The Effects of Global Crisis into Euro Region: A Case Study of Greek Crisis

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Abstract

With the parallel to the negative effect of the global crisis on the world economy, the economies in the EU started to give negative signals. The member countries such as Greece, Ireland, Portugal and Spain seeing the first negative effects of the global crisis are located in the periphery of the continent. Among these countries, Greece is more important with respect to the depth of its ongoing crisis, its observed effects and being an initial example. This is the biggest financial crisis since the EU accepted the euro as a single currency and Greece involved in the Euro Region in 2001. Like some of the other member countries in EU, Greece has a huge amount of sovereign debts and budget deficit. The most sovereign debts in Greece were taken from financial institutions located in central countries such as Germany, France and Belgium. It is possible that the problems caused by the Greek non-performance issue could spread over Euro Region and that risk could affect directly currency union at first, then economic and political structure of the EU and create some problems for maintaining of its single currency, namely the euro and also the ECB. Called recently as a ''naughty boy'' or a ''sick man'' in the EU, Greece has created an important test

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atmosphere with regard to the integration and control of EU countries' monetary and economic policies and the creation of common policies against global crisis. It became a laboratory country for the Union. Taking into consideration the process, the ongoing problems in the EU currency system after global crisis will be debated around the notion of ''Greek Crisis'' in our work.

Keywords: *Euro Crisis, Eurozone, Greek Crisis, Effects of Global Crisis, Rescue Packages*

Introduction

The events starting in 2007 as a liquidity problem in the US mortgage credit market and their rapid transition to a global crisis have deeply affected the EU and its members soon later. Greece, Ireland, Portugal and Spain were the first affected countries by the crisis.

While that was the first important crisis that Greece faced since its participation in Eurozone in 2001, that has been a test for understanding to what degree the country meets the EU economic norms and has also been a test for protecting of the unity of the EU and Eurozone. Recently, the contamination risk of the crisis in the region has a vital importance for the member states.

Developments Before the Global Crisis in The Eurozone

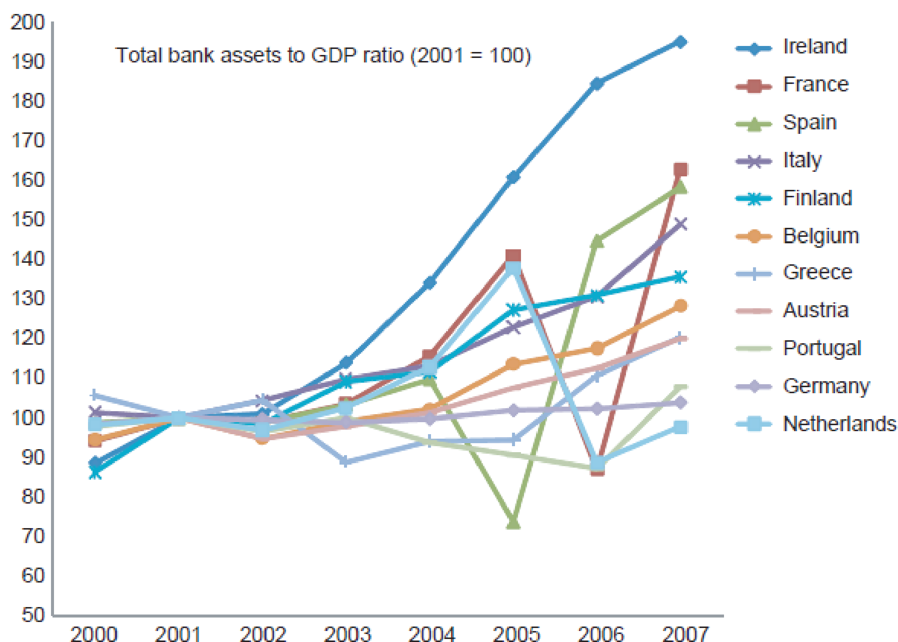
Before the global crisis, it was often said that there were some problems in the Eurozone that needed to be solved through the serious reforms. The limitation on the integration of the EU and the problems in the future of the Euro were argued more often then before. But it is possible to analize the problems under the two main titles. The first is the dilemma between monetary and fiscal policies and second is the inadequacies in the architect of the financial system.

At the end of 2001, many EU countries started using the Euro as a currency in the process starting with the setting up the Economic and Monetary Union in 1999. The European Central Bank (ECB) was ordered with the duty of applying the monetary policies in its supranational authority for all the EU members (USAK 2011, 31-32). Although the decisions taken by the ECB were binding for the members, the countries were left free to choose their own fiscal policies. Thus, the fiscal policies stayed in national level while the monetary policies became in supranational. The fiscal policy

applications that differed from the EU monetary policies and its applications were the negative side of the case.

To overcome this negative situation, in the face of the transfer of independence created by monetary policy decisions of the ECB, it was necessary to convince the leaders and peoples of the member countries. For this reason, the authorities have taken additional measures. The first measure was the Stability and Growth Pact. In the context of the Pact, the rules that the fiscal deficits should not excess 3 percent of the GDP and public debt also should not excess 60 percent of the GDP were accepted (USAK 2011, 33).

Providing for the independence of the ECB was the other measure that was taken to prevent the political incompatibility. This measure aimed to prevent the formation of monetary policy with parallel to the member countries' fiscal policies as a result of the member countries' pressure on the ECB. The price stability was put forwarded as a main ECB principal and maximum 2 percent rise in the consumer price index (CPI) was accepted (De Grauwe 2007, 176).

