

The Greek Sovereign Debt Crisis: Antecedents, Consequences and Reforms Capacity

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Abstract: The purpose of this paper is to investigate the antecedents and the consequences of the Greece debt crisis as well as highlighting the reforms capacity. The approach adopted in this paper is to answer the questions such as “what is the background of the Greece debt crisis and how it is originated?”, “which antecedents caused the Greece vulnerable to the crisis?”, “what are the twin constraints being faced by Greece and its consequences?”, “which measures are taken to gain fiscal stability in the Greece under Stability and Growth Pact?” and “what are the rescue possibilities available to Greece to withstand the crisis? Is bail out the only possible solution?” These questions are used to guide the search or studies and analysis thereof and major emerging themes are presented. The key findings of the study are some main factors that triggered the crisis. These are misstated statistics by Greek government, weak co-ordination and organization, high expenditures in comparison to revenues, corruption, tax evasion, weak welfare system and inflexible employment laws. The research limitation is based on the limited scope of the study as some important question regarding the Greece debt crisis is yet to be answered and some aspects of literature are needed to be explored further. Since the main objective of this study is to explore the antecedents that caused Greece vulnerable to the crisis and its aftermaths, it also aims at explaining the fiscal stability measures under taken by Greece under Stability and Growth Pact along with explaining the bail- out alternative available to the Greece perhaps as a last resort. Moreover, this paper highlights the various steps being upheld for reforming Economic Monetary Union (EMU) governance. Thus, this study provides an opportunity to probe into the overall economic and fiscal scenario of Greece under debt crisis.

Key Words: *Debt Crisis, Maastricht, Stability and Growth Pact, Greece, Euro-Zone*

1. Introduction

The Greek debt crisis exploded in 2009 during autumn generated confronts to the governance of the ‘Euro-Zone’ and to Greece government as well. In 2010, public debt of Greece has reached 290 billion Euro and public debt to GDP ratio has reached to 12.7 percent. This ratio is four times greater than the allowed ratio in Stability and Growth Pact for the member countries that shaped extraordinary challenges to both governance of Greece and the Euro-Zone. It created a blaze on the global economies and acknowledged international consideration. Due to the Greece crisis, the flaw of governance of Greece as well as of Euro-Zone was disclosed. Consecutive governments in Athens remained unsuccessful in overcoming the widespread problem of imbalanced trade and investment, low competitiveness and mismanagement, which made it vulnerable. Once the crisis exploded, there was a lack of timely and effective response from the Council of Ministers of European Council and European Central Bank. There was threefold allegation: the limitations on local reforms became absolute to EU incentive; Euro is more exposed to crisis than recognized before; and the early debate on reforms of Euro governance indicated that its fundamental philosophy has not moved appreciably towards more useful economic governance.

Greece became the ‘financial black hole’ and being referred as the ‘sick man’ of Euro-Zone. Goldman Sachs was accused of helping Greece to mask its government debt (Story, Thomas & Schwartz, 2010a). As shown in the British election of May 2010, Greece turned out to be an epitome for the dreadful hysterical deficits. In October 2009, Fitch had down shifted the Greek credibility to A- and further degraded to BBB+ by the end of December 2009. Standards & Poor’s and Moody also downgraded the Greece on the same grounds. Awful estimations were suddenly made considering the economic scenario of Greece: Greece should leave the Euro-Zone; bail out would be a safe heaven or menace; the Euro-Zone has to be partitioned on a north-south basis; and still that the rescue package is made to direct toward default. This kind of cynicism was in distinct disparity to pre-crisis assessments of the collapse of Euro as being very rare. The reason behind the Greece crisis was the behavior of its institutions, as they behaved

dysfunctional which was neither forecasted nor expected. ECB crossed its 'Rubicon' to buy bonds of government of Euro Area that were unwanted by the market. The unquestionably the cost of intrusion was increased due to delay in response to Greece crisis and consequently the bail-out amount have to be increased from 110 billion Euro to 750 billion Euro

