Articles

The Greek Case and the Future of the Eurozone

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Summary:

The fact that Greece joined the Eurozone on 1 January 2001 still perplexes in terms of the country's readiness for membership in the monetary union of the EU at that time. The events that followed led to the formation of a new group of countries in South Europe (known as the PIIGS countries – Portugal, Ireland, Italy, Greece, Spain) where the financial discipline and the level of indebtedness reached new dimensions. Greece was referred to as "Argentina in Europe" and everyone began talking about and expecting the day when it would declare yet another bankruptcy.

In the pursuit of more comprehensive research in the field of European issues this paper aims to: evaluate the importance of the Eurozone (in broader terms of the Economic and Monetary Union) in terms of guaranteeing prosperity and stability across Europe; point out the place and the challenges Greece faces as the member of the EU monetary union that is currently defined as the one posing real threat to the integrity of the Eurozone; to study, present and analyze possible scenarios for the future of the Eurozone and Greece in the short and in the long term.

For the purposes of this analysis the author resorts to various sources (literary, statistical, normative etc.) and the research methodology includes methods and techniques of scientific abstraction, historical, methodological and logical approaches, empirical and comparative analysis. Special attention has been paid to various "truths" about the hypercrisis in Greece, the lessons drawn from "the Greek case" for the other countries in the Eurozone and the European Union and the opportunity Greece might get to make the right choice.

Keywords: EU, Eurozone, PIIGS, Greece, economy, world economic crisis, budget deficit, government debt.

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1. The Greek case and the future of the Eurozone

Whatever difficult moments the European Union might have experienced during its more than half-century long history, it has hardly experienced anything like the current debt crisis. The countries from the so-called "group of the pigs" – PIIGS (Portugal, Ireland, Italy, Greece

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and Spain) are in the spotlight and whatever happens to them is of great importance to the future of the Eurozone and, of course, of the European Union itself.

Undoubtedly, of greatest interest within the PIIGS group is Greece, where all types of crises – economic, financial (currency, debt and bank crisis included) and political, deepened to such an extent that saving Greece became the most important goal not only in Europe, but also outside it.

Recognizing the importance and the scale of the "Greek case", the author aims to analyze the causes for this crisis from which there are only two exits – to stay in or leave the Eurozone, consequently the European Union; to evaluate the actions of the EU and its other member states in their efforts to find a way out of the crisis in Greece. Finally, the author aims to outline the possible scenarios for the future of Greece and the Eurozone and their likelihood in the near or distant future.

2. Some preliminary considerations

The Hellenic Republic established relations with the EU[1] at the end of the 1950s and the beginning of the 1960s of the 20th century. On 8 June 1959 the country filed an application for EU associate membership (on 9 July 1961 it signed in Athens an associate member agreement), in 1962 it was granted the status of EU associate member country and two decades later (on 1 January 1981) it became a full-fledged EU member state. In the beginning of 2001 (1 January 2001) the country joined the EU Monetary Union (the Eurozone), which actually gave it all the advantages of an applicant country and a full-fledged member of the EU.

Although, on the face of it, the Greek application for EU membership harbours no doubts, it should be kept in mind that at a closer look we can find grounds for discussions repeatedly mentioned in the events that followed at the height of the economic and financial crisis in the EU. First, Greece is the first, and until recently the only, EU country to have been admitted on its own to the EU[2] as an exception to the so-called group principle. Before and after its full membership the countries signed EU accession treaties in groups of two, three or 10 ("the Eastern enlargement in 2004) countries. Furthermore, Greece and the other two countries from the so-called "Southern enlargement" (Spain and Portugal) were poor and unattractive for the old EU member states at that time (the first half of the 1980s of the past century). Least of all for economic reasons and mostly for solidarity and ensuring security for Greece (at that time the military junta in the country was overthrown) the European Union allowed it to join the other 9 countries, thus becoming the 10th full member state.

Historians recall another very important fact. Greece did not succeed in becoming a co-founder of the Eurozone[3], but there

[1] The current analysis will be carried out with the reservation that in accordance with the Lisbon Treaty the European Union is the successor to the European Community (former European Economic Community), which implies that its history started from the day the Treaty on the European Economic Community entered into force – 01.01.1958.

[2] On 09.12.2011 Croatia also signed an EU accession agreement individually.

[3] The Eurozone was set up by 11 EU member states.

are serious doubts about tampering with statistical data[4] which resulted in Greece becoming the 12th member on 1 January 2001. Even at that time Greece and the other southern states, which currently form the PIIGS group (with the exception of Ireland), were considered unprepared for membership in the Eurozone[5] by the countries from "the zone of the mark". Although Greece did not meet the convergence criteria, it adopted the euro as legal tender and one euro was equal to 340.75 Greek drachmas. Thus, the Greek epsilon letter (€) became the symbol of the single European currency, in Greece as well.

3. The macroeconomics of Greece between 2001 and 2011

There is detailed information provided by Eurostat and considerably less scepticism about the reliability of the data provided by the Greek statistics authority which will allow us to draw general conclusions about the state of the Greek economy in terms of important macroeconomic indicators such as GDP in all its dimensions, unemployment and inflation rates, budget deficit and government debt in nominal terms and as a percentage of GDP. What is more, they will be compared with the same indicators in EU, the Eurozone and the other countries in the PIIGS group, Greece being one of them.