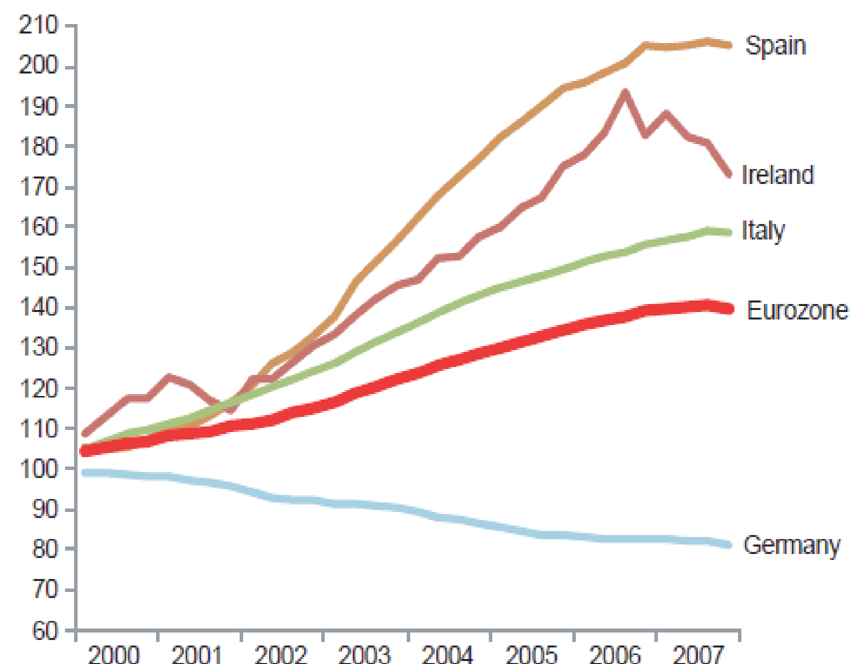


Graphic 1.1. Change in the Bank Assets to GDP Ratio in the Euro Area (2000-2007)
Source: Baldwin and Gros 2010, 7

The other measure was to prevent the fiscal transfer. With this measure, out of exceptional circumstances, each country was prevented to borrow from other member states following its irresponsibly borrowing with the hope that the other countries would help it (Meyer 2010). The Eurozone countries have sometimes violated the Stability and Growth Pact despite all these measures. In the pre-crises period the budget deficit rule has been violated 8 times by Greece, 5 times by Italy, 4 times by Portugal and Germany, 3 times by France. Same violations have been seen in the public debt limits. (USAK 2011, 34). To overcome this problem, the suggestions have been concentrated on more centralization in taxation and fiscal policies in the pre-crisis period. The member countries' leaders were told that there was no possibility to continue to the current situation and economic and monetary union would be either completed or the risk of collapse would increase in the Euro Area (Ubide 2010: 45).

The issues being as the result of the transition and the change created by the architect of the global financial system were the other important problems that happened in the Eurozone. The lack of coordination among the member countries in the Union in general, leading bureaucratic understanding, the lack of control arisen from not taking sufficient measures in the face of fast financial integration that was seen in the members' financial systems have created a financial system that was highly exposed to the risk. Around the Union, especially banking operations and banking assets have increased rapidly. Together with the management failures, the credit rating agents, which were trusted as supervisory mechanism, have also caused to increase the problems through their serious failures (De Grauwe 2010, 36-37).

The Effects of Global Crisis in the EU



Graphic 1.2. The Tendency of Housing Price (200-2008)
Source: Baldwin and Gros 2010, 7

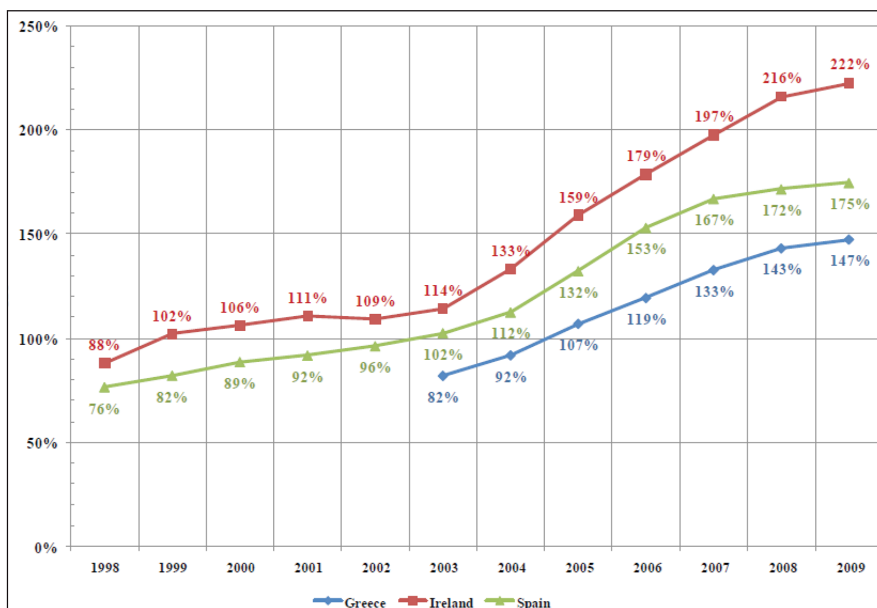
As a result of the ECB's monetary policy of keeping the inflation below 2 percent, alike the US, it was seen a housing boom and a price rise in housing sector especially in Spain, Ireland and Italy higher than those seen in the other member countries in the period between 2002- 2007 when the global economy has shown a positive trend. In Spain 400.000 new houses were built only in Madrid and its surroundings but their prices have increased more than 150 per cent between 2000-2008 (EIU, 2008). In the same period, a consumption boom has been in Greece and Portugal (Lapavistas et al. 2010: 20).

With the onset of the global crisis, while the attention was paid to the US and Chine, the EU being the biggest economy in the world with its GDP of 16.8 trillion dollars has faced with serious problems. It was asked how the Union would react to the problems. The countries such as Germany, France, England, Italy and Spain that built the core of the EU process were slow to develop the coordinated policies against the global crisis (Yıldızoğlu 2010: 228). Experts

claimed that the EU recovery would slower against the effects of the global crisis than that in the US and the Emerging Countries.