Different fiscal promises are made by the Greece government to address this issue and to regain its credibility in the Euro-Zone. On 15th and 16th February 2010, European Commission in harmony with Financial and Economic Ministers of EU, gave their judgment about the stability programme offered by Greece to reduce its public deficit to the figure of 3 percent of GDP till 2012. The government is taking several austerity measures to make this possible which includes the reduction in expenditures, increase in tax collections, rise in petroleum product's duties, no further recruitment, the increase in retirement age limit and no rise in civil employee's wages during 2010 including Prime minister. Although the other European members have undergone the same problems with respect to budget deficit and public debt, yet the intensity of this problem is not equivalent to Greece. Consequently, the market was badly affected leading towards the major depreciation of Euro against dollar for the first time. The issues regarding such macroeconomic scenario originated multiple questions are to be answered.

This study answers the following research questions:

- What is the background of the Greece debt crisis: how it is originated?
- Which antecedents caused the Greece vulnerable to the crisis?
- What are the twin constraints being faced by Greece and its consequences?
- Which measures are taken to gain fiscal stability in the Greece under Stability and Growth Pact?
- What are the rescue possibilities available to Greece to withstand the crisis? Is bail out the only possible solution?
- What are the reforms being undertaken for EMU governance?

2. How the Crisis Originated Background and Antecedents

Before turning to the economic indicators of the Greek crisis, it is important to place them in a political context by noting the endemic weaknesses of the state and the systemic underpinnings that have prevented social consensus on much-delayed structural reforms. It was observed that Greece had been able to maintain fiscal control and debt regulation by the end of the 1990's due to partial benefit of Euro membership and prevailing lower interest rates. In contrast, in 1980's and early 1990's such interest payment contributed toward in major portion of state deficit .Low level of public saving had acted as persistent barrier toward financing this deficit. Since 1990, the state saving's rate had been hovered around just 11% on average. This resulted in the need of funds to generate externally thus accounting for major portion of Greece government debt being detained by foreign banks. By end of 2010, 80% of Greek debt was being held abroad with amount Euro 224 billion according to authorized sources (Rossi & Aguilera, 2010). At the time of joining Euro-Zone in 2001, Greece had very high public debt to GDP ratio i.e. 101.5 percent. It means that Greece was unable to sustain the limit of Maastricht Criteria i.e. 60 percent. The structural flaw regarding the financial imbalance, in Greece, remained hidden due to low public debt to national revenue ratio, as GDP was high.

Table 1: Greece's macroeconomic performance since the 1980's

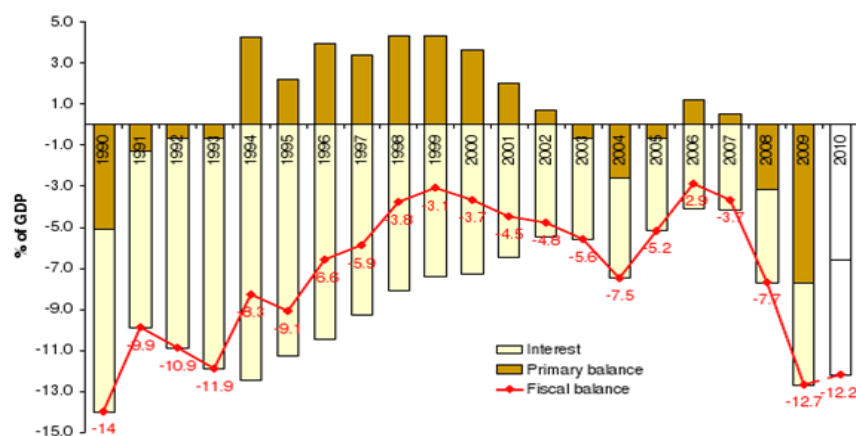
Period	Government balance (% of GDP)	Current account balance (% of GDP)	Exchange rate (% change vs. USD)
1980s	-8.1	-3.9	-281
1990s	-8.5	-2.5	-93
2000s	-4.9	-9.1	+35

