed to be ignoring the 'real' Greek people and their interests.

Against the background of an imbalanced reform program and the gradual slide back into inefficient reform strategies, resulting in negative consequences such as significant decline in economic growth, rise in unemployment and further emigration, SYRIZA loses the 2027 national elections – after being in power for more than ten years.<sup>7</sup>

### **2027-2035 – Towards new stability and security**

During the 2027 national elections, a new coalition between a liberal-conservative party and a social democratic party is formed. After lengthy negotiations, the two parties decide to form a 'grand coalition' (based on the German model). As Greek electoral law has been changed to a simple proportional representation system with a five per cent threshold for a party to enter parliament, only five parties are represented in the Chamber of Deputies.

Ultimately, the novel coalition government contributes to the country's sustained economic success and political stability. With a political agenda which complements previous reforms of the welfare state and social integration by focusing on domestic and foreign security as well as on profound liberalisation of the Greek market, the new government gains continuous support throughout 2035. In 2035, Greece finds itself well-integrated into the EU, with a strong economy and a stable political system.

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<sup>7</sup> At that point, the present narrative intends to suggest a substantial change in government, with SYRIZA losing power and a liberal and/or conservative coalition government taking over. Another more drastic driver for this change in government, as was debated but not agreed upon among workshop participants, could be a 'wild-card' event, namely, a terrorist suicide attack in a public place in Athens, killing a significant number of people, triggering profound changes in the Greek political landscape.

## SCENARIO 3: CUTTING THE GORDIAN KNOT

### Abstract:

By 2035, lasting and positive change has been induced in Greek political and economic systems. The establishment of a European Monetary Fund (EMF), early in the scenario, proves paramount in this outcome. It enables partial restructuring of the Greek debt. This, in turn, allows the centrist liberal opposition in Greece to consolidate and, following a landslide election victory in 2022, to introduce wide-ranging structural reforms consistent with liberalisation of the economy. Greece rebuilds its image as a country with substantial economic and political 'clout'. In view of EU enlargement in the Western Balkans, Greece becomes the key ally in stabilising the region of Southeast Europe and the eastern Mediterranean.

### Drivers:

- **Structural transformation of the EU and international economic and fiscal policies.** This scenario presupposes a deepening in the European integration process, even if this might still imply a form of 'multi-speed' Europe. A case is made for new European integration mechanisms. Specifically, this scenario pinpoints establishment of the European Monetary Fund (EMF) which, due to the principles and mechanisms underpinning it, helps in establishing fiscal solidarity and further fiscal burden sharing in the EU. Furthermore, the adverse experience of Brexit boosts EU member states' commitment to the idea of European integration and cohesion. As a result, the strained relationship between Greece and its creditors improves. In this context, change taking place is a derivative of two sets of factors, of debt restructuring and of wide-ranging structural reforms. While the former is a sign of positive attitude and of creditors' trust towards Greece on the part of European and international partners, the latter is a sign of the country's continued commitment to the idea of Europe.
- **Reform drive in Greece.** This scenario makes a case for economic reforms, including structural and fiscal spheres, as the key factor conditioning the prospect of growth and development in Greece.
- **Regional developments.** This scenario makes a case for Greece establishing itself as a key player in the regions of Southeast Europe and the eastern Mediterranean. Greece, together with Bulgaria, both serve as key allies in the process of EU enlargement in the Western Balkans.
- **Demographic developments.** This scenario assumes that, following major structural and fiscal reforms, emigration by young and well-educated people stops, incentives for population growth are effectively put in place, and the common EU immigration policy in turn allows Greece to attract a highly-skilled labour force, including engineers and academics, to the country's emerging but already vibrant education and biotechnology sectors. Moreover, the country comes up with tangible proposals for managing irregular migratory flows in the region. This, eventually, leads to a debate on common EU immigration policy. This scenario hence assumes that relations between the EU and Turkey might worsen to the extent that what is known as the 'refugee deal' is called off.

### Narrative:

#### 2018-2019 – From ostensible success to intensified crisis

In 2018, it becomes increasingly clear to the SYRIZA electorate that SYRIZA has failed to deliver on its 2015 electoral promises. Still, no actors on the Greek political scene are willing to take the lead, as this would imply a necessity to deal with politically costly structural and fiscal reforms, including downsizing

the public sector, further consolidating public finances, and liberalisation in selected markets (e.g. energy and the postal services' market), all with SYRIZA in opposition.

Considering that political actors in Greece who claim their liberal orientation do not quite believe in the success of liberal market reforms, SYRIZA maintains an unchallenged position. Furthermore, SYRIZA's stronghold is aided by the fact that the third MoU ends in August 2018 and a fourth MoU is deemed unnecessary, as EC, ECB, ESM and IFM conclude that the Greek sovereign debt is sustainable. This allows SYRIZA to claim that it has successfully shown the European institutions the way out of Greece, i.e. has kept one of its electoral promises. In short, SYRIZA employs a narrative of a success story, having led the 'Troika' out of Athens after nine years. Against this background, SYRIZA wins the elections in 2019.