The leading neo-liberal model and the EU administrative structure have eliminated the member countries' freedom to develop exchange rate, interest rate policies compatible with their national circumstances and fiscal policies being able to apply for the period of crises and hindered the monetary expansion. As the crisis caused to increase unemployment and social opponent throughout the EU, the governments applied more and more for preservative measures (Yıldızoğlu 2010: 228). If the Brussels continues to impose solid fiscal discipline, it will not be surprising that the economic and social effects of fiscal policies toward contraction bring on the agenda the political crises, which are able to endanger the future of Euro and Eurozone, (Yıldızoğlu 2010: 303-304).

Prior to the crisis, the unification process and the stability of the Euro were provided by the ECB. For a single model, the difficulty of harmony faced by the countries that were different from each other with regard to their economic and social structures led some of them such as Greece, Ireland, Portugal and Spain to borrow at different interest rates than Germany (Yıldızoğlu 2010: 232).



Graphic 1.3. The Private Sector Debts to GDP Ratio in Greece, Ireland and Spain

Source: Boll and O'Quinn 2010, 3

Affected by the global crisis, the EU countries started to wane in 2009. The EU was the slowest recovering economic block from the crisis in the projections done by the international economic institutions such as IMF and World Bank. The Euro Area was stated to face with not only the wane in economic growth but also with the bankruptcy risk in 2010.

	2008	2009	Projections 2010	Projections 2011
World Output[1]	**3.0**	**−0.6**	**4.2**	**4.3**
Advanced Economies	**0.5**	**−3.2**	**2.3**	**2.4**
United States	0.4	−2.4	3.1	2.6
Euro Area	0.6	−4.1	1.0	1.5
Germany	1.2	−5.0	1.2	1.7
France	0.3	−2.2	1.5	1.8
Italy	−1.3	−5.0	0.8	1.2
Spain	0.9	−3.6	−0.4	0.9
Japan	−1.2	−5.2	1.9	2.0
United Kingdom	0.5	−4.9	1.3	2.5
Canada	0.4	−2.6	3.1	3.2
Other Advanced Economies	1.7	−1.1	3.7	3.9
Newly Industrialized Asian Economies	1.8	−0.9	5.2	4.9
Emerging and Developing Economies[2]	**6.1**	**2.4**	**6.3**	**6.5**
Central and Eastern Europe	3.0	−3.7	2.8	3.4
Commonwealth of Independent States	5.5	−6.6	4.0	3.6
Russia	5.6	−7.9	4.0	3.3
Excluding Russia	5.3	−3.5	3.9	4.5
Developing Asia	7.9	6.6	8.7	8.7
China	9.6	8.7	10.0	9.9
India	7.3	5.7	8.8	8.4
ASEAN-5[3]	4.7	1.7	5.4	5.6
Middle East and North Africa	5.1	2.4	4.5	4.8
Sub-Saharan Africa	5.5	2.1	4.7	5.9
Western Hemisphere	4.3	−1.8	4.0	4.0
Brazil	5.1	−0.2	5.5	4.1
Mexico	1.5	−6.5	4.2	4.5

Table 1.1. Effects of the Global Crisis in Growth Rates

Source: IMF 2010, 2

The global crisis showed its most negative effect in the way of budget deficit in the EU countries. The budget deficits were increased by the cost of the governments' application of support packages for financial system against the crisis and by the contraction in the housing sector in which tax earning was high in general. Greece, England, Ireland, Portugal and Spain were the first affected countries by the budget deficit.

The demands of central countries such as Germany, Netherlands who were facing with the lesser problems on the countries being in the periphery such as Greece, Portugal, Spain have forced the second group in economic, politic and

social aspects (USAK 2011, 19). The global crisis also showed its some effects in the way of the contraction in domestic demand and credits and tightening of credit conditions. The situation has affected negatively the growth in the EU countries. In February 2008 Manufacturing Industry Confidence Index (PMI) fell below threshold value of 50 and stayed there until August 2009 (ISM 2011). This process signaled that the positive expectations toward the growth in the EU have not occurred yet.

The losses in the financial sector in the Eurozone and England have become equal to those in the US. Imposing limits on bank credits weakened the possibility of financing to non-financial sector. The decline in domestic and foreign demand prevented economic growth. Increases in credit standards, declines in asset prices, householders' incomes, consumer goods and housing investments and increases in savings have caused to the decline in the total demand throughout the EU countries. The decline in the world trade has also affected negatively the EU exports. The credit boom and increasing competitiveness seen all over the EU have created the problem of idle capacity in the member countries. The crisis led to the over- capacity and low-demand in manufacturing sector; credit boom and increasing in non-performed loans in financial sector.

The crisis made feel itself the most extensively in labor markets. The contraction in economic activities created by the decline in the levels of investment, production and consumption have caused to the increase in unemployment. While the unemployment ratio in the EU-27 countries was 7.5 per cent in 2007, it increased to 18.8 per cent in 2009 (Maliye 2010: 4). The loss of confidence for the Euro as a consequence of the last events brought the escape from the Euro. However, it was observed that the depreciation made increase the power of competitiveness in the EU foreign trade.

It was also observed that the EU member governments mainly in Germany, France and the United Kingdom produced the solutions involving economic and financial preservation and supported their strategic industrial sectors and national financial institutions and took measures to preserve their domestic markets against the problems faced by them. It was afraid that those developments could erode the three steel legs, which were assumed to be base for the EU, consisting of single market, single money (Euro) and ''single sovereignty'' having superiority over the national states (Yıldızoğlu 2010: 231-232).

In order to prevent the negative effects of the crisis, a painful treatment was offered in which the stimulation for increase in competitiveness, the reforms in labor markets for decline in the costs, the rationalization of public sector through

reorganization and harmony with the technological developments. This treatment caused to the cuts in social spending and to the social problems throughout the EU (USAK 2011: 17).