Source: International Monetary Fund Statistics

The flicker that burst into flames in the form of international unease about the fiscal situation of Greece appear on 20th of October in 2009, when the new finance minister, George Papakonstantinou, revealed that the figures that the previous government of Costas Karamanlis (New Democracy) had been showing were misstated. He announced that the deficit is 12.8 percent of GDP instead of 3.6 percent of GDP. Then he further upgraded the rate to 13.6 percent on 22nd April 2010. Papakonstantinou was criticized as

critics believe that by making such striking declaration, he has been playing with dynamite. They further argue that initially the deficit was enclosed with short-term bond concerns. The critics found the government as sluggish in taking actions as the new governor of the Bank of Greece, George Provopoulos, declared the deficit for the year of 2009 as below 10 percent but will rise in future, days after the election. The wrong disclosure of figures by Greece made it difficult to anticipate the fiscal discipline and the borrowing capability of the Greek government and the trust of investors were shaken. It is reported by Eurostat on 12th January 2010 that Greek data is unreliable; in fact, in 2005-09 it had grounds to question their precision five times. Even the Greek National Statistical Service was declared as “joke” by the new prime minister of Greece, George Papandreou (Papandreou, 2010b). While reporting the exaggerated fiscal position of the Greece, it was stated by Alogoskoufis that the Maastricht Criteria has not fulfilled i.e. 3% of GDP (Featherstone, 2008). The major cause behind the crisis was weak co-ordination and organization which was evident in the budget management process. In 2009 the budget was based on separate 14000 ‘budget lines’ and each ‘line’ depicts grouped spending items within division of public administration. The management system is deficient in having competency regarding judging and tracking the effectiveness of the spending due to overabundance and ambiguity in the ‘budget lines’. The problem of insufficient knowledge is the major obstacle in the evaluation of policies against varying preferences of government.

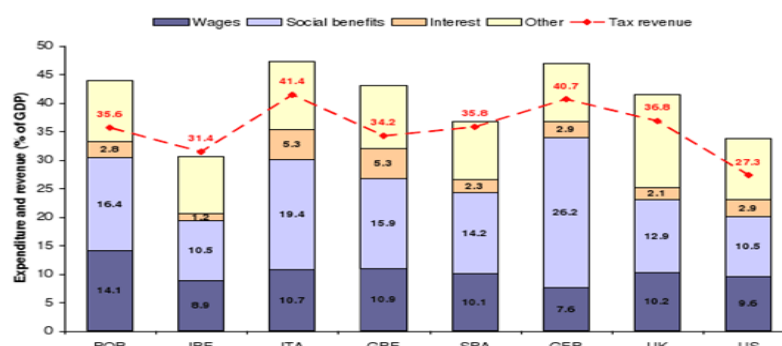
Figure 1: Greece budget deficit history



Source: European commission, Budget Deficit Document 2009

Moreover, besides weak coordination, the vast possibility for corruption prevailed in Greece. Corruption Perception Index grade Greece at worst place in comparison to any south European equivalent, due to exceptionally high corruption (Transparency International, 2010). The level of tax evasion in 2006 was recorded as 30 percent i.e. 3.4 percent of GDP (in.gr, 2009a) while the expenditures were very high as compared to revenues. All these factors placed Greece at 86th position out of 133 states on international level and had been considering Greece at the lowest among EU-Zone (World Economic Forum, 2009)