First of all it should be noted that under the **GDP in current prices (million euros)[6] Greece ranks 12th among the EU member countries and 8th among the countries in the Eurozone. In 2011 Greece's GDP amounted to €215 088.2 mln, which compared to the GDP in the beginning of the studied period (2001) shows an increase of 68%. Presented as a percentage of EU-27, GDP Greece's share at the end of the period stood at 1.7% and as a percentage of GDP in the Eurozone – at approximately 2.3%.**

In terms of GDP per capita in purchasing power standard (PPS) Greece still has not reached the EU average level (EU-27 = 100), though it has been an EU member for 31 years now. Until 2001 Greece maintained a level within the 83-86 index, in 2002 it managed to reach 90 and raised it during the following years (even to 94 in 2004 and 2009) but that was it. Along with Portugal, which is one of the old member countries, Greece retains a level below the EU average, outperformed by the Mediterranean countries Cyprus and Malta. Also, Greece was overtaken by countries from Central and Eastern Europe, such as Slovenia and the Czech Republic. The world financial and economic crisis had a serious effect on Greece, which brought it back to the levels of 15 years ago (2011 index is 82).

In terms of **real GDP growth rate** Greece has showed a steadily declining trend in the parameters of this indicator within negative

[4] Greece became a member of the Eurozone on 01.01.2001 with budget deficit and public debt as a percentage of GDP by far exceeding the Maastricht convergence criteria – 3.7% and 103.4% respectively.

[5] See Elisabetta Croci Angelini, Francesco Farina. Macroeconomia dell'Unione Europea. Carocci editore, Roma, 2007, p.235.

[6] Table 1 on page 24 contains information about the state and the dynamics of the discussed macroeconomic indicators.

values. Greece has been in recession since 2008, which becomes obvious both from the data in Table 1 and from the numerous findings and latest forecasts issued by the European Commission (including the one from the autumn of 2011, the interim and the spring ones for 2012). Each year since 2008 there was negative growth, which at the end of the studied period (2011) reached its record low level for the EU of approximately 7% (6.9%). According to the EC, Greece will not achieve economic growth before 2013 – 2014 and, according to the IMF, it will need more than 10 years to bottom out of the recession and restore its competitiveness (i.e. this will not happen before the start of 2015).

Furthermore Greece combines an economic growth slowdown with high **unemployment rate**, comparable only to Spain, the EU member state that was most heavily hit in this respect. The unemployment rate reported in 2011 was 17.7%, as youth unemployment soared above 50%. According to recent data (May 2012), the unemployment rate in Greece reached 23.1% and among young people aged up to 25 it was 54.9%. According to Greek labour unions, unemployment in 2013 will reach 29% as a result of the new austerity programme.

Further details can be added to the description of the macroeconomic situation in Greece – data about the **average annual inflation rate** measured through the harmonized index of consumer prices (HICPs). During the period under consideration this index was among the highest in the Eurozone and, except for 2009, it was significantly higher than the target set by the ECB for these countries (2%). In some years (for instance 2010) it was nearly 3 times higher than the average for the Eurozone (4.7% for Greece compared to 1.6% for the Eurozone).

Finally, the Greek economy can be presented by providing information about another two indices, which ranked it among the first and made it possible to take certain decisions and actions, considered impossible until then, at the national and the European level. These indices are the **general budget deficit (-) or surplus (+) and the consolidated government debt in nominal terms and as a percentage of GDP**. Under the first of the two indices the situation in Greece can be viewed from two aspects. On the one hand, the Greek budget deficit (every year over the period 2001 – 2011 there were such deficits) in millions of Euros amounted to €19 565.0 million at the end of the period. Thus, Greece ranked 8th among the 27 EU member states and came in 7th among the 17 members of the Eurozone. However, if we consider it as a percentage of GDP of the country, it becomes evident that Greece came second both in EU-27 and in the Eurozone. With the exception of Ireland, where the values of this indicator have been rising dramatically since 2008 (it came before Greece only in 2010 and 2011), Greece reached record-high levels (see the data in Table 1), which resulted in a growing debt and a strong likelihood for Greece to ask to leave or be forced out of the Eurozone, *ergo* of the European Union.

Since government debt means accumulated budget deficits and the budget potential of

Table 1. Key macroeconomic indicators of the Republic of Greece for 2001 – 2011

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP in current prices (in million euros)	146 427,8	156 614,9	172 431,1	185 265,6	193 049,7	208 892,9	222 771,1	232 920,3	231 642,0	227 317,9	215 088,2
GDP per capita in PPS (EU-27=100)	86	90	93	94	91	92	90	92	94	90	82
Real GDP growth rate (%)	4,2	3,4	5,9	4,4	2,3	5,5	3,0	-0,2	-3,3	-3,5	-6,9
Unemployment rate (%)	10,7	10,3	9,7	10,5	9,9	8,9	8,3	7,7	9,5	12,6	17,7
Average annual inflation rate (%)	3,7	3,9	3,4	3,0	3,5	3,3	3,0	4,2	1,3	4,7	3,1
Total budget deficit (-) or surplus (+) in million euros	-6 542,0	-7 465,0	-9 738,0	-13 940,0	-10 068,0	-12 109,0	-14 475,0	-22 866,0	-36 624,0	-24 125,0	-19 565,0
Total budget deficit (-) or (+) as a percentage of GDP	-4,5	-4,8	-5,6	-7,5	-5,2	-5,7	-6,5	-9,8	-15,6	-10,3	-9,1
Government consolidated gross debt in million euros	151 869,0	159 214,0	168 025,0	183 157,0	195 421,0	224 204,0	239 300,0	263 284,0	299 685,0	329 535,0	355 617,0
Governement consolidated gross debt as a percentage of GDP	103,7	101,7	97,4	98,6	100,0	106,1	107,4	113,0	129,4	145,0	165,3

Source: Eurostat.

the country diminishes considerably over time, Greece gradually became one of the most heavily indebted countries in the European Union and the Eurozone. At the end of the 2001 – 2011 period the country had consolidated government debt worth € 355 617.0 million, which was 165.3% of its GDP. It thus "outdid" the major offenders of this indicator – Italy and Belgium, and ended up in a difficult situation comparable only to "squaring the circle".