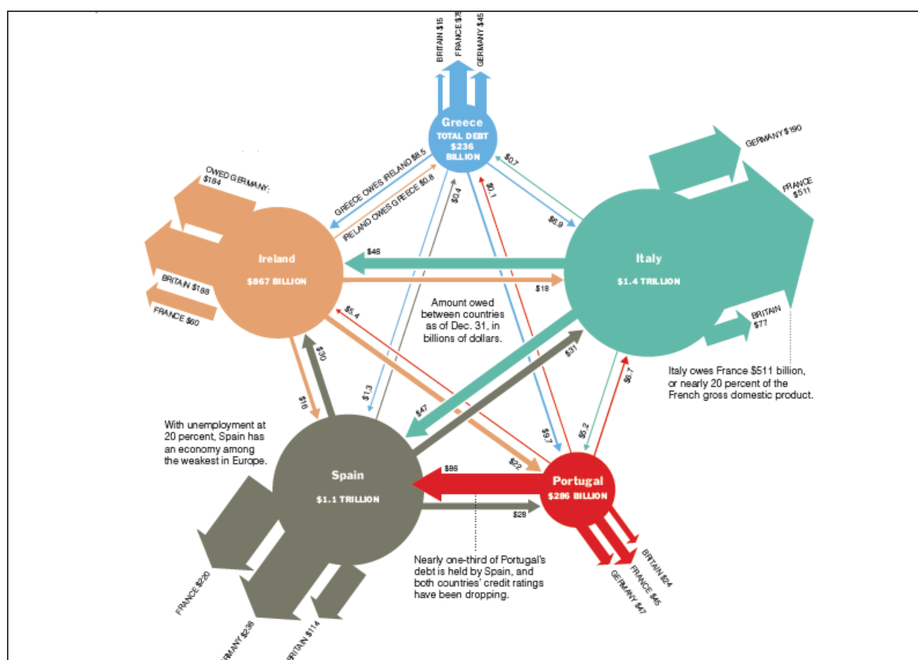
In order to decrease the negative effects of the deepening global crisis in the Euro Area, the European Central Bank (ECB) paved the way by increasing 25 base points the policy interest rate to 4.25 per cent on July 3th in 2008. Here the aim was to decrease the possible effects of inflation and the increasing burden on the price stability in the medium term (Parasız 2009: 135-136).

In order to preserve the value of the Euro, the Union was brought under pressure by the saving of Greece, the support of the Baltic and the Eastern European countries and the need for preventing Ireland, Portugal, Hungary and Spain to go in crisis.

Since the beginning of 2008, the media often expressed that Greece, Portugal, Ireland and Spain, which were seen as the weakest countries in the EU, were in difficulty in terms of economy and finance. The countries including Portugal, Ireland, Greece and Spain were started to call as ‘‘the PIGS’’. Among them, Greece was the most often on the agenda because of its economic, political and social problems. The events, demonstrations and occupations in Greece were started to be expressed as ‘‘Greek Syndrome’’ in the EU.

Together with the shaken Greek economy by the global crisis, the vulnerabilities of the countries located especially in the southern wing of the EU have shocked the Euro Area and the Euro. Like Germany, the people of the countries who preferred the sound money such as the Mark felt anger against that situation (Sönmez 2010: 31-32). The feeling that the Euro has been left alone and nobody has owned it no more has led to a panic in the markets and the thought that Portugal, Ireland and Spain went also into the crisis.

At the end of 2009, the total debt of the Southern European countries consisting of Italy, Spain, Portugal and Greece has reached to 2.9 trillion Euro. Italy owned 1.7 trillion Euro and Spain owned 600 billion Euro of that debt. It was seen that about half of the debt had been financed by the foreign investors and France and Germany (USAK 201: 20) would be the most damaged countries if the debt was not paid.



Graphic 1.4. European Debt Network

Source: Marsh 2010

The EU support and the extension of new loans were argued seriously for the debtor countries, mainly Greece, that started to live some problems. It was observed that the member countries, except for Germany, Netherlands and to the extent France, suggest giving them new loans at low interest rates. The EU uncertainty on the solution of Greek financial crises and the application for IMF to solve the problem caused to the question in public what the reason of being unity was (Sönmez 2010: 30-32). While it was argued that which was the correct authority to give support, the effect of the current risk on the Euro made the monetary authorities apply to IMF. A deep concern occurred in Greek public opinion that the country would be taken under a sound fiscal control after such an agreement.

In ending of the debates on the crises, it was effective that the public deficit has reached to the serious levels in Ireland and Spain and the credit rate of Portugal has declined during the debates.

The non-performance possibility of the two countries such as especially Spain and Italy that located in the South of the EU and were the biggest 9th and 7th economies

in the world respectively could threat to the world economy and the EU headed by German-French leadership (Marsh, 2010). The spread of the crisis over these countries could have a domino effect and panic in the countries having no difficulty with paying their debts in the normal conditions.

In order to prevent the situation not getting out of control throughout the EU, the saving packages at the low amount and costs have been applied. Complaining of its role as the financier and savior of the Unity because of its key position, Germany believed that the countries avoiding to take the necessary measures should pay the cost. This belief showed itself in the conditions of the saving packages.

	All countries	Germany	France
European Financial Stability Facility (EFSF)	440	147.4	110.7
European Financial Stability Mechanism (EFSM, European Commission)	60	12.0	9.7
IMF euro rescue plan	250	14.9	12.3
EU rescue plan for Greece	80	22.3	16.8
IMF rescue plan for Greece	30	1.8	1.5
ECB purchases of government bonds (up to 30 July 2010)	60	16.4	12.3
Sum	920	214.9	163.3

Table 1.2. The EU Saving Plans (Billion EURO)