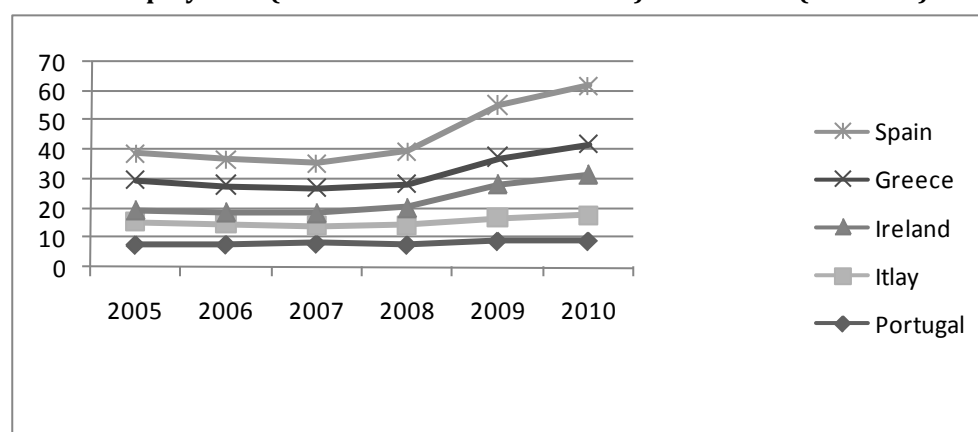
Figure 2: Comparison of expenditure and tax revenue (2000-2007 average)



Source: International Monetary Fund (IMF), GFS Statistics 2007

The expenditures of Greek government are huge especially in health and education sector, not only they are huge but are being managed inefficiently. Papandreou in 2010 stated that the health service of the state corresponded by utmost level of private spending in EU. There also lies a contrast in education sector as well; on one hand they are spending utmost level of money on education and on the other hand they are fiercely resisting the free education in Greece. The combination of political customs i.e. corruption and clientelism and noninterventionist formal structures of democracy is another absurdity that the Greek government is facing (Mitsopoulos & Pelagidis, 2006, 2010). This political culture i.e. slow and temporary is the biggest hindrance in the way of reform programs about health, pension schemes and labor culture (Featherstone & Papadimitriou, 2008). Reforms put out of action due to set off between weak welfare system and inflexible employment laws (Featherstone, 2005; Papadimitriou, 2005; Katrougalos & Lazaridis, 2003; and Featherstone & Tinios, 2006). For more than a decade Greece has been facing the dilemma of structural unemployment particularly amongst young workers. These feebly imposed inflexible laws were compensated by, up to 29.5 percent of GDP, elasticity presented by huge informal economy (Schneider *et al.*, 2010).

Figure 3: Unemployment (% of the Civilian Labor Force) – Euro Area (2005–10)

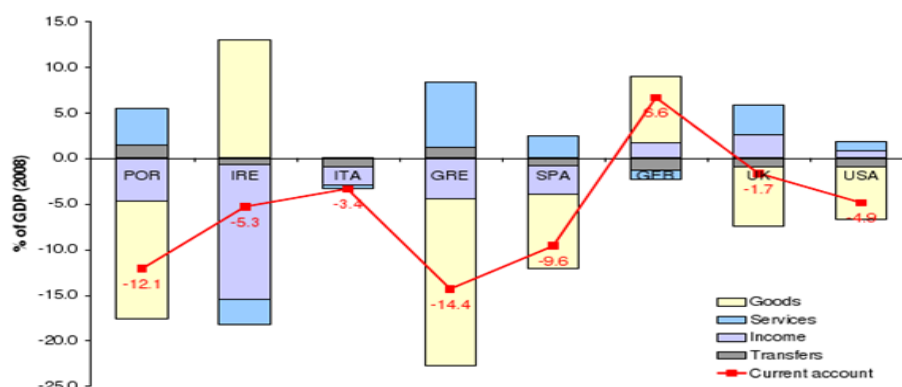


Source: European Union Commission Statistics (2009)

3. Greece under Twin Crisis

It has been observed that the stabilization and progress of macroeconomic development becomes a difficult course for the countries with running continual current account and fiscal deficits as the refinancing from abroad is usually required to compensate the insufficient level of domestic saving. This problem becomes even worse in case of unsteady global capital flow. Greece has experienced a rapid down turn in its current account deficit. The current account deficit of Greece was in double figures after 2006 and in 2008 it further reached to \$51.5 billion, which is comparatively high for a small economy like Greece. The foremost cause behind this undue deficit was the amplified consumer demand resulting in high volume of manufacturing imports (Rossi & Aguilera, 2010).