4. The causes for the Greek debt crisis

To outline the reasons for the Greek debt crisis the analysis should include a comparison between the values of at least the two macroeconomic indicators for the countries in the PIIGS group which largely contribute to the macroeconomic imbalances persistent for years. These are **the general budget deficit (-) or surplus (+) and the consolidated general government debt in nominal terms and as a percentage of GDP.**

First of all the data in Table 2 (see p. 26) substantiates the conclusion that some of the countries in the group, Ireland and Spain, ran budget surpluses (for Ireland 6, for Spain 3), whereas the remaining three – Greece, Italy and Portugal, did not have any. What is more, the positions of the countries within the PIIGS group constantly change and this fact will later provide an answer to the question of whether another country, and which one, could follow Greece. For the time being we can only point out that between 2001 and 2009 (excluding 2005 when Portugal 'took' the first place) Greece invariably took the first place and later on, from 2010 to the end of the period, it 'conceded' it to Ireland and came second among the five countries in the group. Spain also experienced hard times with 11.2% in 2009, 9.3% in 2010 and 8.5 in 2011. In Portugal this index showed a plummeting trend after 2010, falling from 10.1% in 2009 and 9.8% in 2010 to 4.2% in 2011. Thus Portugal firmly took the last place within the PIIGS group. Only Italy did not exceed the 10% limit and like Portugal it managed to lower its budget deficit in 2011 below the 4% ceiling.

The two final rows in Table 2 show not only the specific dimensions of the budget deficit or the surplus/GDP ratio in any of the five countries, but also how these compare to the existing standards in the EU, especially the Eurozone countries. Hence this table may suggest what is happening in these countries. Such a comparison could best reveal Greece's situation characterized by a clear tendency towards persistent and considerable excess of both the reference and the actual reported average values of this indicator in the EU and in the Eurozone. Besides Ireland, which set an unprecedented record of 31.3% in 2010, Greece undoubtedly remained the grimmest case among all other PIIGS countries, the Eurozone states and EU-27. As a member of the EU-27 and Eurozone Greece constantly breached the Maastricht criteria of 3%, which happened every year over the period under consideration, i.e. exactly 11 times out of 11 possible. To compare, Italy and Portugal breached it 9 times, while Ireland and Spain – 4 times each.

Table 2. Total budget deficit (-) or surplus (+) as a percentage of GDP of the PIIGS countries for 2001 - 2011

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Portugal	-4,3	-2,9	-3,0	-3,4	-5,9	-4,1	-3,1	-3,6	-10,1	-9,8	-4,2
Ireland	0,9	-0,4	0,4	1,4	1,7	2,9	0,1	-7,3	-14,2	-31,3	-13,1
Italy	-3,1	-3,1	-3,6	-3,5	-4,4	-3,4	-1,6	-2,7	-5,4	-4,6	-3,9
Greece	-4,5	-4,8	-5,6	-7,5	-5,2	-5,7	-6,5	-9,8	-15,8	-10,6	-9,1
Spain	-0,5	-0,2	-0,3	-0,1	1,3	2,4	1,9	-4,5	-11,2	-9,3	-8,5
EU-27	-1,5	-2,6	-3,2	-2,9	-2,4	-1,5	-0,9	-2,4	-6,9	-6,6	-4,5
Eurozone	-1,9	-2,6	-3,1	-2,9	-2,5	-1,3	-0,7	-2,1	-6,4	-6,2	-4,1

Source: Eurostat.

Table 3. Consolidated total government debt as a percentage of GDP of the PIIGS countries for 2001 – 2011

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Portugal	53,5	56,6	59,2	61,9	67,7	69,3	68,3	71,6	83,1	93,3	107,8
Ireland	35,1	31,9	30,7	29,4	27,2	24,5	24,8	44,2	65,1	92,5	108,2
Italy	108,2	105,1	103,9	103,4	105,4	106,1	103,1	105,7	116,0	118,6	120,1
Greece	103,7	101,7	97,4	98,6	100,0	106,1	107,4	113,0	129,4	145,0	165,3
Spain	55,6	52,6	48,8	46,3	43,2	39,7	36,3	40,2	53,9	61,2	68,5
EU-27	61,0	60,4	61,9	62,3	62,9	61,6	59,0	62,5	74,8	80,0	82,5
Eurozone	68,2	68,0	69,2	69,6	70,2	68,6	66,3	70,1	79,9	85,3	87,2

Source: Eurostat.

And finally special attention should be paid to the consolidated government debt index, which was most strongly influenced by the world financial crisis and turned into mostly a debt crisis in the EU and Eurozone countries. Since its absolute values are important but not really indicative, it should just be mentioned that in 2011 Greece was "only" 8th with debt standing at € 355 617.0 million. It was preceded by the United Kingdom, two of the PIIGS countries from the so called "periphery" (Italy and Spain) and four countries from the "centre" of the Eurozone (Germany, France, the Netherlands and Belgium). It should be noted that the "experts in frugality", i.e. Germany and France, had a significantly higher debt in 2011 than Greece – Germany's debt was approximately 6 times higher (5.87 times) and France's – approximately 5 times (4.82 times).