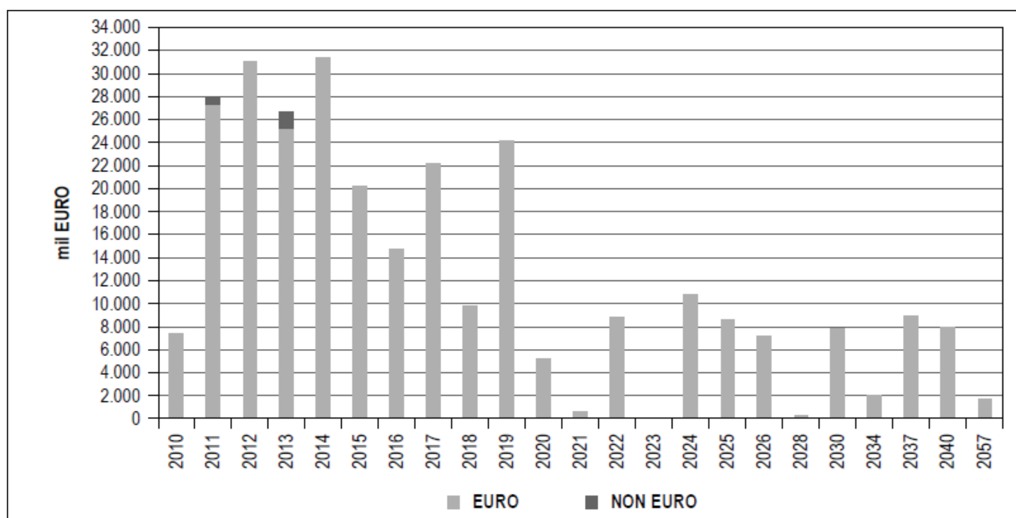
Source: Sinn 2010, 3

The first important step has been taken in March 2010 and the EU countries have agreed on an aid package by the help of IMF. The Fund, for the first time, played a role in a country in the Eurozone that was different from its past EU interventions in the countries such as Hungary, Latvia, Romania (Sönmez 2010: 32). Finally the IMF-EU aid package of 750 Billion Euro was applied on May 10th 2010 (Giles, 2010).

The Reasons of Greek Crisis

It was observed that the fiscal imbalances, the foreign trade deficits, the power of weak competitiveness, the mismanagement, the financial frauds and the imperfect markets were the sources of the economic and social problems faced with by Greece. Greece was seen in the same position like the old Eastern Bloc

countries participating in the EU lately. Like the other EU countries, the global crisis has negatively affected the Greek budget balance through public incomes and expenses. The public incomes declined due to the decreasing consuming expenses and the narrowing foreign trade volume affected by the crisis. The public expenses on the other hand increased due to the cost of intervention to financial system and the increasing social insurance spending.



Graphic 1.5. Greek Public Debt Payments and Term Profile (2010-2057)
Source: Kouretas and Vlamis 2010, 404

Greece had joined to the Union together with Italy, Belgium and Ireland with the expectation of obeying the violated rule that any country should not own a debt amount more than 60 per cent of its GDP according to the Maastricht Treaty (Sönmez 2010: 3). Greek public debt to GDP ratio was 101.5 per cent when it participated in the Euro Region in 2001(Çapanoğlu 2010, 2). It could not go down below the ideal ratio in the past years, but in opposition, its public debt increased fast. The case was hidden from the EU authorities. Greek speculators owning their big shares in the debt structure of Greece supported to continue the process.

With the coming of the new social democrat cabinet in power in the 2009 election following the old conservative government, it was seen through the investigation that the old government had changed the data and deceived financial markets and the EU authorities. This deception was achieved by the support of the Goldman Sachs being as an international banking institution. Greece had continued to borrow the new loans by hiding its current debts.

Starting since 2001, the Goldman Sachs managed to hide the sovereign debts with the help of the complex derivative products called as "cross-currency basis swap" from the EU institutions such as Eurostat and international investors and the Maastricht rules have been broken (Aybar, 2010: 76-77). Aside from the macro economic problems, the statistical data being not credible and transparent caused to the investors to be skeptical about Greek debt papers.

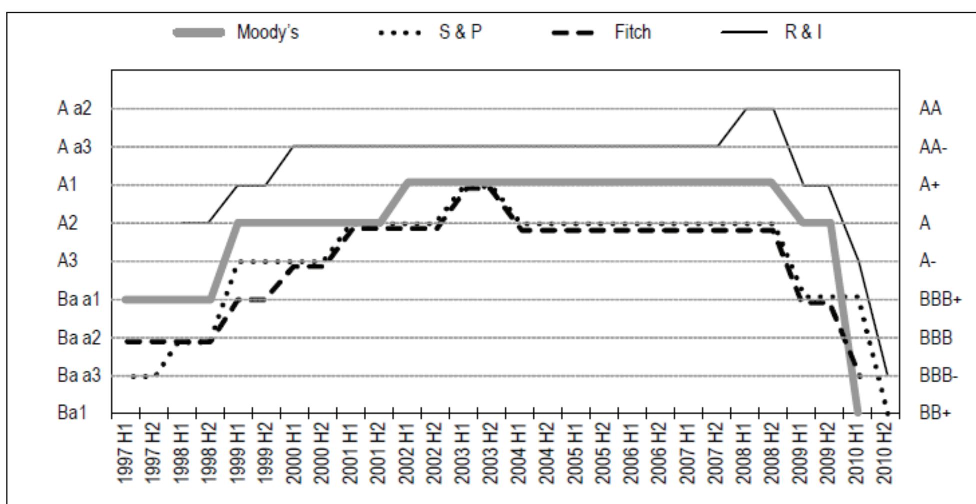
After these developments, as a result of the corrected data provided by the new government, it was proved that the rate of foreign deficit to the GDP was 15 per cent in the end of 2008 by reaching 5 times over the Maastricht limit (Aybar 2010:76). The rate of real Greek budget deficit to the GDP in 2008 was also understood more than 2 times over the figure declared by the old government with 13 per cent by reaching to 4 times more than the EU Stability Fund limit (Yıldızoğlu 2010: 304). The budget deficit was declared 2.9 per cent in 2006 and 7.7 per cent in 2008 by the old government (Maliye 2010: 9). New data showed that the country growing at 4 per cent annually in the pre-crisis period was, not in the growth as declared before but, in the recession in the last year. The risk premium of the country increased in the autumn of 2009. The bond interest rate of the country applying to the international financial markets for turning the current debt and providing new sources reached to over 6 per cent (Sönmez, 2010, 31). The foreign debt of the country also reached to 112.6 per cent of the GDP with 300 billion Euro (Yıldızoğlu, 2010: 304).