### **2019-2022 – At the turning point of the crisis in Greece**

Despite the Greek debt being declared sustainable as well as implementation of many MoU-mandated reforms, the performance of the Greek economy barely improves in 2019. Excessive taxation hampers functioning in the private sector, impacting the fragile economic recovery and undermining the prospect of sustainable growth and development in the years to come. High unemployment, an exceedingly high-level of non-performing loans and a declining savings' level indicate that the crisis in Greece has not been overcome. Capital controls, in existence since mid-2015, are prolonged until 2020.

Given the recent decision by the 'creditor institutions' and a fiscal balance based on thin ice, Greece's opportunity for political action remains extremely limited. This disadvantageous position becomes specifically apparent when the 'refugee deal', as it is known, between the EU and Turkey collapses and Greece is, once again, exposed to irregular mass migration inflows.

Greece finds itself unable to gather strong allies among the EU member states and hence a way of navigating the refugee and migration crises is not in sight. At the same time, the political scene in Greece suffers from various political gridlocks, while, as it appears to an increasing number of Greek citizens, the making and implementation of policies is frequently supplemented by outright incompetence. In the absence of viable opposition to SYRIZA in the Greek parliament, Greek civil society takes to the streets.

Given these dramatic developments, in the context of fears of an ever more fragmented (post-Brexit) EU, EU members reach consensus that Greece needs to be assisted more effectively than before. The prevailing narrative in Brussels is "Brexit, but no Grexit".

This spirit of approving nascent fiscal solidarity leads to establishing a European Monetary Fund (EMF) in 2022. EMF is given authority to issue Eurobonds guaranteed by all euro area members and tasked with designing a contingency plan for countries facing fiscal imbalances. In this way, a 'new deal' for Greece is devised. Against this backdrop, serious discussions begin on how to address Greece's structural debt overhang.

As the prospect of debt restructuring under the EMF appears on the horizon, pressure on Tsipras' government to commit to a very specific reform path mounts. Given the market orientation of the required reforms, consistent with decreasing the tax burden, downsizing the public sector, privatisation of debt-generating state-owned enterprises, SYRIZA finds itself unable to cater to these politically explosive demands. Simultaneously, the opposition parties exploit the situation by arguing that the 'new deal' constitutes a final opportunity to induce change in the Greek political and economic system.

In view of pressure by the parliamentary opposition, mass-protests and a growing chasm within SYRIZA over the content of the deal proposed by the EMF, the government is forced to resign in 2022.

### **2022-2026 – A new and effective reform agenda takes effect**

In 2022, a new centrist coalition government is elected in Greece. The new government successfully negotiates the terms of Greece's debt restructuring. This agreement consolidates domestic and European standing of the new government. Hence, during the first half of 2022, Greece has a reform-minded government committed to modernising Greece. Ground-breaking long-awaited reforms are approved by Parliament and implemented swiftly.

The new government succeeds in establishing a genuinely business-friendly environment, fostering key areas of economic growth in Greece such as services, including tourism, shipping, education; industry, including biotech and pharmaceuticals; and modern agriculture, including organic and sophisticated high value-added food products. Development of new industries is encouraged; for example, low taxation and incentives for high-tech companies lead to the creation of powerful technology clusters which attract significant volumes of foreign direct investment (FDI). Athens turns into a start-up hub in Southeast Europe. The education system is reformed, not only in allowing private education at university level, but also in gradually turning Greece into an education hub in the region. The 2024 elections to the European Parliament (EP) confirm consolidation of the pro-reform democratic caucus in the Greek political scene. In 2026, the centrist coalition government is re-elected.

### **2026-2035 – Greece, Europe and beyond**

The newly elected Greek MEPs are committed to the idea of strong Greece in a cohesive Europe, thus re-enforcing the Greek position on the EU scene. Greek MEPs succeed in joining the most influential EP committees. Eventually, following EP elections in 2029, a Greek MEP assumes the post of EP president. Under her guidance, the EP plays a particularly constructive role in the process leading to reform of EU cohesion funds and common agricultural policy (CAP).

Greece thus forms strong ties with new EU candidate countries and helps foster modernisation and economic development in Serbia and Montenegro (both countries join the EU in 2026). This creates prospects not only for bypassing market fragmentation inherent in Southeast Europe but also for overcoming implications of Greek location at the periphery of the EU.

As a result, Greece gradually establishes itself as a business hub for the entire region. The port of Piraeus is turned into a logistics centre in the Aegean Sea through significant Chinese FDI. Its container capacity substantially increases, rivalling the Port of Rotterdam. Goods delivered to Piraeus are transported by the newly developed railways and highways connecting Greece by means of Via Carpatia and Egnatia Odos.

As accession negotiations by Western Balkan countries continue, Greece plays a leading role in the process, thus re-affirming its position as the anchor of stability in the region. In due course, the naming issue of the Former Yugoslav Republic of Macedonia (FYROM) is resolved. Consequently, this country joins NATO and is on course to join the EU in 2030.

In the same timeframe, subsequent government coalitions manage to balance the Greek reform programme, implementing reforms to the welfare system while continuously improving state effectiveness and creating conditions for the private sector to advance, thus sustainably improving Greece's competitiveness and real convergence with the rest of the expanding eurozone.

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With the support of the Governing Mayor's Office in the form of a block grant towards general EAB costs

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