Essentially, the above mentioned facts do not give grounds for drawing grim conclusions. Greece's eighth place (out of 27 EU countries and 17 in the Eurozone) under both the budget deficit indicator

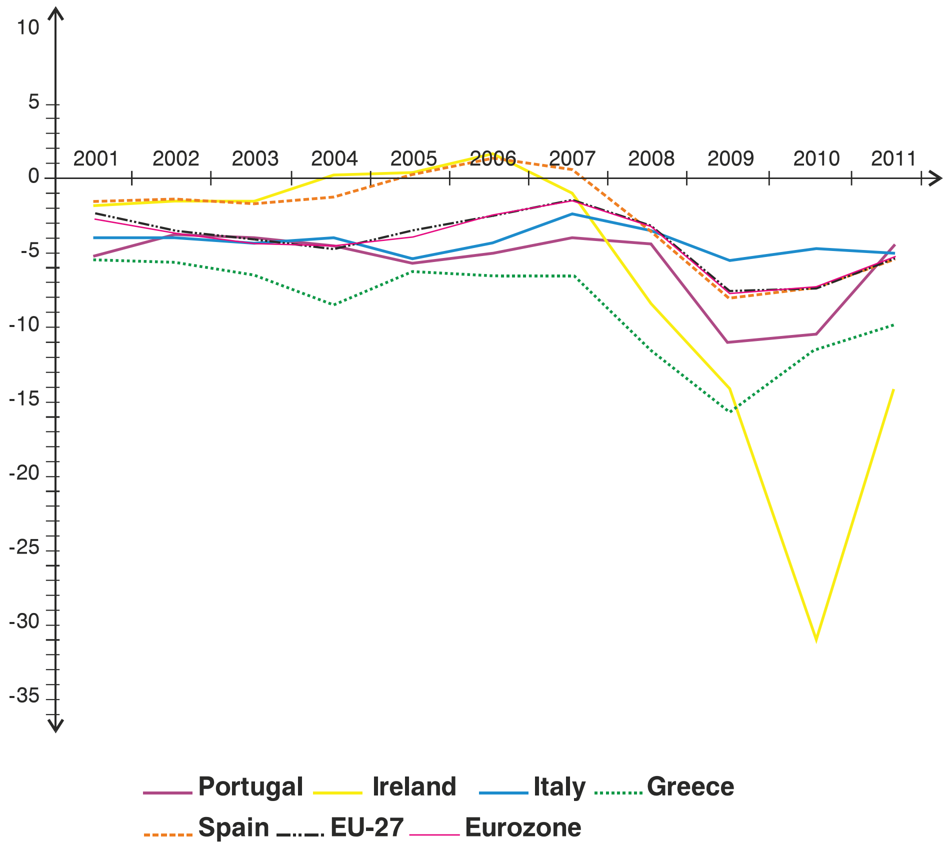

Fig. 1. Total budget deficit as a percentage of GDP

and the consolidated government debt in absolute terms (Table 3 on p. 26) is good enough and suggests that the country is not among the serious "offenders" of the EU and Eurozone financial policy. However, this is only at first sight. A detailed study of the country's position under another aspect of these indicators – as a percentage of its GDP, exposes a different situation, which is not very pleasant. In the last year of the considered period (2011) in terms of budget deficit as a percentage of GDP Greece came second among the members of the EU and the Eurozone and first in terms of government debt as a percentage of GDP. Every year since 2007 it overtook Italy in terms of the second indicator, ultimately reaching record high values during and after the years of most severe world financial and economic crisis – 129.4% in 2009, 145.0% in 2010 and 165.3% in 2011. Greece is immediately followed by another three PIIGS countries (Italy, Ireland and Portugal) (in 2011), while Spain took 'the respectable' 13th place among the 27 EU countries.

Compared to the average results in the EU and in the Eurozone under the second indicator, Greece's results are really alarming. At the end of the period under consideration they are exactly twice as high as the ones recorded in EU-27 (165.3% in Greece compared to 82.5% in EU) and almost twice as high as those in

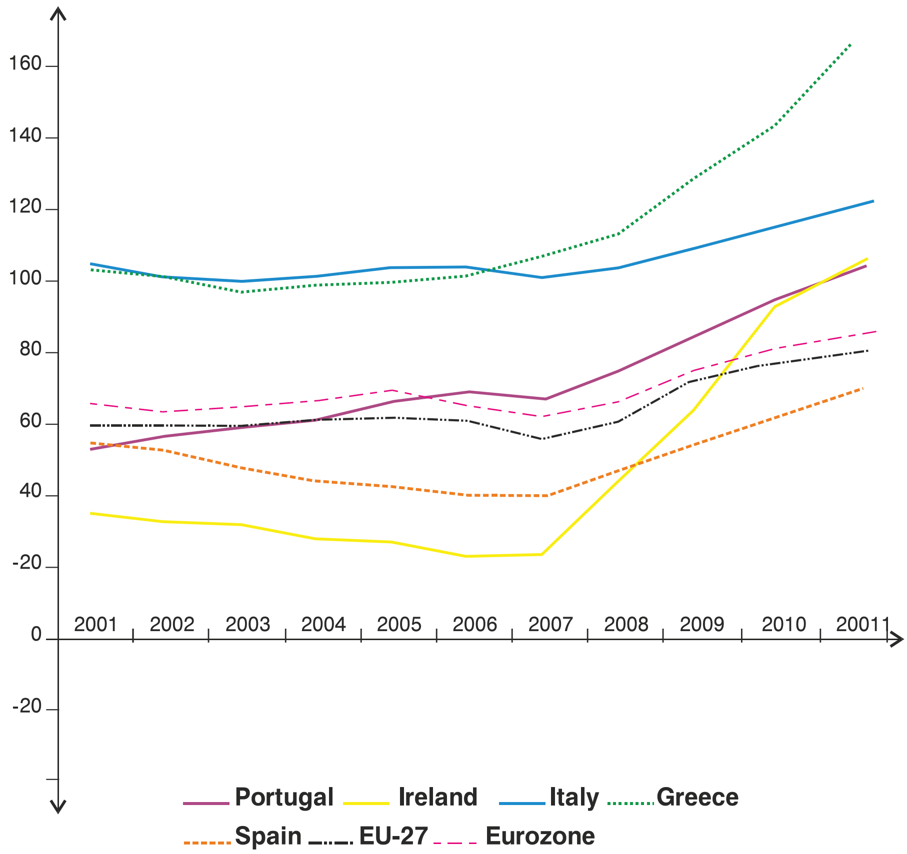

Fig. 2. Consolidated total government debt as a percentage of GDP

the Eurozone (165.3% in Greece compared to 87.2% in the Eurozone). Greece has not simply forgotten the Maastricht requirement that government debt should not exceed 60% of the GDP, but it seems as if this requirement has never applied to it. This holds true for Italy and to some extent for Portugal. The following situation is observed: Greece and Italy – 11 infringements of the reference values out of 11 possible each, Portugal – 8 out of 11 possible, Ireland – 3 out of 11 possible and Spain – 2 out of 11 possible (see the chart 1 and 2 which illustrate the above mentioned).