	Q4 2009		Q1 2010	
	Total $billion	% of European Banks Total	Total $ billion	% of European Banks Total
European Banks	193.1		182.6	
France	78.8	40.8	71.1	39.0
Switzerland	3.7	1.9	4.2	2.3
Germany	45.0	23.3	44.2	24.2
UK	15.4	8.0	11.8	6.4
Netherlands	12.2	6.3	11.3	6.2
Portugal	9.8	5.1	11.7	6.4
Ireland	8.6	4.5	8.0	4.4
Italy	6.9	3.6	6.8	3.7
Belgium	3.8	2.0	3.7	2.0
Austria	4.8	2.5	5.2	2.8
Spain	1.2	0.6	1.2	0.6
Sweden	0.7	0.4	1.0	0.5
Turkey	0.3	0.2	0.5	0.3

Table 1.3. The European Banks' Loans to Greece

Source: Buiter and Rahbari 2010, 9

The events happening needed the international credit rating agents to review their credit ratings for Greece. The Fitch decreased its rating to (A-) that was (A) in October in 2009. The budget deficit declared by the government affected its decision. The Fitch made again another drop in its rating in December. The country rate dropped back to BBB+. Standart & Poors degraded its rate to BBB+ from A2. The Moody's, the other important rating agency, also decreased its rate to A2 level from A1 level by dropping back one level (Kouretas and Vlamis 2010: 404).



Graphic 1.6. Credit Rating Development of the Greek Bonds (1997-2010)
Source: Kouretas and Vlamis 2010, 404

The events forced Greece to look for cheap source from the EU. So, if Greece couldn't find urgently 50 billion dollar, it would be in non-performance (Yıldızoğlu 2010: 317). The Greek government would have two payments in April and May; each of them was 21.5 billion Euros. But its reserves were only 15 billion Euros. This case made Greece start the negotiations with the international financial institutions (Aybar 2010: 76).

The Greek Rescue Package

If Greece were not a member of the EU, the measure that it will take would possibly devalue the domestic currency and open money/credit taps like in the US, erode its debt nominated in domestic currency through inflation and restructure its

foreign debt through serious bargaining. However, the EU conditions and the single currency eliminated these possibilities.

The various solutions were offered to Greece in the process. One of them was the suggestion of devaluation. Greece would stay in the Euro but balance the foreign deficit by setting the prices of domestic goods and services. One of the other interesting offer was the dual currency system. Greece would stay in the Euro but put the Drachma into domestic market and try the domestic balance to keep away from foreign balance (Aybar 2010: 75). However, these suggestions were not accepted.

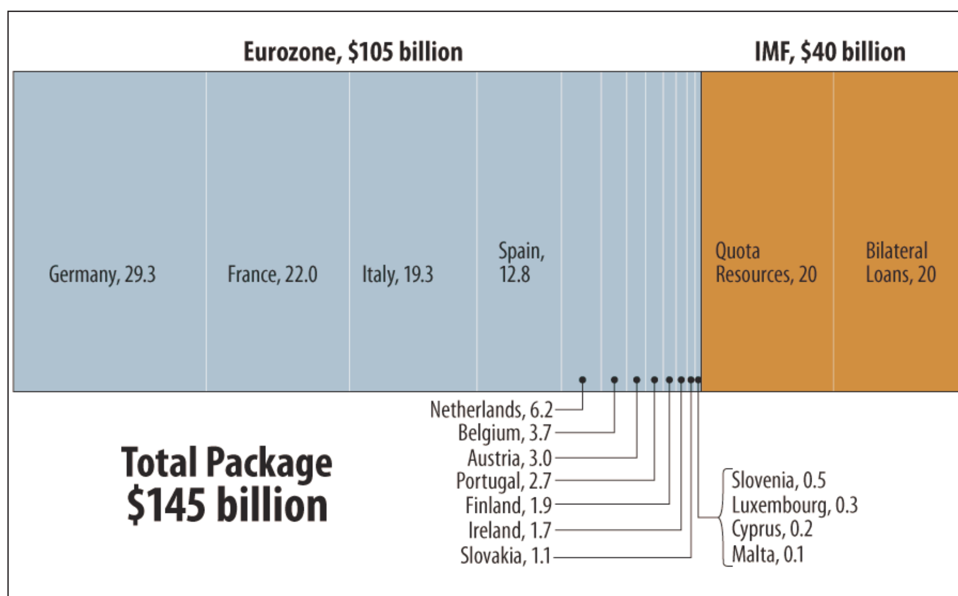
The German public opinion was opponent to transfer the sources to the consuming countries, primarily to Greece, having no budget discipline. It was thought that the aid guarantees could prevent the budget discipline in the countries such as Greece, Spain, Ireland and Portugal (Çapanoğlu 2010: 3). In order to overcome the crisis in the EU, it was expected that Germany, as a leader in the EU, would accept to be a locomotive within its initiative for the EU recovering from the crisis by strengthening the domestic demand and providing the financial support for the countries, primarily for Greece. It was effective in this regard that the biggest part of Greek foreign debts was supplied by the German banks. Germany being able to be pioneer in the extending credit process would in fact ease the stress on its banking system.

Even though the crisis starting in Greece has shaken the Eurozone, the fact that Greece has only 2-3 per cent share in the EU economy by its GDP of 330 billion dollar caused to the thought that the crises in the country could be stopped without spreading over the Union (Tilford, 2010). It provided the countries located in the centre of the Union with the possibility to form the other countries located in the periphery of the Union with the more stringent requirements again. Greece was used as ‘‘a case study’’ or ‘‘a laboratory mouse’’ if we evaluate it more mercilessly. If the crisis started in Spain with its source requirement of 200 billion dollar, two times more than Greece, Ireland and Portugal, the measures to be taken could be different (Yıldızoğlu 2010: 318). It was deemed that the Greek economic bankruptcy would not be so effective as to create a black hole throughout the Union.