Further to the information provided about Greece's budget deficit/budget surplus as a percentage of GDP, additional data complete the picture and largely explain why things turned so bad. According to the data found in specialized editions, Greece has been financed through foreign and domestic loans. Twice in its history (in 1922 and 1926) did Greece accumulate huge debts as a result of the so-called "dichotomization of the drachma"[7] which they failed to repay (also due to the Second World War) which had an insignificant, or in some cases even unfavourable, impact on prices and interest rates.

More recently, since its accession to the EU as of 1 January 1981 Greece has had another practice in this field. We are

[7] Special form of domestic financing in Greece.

speaking of the constant debt transfer between its governments, including the ones of the two parties that ruled the country the longest (more than 20 years) – the centre-right "New Democracy" (ND) and the socialist PASOK. Only between 1981 and 2011 (i.e. for 31 years) they "exchanged" a debt which in absolute terms increased from € 2 billion in 1981 to almost € 356 billion (€ 355 617.0 million) in 2011, thus showing a growth of 178 times. In other words, for 31 years the 12 governments "ensured" that every Greek citizen should have to repay a debt that reached € 32 956[8] in 2011.

Apart from the history of the accumulation of this huge Greek debt, both in nominal terms and as a percentage of GDP, other aspects related to the reasons for its accumulation should be singled out. Among the identified economic factors is the loss of competitiveness following its accession to the Eurozone in 2001 and resulting from the world financial and economic crisis.[9] Typically the major political reasons have been attributed to the ideology of the governing party (left, right or coalitions) and the methods and practices the governments implemented in the economy mostly for short-term election purposes.

The loss of competitiveness in general and in particular in Greece encompasses issues such as: low or negative economic growth; drop in exports; formation of current account deficit; recessionary drop in tax revenues and persistent increase in government expenditures as a percentage of GDP, which reached and even exceeded 50% in the period between 2008 and 2011; huge government debt in absolute terms and especially as a percentage of GDP. Further we could add facts such as: the Greek statistics authority constantly tampered with the data about the economic and financial state of the country; rampant corruption, money laundering and tax evasion; high spending on defense (about € 8 billion annually); overstaffing in civil service (above 1.2 million people in 2010), who along with their families comprise the electorate; all people who legally or illegally reside in the country seeking political asylum, subsidized or temporary protection (70% of the illegal immigrants in the EU are in Greece)[10] and create tension in the social sphere, internal affairs and justice and many others. Thus it may become obvious why Greece became the country in the EU and the Eurozone with huge problems and why experts ever more often worry about its European future.

As a result of the adverse economic and political factors Greece ended up teetering on the verge of a financial collapse, a situation that has been lingering for nearly two centuries. Ever since Greece won its independence in 1829 it has declared bankruptcy five times and since 2010 it has been on the brink of it. This accounts for the unpopular and quite risky measures taken over the last 2-3 years, such as resorting to (if

[8] More detailed information on this issue can be found in the two materials presented by Mr. Tasos Asimis and published in Prof. Krastyo Petkov's blog: http://kpetkov.eu/node/238

[9] The International Economic Forum in Davos published a ranking based on the so-called Global Competitiveness Index where Greece ranked 90th out of 142 countries and took the last 27th place amid the EU member countries in 2011-2012. A year later, in the ranking for 2012-2013 Greece goes 6 places down (from 90th to 96th position of all 144 countries) and again takes the last place in the EU. See: http://www.weforum.org/

[10] See http://kpetkov.eu/node/238

it meets certain requirements) financial aid from the EU (ECB included) and the IMF and frequent change of governments (whether interim or legally elected at parliamentary election), whose actions should guarantee the stability and irreversible character of the undertaken economic reforms (in return for the two extended rescue packages of €110 and 130 billion). These reforms involve applying the austerity measures required by the creditors (EU, ECB and IMF) amounting to €14 billion in the following two years. At the same time, the coalition government elected in June 2012, led by New Democracy and Prime Minister Adonis Samaras, cherish hopes that the 4-year period within which the government should implement this restrictive programme will be extended, because it believes that it deserves such an extension, given its serious efforts to meet the creditors' requirements since it took office.

5. The Eurozone concept in progress

The most precise interpretation of the essence of the **Eurozone** is outlined in the primary legislation of the European Union. The Lisbon Treaty (including the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) fully exhausts the history of the European monetary integration, stressing that as part of the EU Monetary Union the Eurozone[11] encompasses two groups of countries. One group includes the countries which have adopted the euro[12] as their currency, the other, the countries which do not meet the necessary requirements to adopt the euro. Currently there are 17 EU countries in the first group and 10 in the second, among which some have notified the Council of the European Union of their intention not to participate in the third stage of the Economic and Monetary Union (EMU) of the EU. The government of the United Kingdom and Northern Ireland declared their firm stance on the issue (on 16 October 1996 and on 30 October 1997)[13]. So did the Danish government (on 3 November 1993).[14] For that reason the official legal tender in the United Kingdom is the pound sterling and the euro is a parallel currency. Denmark pegged its currency (the Danish krone) to the euro within the so-called ERM II, while the problem with Sweden, the third of the EU member country which has not joined the Eurozone, is that it has never joined the European Monetary Union (a compulsory requirement for Eurozone membership) and its central bank is not independent to the extent required by the Treaty.

The countries outside the Eurozone are referred to as "countries with a right to derogation" ("countries with a right to deviation"). The TFEU envisages that they are not bound to meet the necessary requirements for adopting the euro (article

[11] The term Eurozone is used in the TFEU and other EU papers. In this article it is written with a capital letter because the author believes that it is not the geographic principle but the single currency and the common policy are of importance to the member states.

[12] See Consolidated version of the Treaty on European Union and the Treaty on the Functioning of the European Union. EU official journal. 30.03.2010, pp. 52, 106, 167, 168 etc.

[13] Consolidated version of the Treaty on European Union and the Treaty on the Functioning of the European Union. EU official journal. 30.03.2010, p. 284.

[14] Ibid p.287.

139, paragraph 1) and accordingly their national central banks do not have any rights and obligations within the European System of the Central Banks (ESCB) in compliance with chapter IX of the Statute of the ESCB and the ECB (article 139, paragraph 3). It is specifically stated that Denmark can use derogation, while the United Kingdom in specific cases can take advantage of derogation or "as if it uses derogation".

Currently three of the countries with derogation (Denmark, Latvia and Lithuania) are in the European exchange rate mechanism II (ERM II), which in 1999 replaced the exchange rate mechanism of the European Monetary System. If a country wants to join the Eurozone, it should spend at least 2 years in the ERM II (observing normal fluctuation margins), which is one of the Maastricht convergence criteria.

When a member of the ERM II successfully meets the above-mentioned Maastricht convergence criterion, it moves on to the third and final stage of adopting the euro as a legal tender and attains a status of "a member state without a right to derogation". According to article 140, paragraph 2 of the TFEU this status is granted by the Council of the European Union (after consulting the European Parliament (EP) and after discussion in the European Council on a proposal from the European Commission (EC) on the basis of the criteria set out in paragraph 1 of the same article. The qualified majority of the representatives of the Eurozone members and the Member State concerned, the Council (on a proposal from the EC and after consulting the ECB) "shall irrevocably fix the rate at which the euro shall be substituted for the currency of the Member State concerned and take the other measures necessary for the introduction of the euro as the single currency in the Member State concerned".[15]

Several very essential features closely related to Eurozone membership of countries like Greece, the other 4 countries in the "periphery"[16] and also those in the "perfect centre" should be mentioned:

- Building the Eurozone is a gradual process in the same way as the creation of the EMU itself, starting at the beginning of the 1990s of the 20th century. The three clearly identifiable stages comprise the periods between 1 July 1990 – 31 December 1993 (stage one); 1 January 1994 – 31 December 1998 (stage two) and after 1 January 1999 (stage three). Each of these three stages has its own characteristics and during the third one, after the end of the three-year transition period (between 1 January 1999 and 1 January 2002) the first euro banknotes and coins were issued;
- Eurozone membership implies the fulfilment of the so-called nominal Maastricht convergence criteria, whose importance is further strengthened by the existing criteria for actual convergence between the respective country and its major trade partner(s) and along with that by the institutional, political, legal

[15] Consolidated version of the Treaty on European Union and the Treaty on the Functioning of the European Union. EU official journal. 30.03.2010, p.110.

[16] Official documents avoid using the name PIIGS, instead "the periphery of the Eurozone" is preferred.

and other criteria.[17] The special Protocol (No 13) "On the convergence criteria", annexed to the TEU and TFEU further dwells on the four criteria in article 140, paragraph 1 of the TFEU, namely: price stability criterion (article 1), government budget deficit criterion (article 2), participation in the exchange rate mechanism of the European Monetary system criterion (article 3), exchange rates convergence criterion (article 4).[18] It is on the basis of the fulfilment of these criteria that the Council of the EU revokes the derogations of the respective member countries and introduces the euro as their single currency;

- On joining the Eurozone the member states lose their sovereignty in terms of monetary policy. They all adopt it as their common policy, which becomes the most important task of the ESCB, while the European Union has the excessive competence in this sphere. As far as the countries with derogation are concerned, article 139 of the TFEU clearly stipulates which Treaty clauses do not refer to them as well as the fact that as long as there are such countries a General Council of the ECB will be constituted (despite the Board of Directors and the Executive Board) as its third governing body;
- There is some kind of formality in the relations between the members of the Eurozone, which finds its expression in the creation of the so called Euro Group. According to a special Protocol (N 14) "On the **Euro Group**", annexed to the TEU and TFEU, the Finance Ministers of the countries in the Eurozone which belong to this group conduct informal meetings within the ECOFIN (the format of the Council of the EU where the Economic and Finance Ministers of the EU-27 member states take part)" should the need arise discuss issues related to their common specific responsibilities about the single currency".[19] These meetings and the informal summits of the Eurozone members[20] are attended by the EC and the ECB. The members of the Euro Group vote a chairman for 2.5-year period with majority votes from the member states.[21]

Due to its numerous obligations, especially during the world financial and economic crisis, the Euro Group won recognition as a decisive factor in taking the most important decisions concerning the Eurozone and its individual member states. It is because of this factor that we have reasons to believe that the widely held view that ECOFIN was dominated by representatives of the Eurozone thus turning it into "European-ECOFIN" Council was revived (fears of creating "a Union within the Union", two-speed integration, undermining the ECB independence, etc.);

[17] This issue is discussed in detail in the book by Kaloyan Simeonov "Patyat kam Evrozonata – da plavash ili da ne plavash." Izdatelska kashta "Minerva", S., 2007, pp 43-54.