As soon as the Pasok took over the power, it declared the Stability and Growth Program. The program was the application of the program called as Lisbon strategy in the EU. The program included the measures of increasing the power of competitiveness. It also included the retreat in the influence of the social state affecting adversely the capital gains, privatizations, the pension reform narrowing the rights of the labor classes (Aybar 2010: 75-76). Greece presented its stability program to the European Commission on January 15th 2010. The target for budget

deficit in the program was predicted as 8.7 per cent. A serious austerity policy was accepted. It was declared that the budget deficit would decrease to 5.6 per cent in 2011 and to 2.8 per cent in 2012 and to 2 per cent in 2013 (Çapanoğlu 2010: 2). It was believed that the structuring process aiming at cuts in spending and rise in tax revenues would provide new sources to the country.

The package was the same with the general context of all the neo-liberal rescue packages. It included the tax increases on oil products, the measures such as the cuts in public spending, no wage raises in public sector in 2010, the suspension in recruitment, the bringing a ceiling for all wages in public sector. The EU declared its support for the package. It also advised that the deficits should be diminished fast especially in social security and health systems and higher flexibility should be provided in labor markets and the financial system should be strengthened faster. It was aimed that the control over the public finance should be applied fast by the measures to be taken and effectiveness, transparency and reliance should be provided by the restructuring measures.



Graphic 1.7. The IMF-EU Greek Rescue Package

Source: Nelson, Belkin and Mix 2010, 11

With the declaration of the rescue package, the Greek labor classes having a militant past went on the two general strikes, first on December 17th 2009, and second on February 24th 2010, and so many domestic demonstrations (Aybar

2010: 77). While the process advanced, the EU accepted a rescue package of 30 billion Euros for Greece on April 11th 2010. The Greek government declared that it needed the IMF aid of 45 billion Euros on April 23th 2010. As result of these developments, the EU and IMF accepted the common aid package of 110 billion Euro and applied (USAK 2011: 24).

According to the agreement between the EU and IMF, it was aimed that IMF should provide Greece with the source of an important amount but the biggest part of source should be supplied by the EU countries. While the package provided Greece to borrow from the countries in the Eurozone, it did not force these countries to lend it. The package was bound to the firm requirements demanded especially by Germany. If demand for borrowing happens at a rate below the market conditions, it needs the consent of all Eurozone countries together with the positive views of the EU Commission and the ECB. The mechanism provided German to give the big part of the aid and IMF to be controller (Sönmez 2010:33).

Greek banking system making big profits between 2005 and 2006 faced with the serious losses after the intervention process. About one third of Greek foreign debt of 300 billion Euros belonged to Greek banks and occurred in the last two years. The Greek banks having the weak saving tendency borrowed at the rate of 1 per cent and lent it government at a rate of 4.5 per cent. The fact that Greek borrowing were done as a EU member and that the lender countries were the Western countries like the Switzerland and the EU countries such as Germany, France, Netherlands made the cost of borrowing cheap and it encouraged. In sum Greek banking system reached to the high profit rates in this way. Greek government supported the banks having more debts than could be carried by the system with 28 billion Euros in the spring of 2009 at the first stage of the crisis. Addition to this support, another support of 4 billion Euros was given to the Greek corporations being not able to pay for their debts to the banks (Aybar 2010: 76).

Despite the Greek rescue plans, the desired development in the economy could not be realized. While the unemployment ratio in the country reached to 15 per cent, the budget deficit realized over 10 per cent though the target was 8 per cent. The debt burden of the country increased even though the cuts were made in public spending. The Greek government continued to borrow at high rates. The Portuguese application to the EU with the same problems caused the negative scenarios to come on the agenda. The fact that the international credit rating agent, the Moody's decreased the credit rate of the country 3 grades to Caa1 from B1 and changed the outlook to ''negative'' caused to the rumors that the country could not pay its matured debts. Not

being able to reach to the IMF target within the framework of restructuring caused to the thought that it would not free the new credit tranches. IMF declared that the 5th tranche would be set free. However, the doubts continued on the Greek ability to pay its debts. Aside from the package of 110 billion Euros, it was expected that it would need an additional finance of 30 billion Euros for each year in 2012 and 2013 (Özkan 2011:10-11).

Some efforts were done in order to take the additional measures as a consequence that the common rescue package, set up by the EU and IMF, had not created the foreseen influence (Kibritçioğlu 2011: 7). In spite of these efforts, the outlook seemed to get worse. The S&P decreased the credit rate of the country to the bottom level of CCC from B level (Inmam and Wearden 2011). A new bailout (rescue) package was created in July 2011 and some conveniences regarding to the first package were supplied (Bryson and Kruse 2011: 1). However, the predicament caused 17 EU countries to adopt a new bailout package of EUR 100 Billion on 27th October 2011. The half of that package was devoted to the European banks holding the Greek government bonds. Thus, it was aimed through the created positive effects to prevent Greece to face with a double deep of recession. The rapid events caused to the resignation of the Papandreou government after its announcement that it would present the bailout package to the public vote and the setting up of the interim government by the technocrat Lucas Papadimos. The worsening economic conditions in Italy made the Berlusconi government resign and replaced with the technocrat Mario Monti government (Barlett 2011: 2).

It was estimated that the possible big capital outflows of the highly integrated EU financial system may leave many financial institutions in trouble and aside from Greece, Portugal, Italy, Spain and Ireland which were affected directly by the current process, some countries such as Belgium, Poland, Cyprus and France also were affected as a consequence of the mutual borrowings (Boone and Johnson 2011: 5-6).

The Lessons From The Greek Crisis

There were fiscal incentive programs in the base of the recovery trend. The rise in stocks also supported the growth. However, the ending of the incentives made the future of the growth uncertain.

When the identity of the decision makers were examined, it was observed that the countries located in the EU periphery, in which The United Kingdom became more marginal, entered into Brussels' domain more by the influence of Germany and France. However, the Greek crisis showed that the continuation of the EU would

be difficult without sound, effective and superior fiscal authority.