[18] See Consolidated version of the Treaty on European Union and the Treaty on the Functioning of the European Union. EU official journal. 30.03.2010, pp 281-282.

[19] Ibid, p. 283.

[20] See Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, Part V "Management of the Eurozone", article 12, pp 19-20. http://european-council.europa.eu/media/639253/01_-_tscg.bg.12.pdf

[21] President of the Euro Group is the finance minister of the Netherlands Jeroen Dijsselbloem.

- The Council of EU, the European Commission[22] and the ECB are among the EU institutions and bodies closely involved with the activity of the Eurozone and the Euro group. Chapter 2, title VIII, part three of the TFEU ("Provisions specific to member states whose currency is the euro") lists the obligations of the mentioned institutions, as well as the procedures under which their members that represent the countries in the Eurozone, participate in voting measures which aim to: strengthen the coordination and surveillance of their budgetary discipline (article 136, paragraph 1a); set out economic policy guidelines for them, while ensuring that they are compatible with those adopted for the whole of the Union (article 136, paragraph 1b); adopt a decision for setting out a common policy on issues of special interest to the EMU within the competent international financial institutions and conferences (article 138, paragraph 2);
- EU primary legislation outlines in detail the way and procedure of joining the EMU, respectively the Eurozone, but there are no clauses stipulating how a member of the Eurozone can leave it. Currently this can happen only if the particular country terminates its EU membership.

To provide an answer to the question about the future of the Eurozone, Greece's membership included, we should go back several decades and study the state of public spending and GDP ratio.[23] The most striking fact is that for the first time in history this ratio increased in the 1970s and 1980s of the 20th century leading to an increase both in debt and in fiscal pressure. In the first half of the 1990s the budget deficit and the government debt as a percentage of GDP in the EU member states decreased due to most countries' (12 out of 15) aspirations to take part in the creation of the Eurozone and immediately after that (01 January1999) they increased again. This means that with the approach of the third stage of the EMU and the foundation of the Eurozone, the macroeconomic stabilization in these countries is mostly subject to the debt decumulation and the bigger part of their governments are forced to implement extremely restrictive variants of fiscal policy.

The Stability and Growth Pact (SGP), which came into effect on 1 July 1998, actually creates a political framework for the coordination of the fiscal policies of the countries in the Monetary Union (the Eurozone). It introduces a more comprehensive (in comparison with the Maastricht Treaty) system of "fiscal discipline", which is revised and specified later in the Treaty on the Functioning of the European Union (TFEU) and the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union.

Regrettably the SGP focuses solely on the budget deficit and does not include any further sanctions for those countries

[22] Article 126 of the TFEU clearly outlines the parameters of the EC's obligation to oversee the state of the budget and the existing government debt in the EU member states in reference to their economic policies. See Consolidated version of the Treaty on European Union and the Treaty on the Functioning of the European Union. EU official journal. 30.03.2010, p.100.

[23] The information in this article related to this issue is taken from part two, chapter ten "Fiscal policy of the European Monetary Union" from Elisabetta Croci Angelini and Francesco Farina's book - "Macroeconomia dell'Unione Europea". Carocci editore, Roma, 2007, pp. 329-356.

which in 1998 did not meet the requirement for government debt/ GDP ratio below 60%. Those countries were admitted to the Eurozone just on the basis of an assessment that there existed a "tendency toward a decrease" in the parameters of this indicator.[24]

The number of countries that breach the Maastricht criteria for budget deficit and government debt as a percentage of GDP at the very founding of the Eurozone increases with time, and has become a common practice. That was how it became possible (no matter how provisional this is) to formulate the concepts of "core" and "periphery" of the Eurozone and the countries from the "periphery" (in this case the PIIGS) were given as examples of countries violating the financial discipline and countries with high indebtedness.

It is widely acknowledged that one of these countries – Greece became a member of the Eurozone by providing dubious statistical information about its economic and financial state. Ten years later (after 01 January 2001) Eurostat's database featured data proving that Greece's budget deficit in the year preceding its accession to the Eurozone (2000) amounted to 3.7% of GDP and in the year of its accession (2001) to 4.5% of GDP. [25]

An identical situation is observed in terms of the consolidated government debt as a percentage of GDP. Under this criterion Greece does not meet the Maastricht requirement for debt/GDP ratio of 60%. In the year right before its accession to the Eurozone (2000) the parameters of this indicator exceeded 100% (103.4%) and retained that level for another two years (2001 and 2002 – 103.7% and 101.7% respectively). In other words, Greece literally "sneaked" into the Eurozone and with time it became "the bone of contention" between various groups of member states.

Currently there are various scenarios concerning the future of the Eurozone in which Greece plays different roles. These scenarios can be presented as follows:

- **Optimistic scenario** – preserving the Eurozone with its current 17 members. This is officially supported by the leaders of the Eurozone and the leading member states in the Eurozone, by G-8 and by G-20. It is possible to implement this scenario since the EU has adopted further measures to restore the monetary union – one step is signing t**he Treaty on Stability, Coordination and Governance in the Economic and Monetary Union**[26] by all member states of the Eurozone and the creation of specific instruments like the European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM);[27]

[24] According to information provided by Eurostat, 7 countries besides Greece became members of the Eurozone with consolidated government debt/GDP ratio higher than 60%.

[25] The other 4 countries from the PIIGS group met the budget deficit as a percentage of GDP criteria as follows: Portugal – in 1999 (2.7%), Ireland – in 1995 (2.0%); Italy – in 1997 (2.7%); Spain – in 1998 (3.0%).