The lesson learnt from the Greek crisis caused to the new suggestions for the future of the EU. While the group headed by Jacques Attali suggested to establish the European Finance Ministry, François Lafond, German Marshall Fund Director, defended that the more powerful common banking rules leaded by Germany and France should spread over the member countries. Lafond claimed that the control capacity and authority of the institutions like the ECB should be increased (Yıldızoğlu 2010: 321).

The change of power in an economy during the global crisis needs also the change of the economies that shaped it. In the created scenarios concerning to the new period, the positions of the US and the EU shaping the global economy were replaced by the powers such as China, India and Brazil (USAK 2011: 40). These power changes started to make itself feel all over the EU.

The most important lesson given by this crisis was that the EU being a multilateral economic, political and trade network was exposed to the domino effect of the monetary and economic systems. This process more possibly could prevent the EU member countries from applying the national protective policies forcing them to move together.

Before dealing with the medium and longer term scenarios, some measures and developments which could be faced by the EU in the short run are being presented below:

The positive effects of saving programs being applied are starting to be seen even though they are slow now. According to the June 2011 Report published by McKinsley GI, there are positive developments even though there are some differences from one country to another at the dates of saving from the crisis (Roxhburgh and Mische 2011: 1-2). Despite that the interference of ECB in buying the debt papers of the troubled countries created some effects in setting up the credibility, but it could not solve the longer term problems. Even though the bailout packages applied by some countries such as Ireland, Greece created some comforts in debt repayment, they increased the moral hazard through the EU (Boone and Johnson 2011: 2-3). The debt restructurings became the most important part of saving from the debt deadlock. If this process continues, the exit from the Euro and return to the national currencies will be a difficult option for the troubled countries (Eichengreen 2009: 9).

Before dealing with the basic longer term scenarios, the development that comes in mind first is the possibility of monetary expansion in short and medium term in the EU. The ECB injected liquidity in big amounts in order to save the weak economy and banks

and also kept the interest rates low as much as possible in order to avoid the recession. If the current situation continues, the possible developments will be the continuation of the depreciation in Euro and the realization of inflation well over the targeted level. As a result, a powerful program leading to the recession should be applied during the next 2-3 years for the countries in debt deadlock. Thus, the slowing growth, decreases in asset prices and credit crunches will be seen. The negative development for the Greece in the short term could be that Greece leaves the Euro zone. This will lead to a rapid economic backwardness and depreciation in new currency. The Euro zone also will affected by this situation and the minimum effect will be such as the recreation of investor credit and recession during at least the next 2 years (PWC 2011: 5-10).

When the economic and political developments were taken to the center, it was not possible that the current financial architect of the EU could continue together with the financial system formed by the crisis. In this process, in the longer term 3 basic scenarios were foreseen in the monetary and economic future of the EU. In the center of these scenarios, there were the scenarios taking place in the Future of Global Financial System Report published by the World Economic Forum (WEF) in 2009 (WEF 2009, 48-51).

According to the first scenario, the national currencies used in the pre-Euro times will be returned by giving up the Euro emerging with high hopes as a common currency unit. The cost of such development will be high for the member countries. The turning back to their national currencies needs a serious operation costs for the members and especially for Germany. The EU also will lose its higher credit and prestige. The disappearance of the Euro having an effective place after dollar especially in the global trade will be an important development. That means a monetary breaking for the Union (Danske Research 2011).

According to the second scenario, the EU is the edge of restructuring. The Union is near to a comprehensive reform preventing the factors that led financial fragilities to spread fast and the good working of the monetary and financial system and an optimum currency area. The most important pace in this restructuring is the work of a central management in finance. The scenario being the source of this thought does not allow the member countries in the EU with their sovereignty rights to continue to their ways in the form of a national state. The national states could be injured by the taken measures (Danske Research 2011).

Aside from these two views, there is also another view between these views. According to this view, if a central fiscal management cannot be founded and backing into the national currencies cannot be dared, then a more narrow currency zone

can be created. This new monetary zone will set harder currency standards when using the Euro and the countries such as Greece, Ireland and Portugal located in the periphery of the EU not catching to these standards will be allowed to return to their domestic currencies again. This case can highlight the efforts such as to create a union in the unity in the EU. The EU can continue its being in the form of internal and external circles in a few zones (USAK 2011, 42-43).

Conclusion

In an atmosphere like the EU where economic, political and social relationships were interrelated, it seems natural that the member states are more open to the effects of spreading crisis than the other national economies. The union project seated on these notions of a single market, a single currency and a single sovereignty gives a limited chance to the incompatibility among the decision makers. It was seen that the social, political and especially economic incompatibilities between the central decision makers and domestic bureaucrats/politicians caused not only to the domestic problems but also to the problems affecting the all the Eurozone and the EU. Even such a case can cause to the complete bankruptcy of the Union because the crisis happening in Greece that has the most limited effect on the EU created a deep effect throughout the Union. If the EU and the Eurozone cannot produce the solutions compatible with the scenario seated on restructuring explained by us in the last division, then it can be thought that the other scenarios could be possible for the EU.

Within the framework of the process experienced during the European Debt crisis by looking at the Greek example, the solution of the crisis, aside from creation of financial and economic measures, is seen in harmonization of the member countries' policies and in reaching to the consensus in their politic issues.

Aside from the problems between the politic leaders and public on solving the crisis in the countries affected by the crisis, It was observed that the leaders in some countries which were expected to bring important solution to the crisis such as Germany, France and Netherlands could not explain the seriousness of the situation to their public by fearing loss of votes and acted slowly for economic and politic solution and were late for taking urgent measures.

Without regard to the delays, the public union reactions and the inadequate ECB interferences, the countries having higher debt ratios and deep macroeconomic imbalances such as Greece, Portugal, Italy, Spain and Ireland should be provided quick and effective debt restructuring and macroeconomic and politic measures

should be taken in this context. If this does not happen, it should be thought that some countries such as Belgium, Poland, Cyprus and even France will be affected by the spiral of the crisis and that Greece will be out of the Euro and thus, will face with the negative results of this case and finally that the bed scenarios which were dealt with in this work will be realized.

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