[26] It was signed on 02.03.2012 in Brussels and took effect on 1 January 2013. For further details: http://european-council.europa.eu/media/639253/01 - tscg.bg.12.pdf

[27] See http://www.efsf.europa.eu/about/index.htm and http://www.ecb.int/pub/pdf/other/art2_mb201107en_pp71-84en.pdf

- **Pessimistic scenario** – dissolution of the Eurozone and establishing a smaller but stricter regulated monetary union (the union of the "new euro") or the creation of two parallel monetary unions – in Northern and Southern Europe respectively (union of the "northern euro" and union of the "southern euro"). That is why a number of members of the Eurozone state that they are in the process of drawing plans in case the monetary union disintegrates;
- **Worst-case scenario** – disintegration of the Eurozone and along with it of the European Union itself. However, this will hardly happen (at least in the near future) since after the Second World War the Europeans agreed on avoiding a second collapse of the civilization (Stilian Yotov, 2012) and these sentiments will hardly lead to the destruction of the widely recognized model of providing peace, stability, democracy and economic growth;
- **Eccentric scenario** – Greece stays in the Eurozone (and the EU) but opposes the agreed–on rescue plan with the international financial creditors. In this case in order not to be expelled from the Eurozone and not go back to the Greek drachma, the country adopts another currency called "geuro". [28] This will allow it to devalue the euro, to adopt the "geuro" and after implementing the required financial and structural reforms, to go back to the euro. The later developments, however, did not give enough reasons to consider this scenario plausible and reliable;
- **Unexpected scenario** – preserving the Eurozone, but Germany either leaves it or becomes a more benevolent leading country.[29] It is believed that in itself this act will be destructive, but on the other hand, it will be one-time act and quite possible to be contained. In any case, it is a much better option than the chaotic leaving of the indebted countries which was sparked by speculations and capital flight;
- **Realistic scenario** – preserving the Eurozone with fewer members with Greece being the first country to leave it. This is the result of both internal and external pressure, i.e. we witness "divorce by mutual consent". Greece goes back to the drachma (in this case "new drachma") and the Eurozone leaders take measures against future attempts of other countries to leave the monetary union.

We uphold the claim that currently the EU leaders, mostly those of the Eurozone member states have their reasons (community or national interests, political correctness etc.) not to be interested in the disintegration of the monetary union and we would like to outline several other very important aspects of the issue under consideration:

Firstly, undoubtedly the Eurozone needs a new conceptual and contractual framework which will take into account the contemporary reality in all its dimensions – economic, political, geostrategic, even psychological. In that respect it is of great importance what direction will be followed –

[28] This scenario was presented in May 2012 by Deutsche Bank. See www.klassa.bg of 23 May 2012.
[29] This was suggested by George Soros. See http://dartsnews.bg/News/30189

to narrower or broader economic, fiscal and political integration. Being a typical follower of the idea for a better-integrated European Union, Germany, for instance, puts efforts into drawing up a new European agreement for some of the countries in the Eurozone, if not for all of them.

Secondly, it is high time that both European and Greek leaders become fully aware and firmly state whether Greece is in a position to restore its economic competitiveness under their Eurozone membership. It has been quite some time now that we observe extreme positions such as: Greece is a member of the Eurozone and should stay in it, but at the same time "the rescue of the euro is more important than rescuing Greece" (Angela Merkel); and Greece will not exit the Eurozone unless it stops performing its obligations (Jean Claude Junker), and the ECB will not make any concessions with key principles in order to keep Greece in the Eurozone (Mario Draghi).

Thirdly, it will not be correct to ignore the opinion of the Greek citizens in the assessment of the country's current situation and future development in the Eurozone.[30] The Greeks believe that their country has fallen victim to "policy and 'the mistakes' of the until recently European Union which has acquired the signs of a German European Union". This article of facts given in this article there are some which remain undisclosed for the Europeans such as: over a period of 21 years between 1981 and 2011 Greece was run by representatives of two families – the Karamanlis (uncle and nephew) and the Papandreou (father and son); Kostas Simitis, who graduated from a German university, as prime minister between 22 January 1996 – 08 March 2004 promoted German interests in Greece; in return for much of what it was granted, Greece had to "pay" its European allies (France, Germany, Sweden and others) with frigates, airplanes, submarines and others; Greece's inability to take out loans from third countries, but only from EU and IMF; loss of sovereignty and dignity, etc.

Fourth, we should keep in mind that both Greece and those who admitted it to the Eurozone despite its failure to meet accession requirements are to be blamed for its current situation. Both Greece and the European Union are to bear the responsibility for this difficult situation. If Greece was a country in Central Europe, Ivan Krastev aptly pointed out (Ivan Krastev, 2010), the Greek crisis would never have happened and Brussels "would have supervised closely what Athens does with its finance". In other words, what Brussels describes as shocking in Athens and Sofia is seen as simply embarrassing in Rome and Madrid.

Fifth, in the context of the above stated a kind of overhaul of the approach applied to Greece on the part of the international creditors – the troika, EC, ECB and IMF should be considered. After all, Greece deserves a more tolerant and gradual approach and acknowledgement of the accomplished so far (the most painful measures have been implemented). This

[30] See the opinion of Tassos Assimis in Krastyo Petkov's blog and some other opinions on www.capital.gr

is how the agreement reached at the end of November 2012 should be regulated for the reduction of the Greek debt by 40 billion USD, which means that in December 2012 a financial tranche worth 34.4 billion euro should be obtained.

6. Conclusion

If at the moment no one can forecast what might happen in case Greece decided to accomplish the first in the history of the Eurozone transition from common currency to new currency, there is no doubt that all interested parties know that this would have very serious consequences both for Greece and for the other member states. This is why the message which "The Greek Case" has for the EU (the Eurozone in particular), its leaders, countries and citizens should be analyzed carefully so that the Mints will not have to issue drachmas, pesetas, escudo, liras or any other national currency that has long gone in history.

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