Figure 4: Current account balances of PIIGS versus Germany, UK, US



Source: International Monetary Fund (IMF), BOPS 2008.

Conversely, according to some analysts the lack of competitiveness in manufacturing and small industrial sector over the long period of time is the main concern addressing the persistent trade deficit. In this respect Greece contribution of 11.8% of GDP in 2007 is importantly small when compared with other industrialized EU countries. Private sector further triggered the external debt problem as the high public spending as compared to low local savings led to the need of financing from abroad. Emergency ECB funding was seemed as a tool for financing especially after the global capital market got dried up on the inception of credit crisis. The presence of twin deficits is not restrained to Greece only. The same problem of unstable fiscal scenario and excessive current account deficit is being experienced by Portugal and Spain. The devaluation may be a solution that may propose rapid mode of enhancing the net trade with price sensitive export countries such as UK. But these countries being the members of EMU are bound to follow EMU rules thus devaluation cannot be exercised. As an alternative, the cost competitiveness is seen to be attained by typically cutting the wages and prices and net trade. Moreover it is required to enhance the export performance over the long run by implementing further structural advancements in skills and industries.

The condition is further deteriorated due to presence of trading supremacy in the EMU like Germany that enjoys both skill and technological competitiveness. Hence, it is hard to imagine that how EMU economies will be able to manage such excessive external account imbalances without undergoing deep slumps in the short run and under lethargic growth prospects over the next decade. The lasting expansion in export performance can be only solution to address this growth constraint. However, attaining fiscal prudence and controlling the external trade imbalances even by compromising growth can drive out market fright of a sovereign debt crisis and its severe aftermaths, at the very least. Unfortunately twin deficits are not the only problem Greece is facing. The major portion of its public sector debt is external making the process of refinancing a complex cross border practice.

4. Fiscal Stability under Stability and Growth Pact

As far signatories of Stability and Growth Pact in 1997, member's states of EU are bound to maintain the steady fiscal deficits and debt levels. It is essential to have a general idea of constitution of Economic and Monetary Union of EU while we are analyzing the economic position of Greece. According to the constitution of Economic and Monetary Union, any country, who wants to adopt the Euro as currency or in other words wants to join Euro-Zone, have to fulfill certain criteria called the "Maastricht criteria". According to the Maastricht Criteria:

- The inflation rate of the applicant state should not be more than 1.5 percent, in comparison with the average of three EU member states who pertains the lowest inflation rates during the previous year.
- The long term interest rates of the applicant state should not be more than 2 percent, in comparison EU member states with the lowest inflation rates.
- The applicant state, before joining Euro-Zone, has to adopt exchange-rate mechanism (ERM II) for successive two years and during this period it is not allowed to devalue the currency.
- At the end of foregoing fiscal period, the government budget of the applicant state should not be more than 3 percent of each member state's GDP.
- At the end of foregoing fiscal period, the gross to GDP ratio should not be more than 60 percent.

Stability and Growth Pact is responsible for the scrutiny of all the member states through measurable and concrete techniques. Under this Pact, there are proper rules and regulations for organizing financial polices at national level as for proper and efficient function of Economic and Monetary Union, the continuation of strong financial policies is critical. Preventive approach and dissuasive approach are the two levels of strategy that are being adopted under Stability and Growth Pact. Under preventive approach, it is mandatory for each member state to submit a report showing the stability and convergence policy annually. These reports help the European Commission to get an idea of financial and economic position of the state, to evaluate the policies, to be able to give a forewarning about the disproportionate debt and to give its recommendations regarding the problem if any. Dissuasive approach deals with the problem of EDP (excessive deficit procedure). This procedure constitutes the steps regarding the inquiry about the deficit and in case of any breach of treaty by increasing its deficit more than 3 percent of GDP, by any member state, the council comes into action. The council then give

recommendations to the state and provide a time period to solve the problem. If any state does not abide the recommendations than further strict action will be taken by the council even sanctions can be applied.

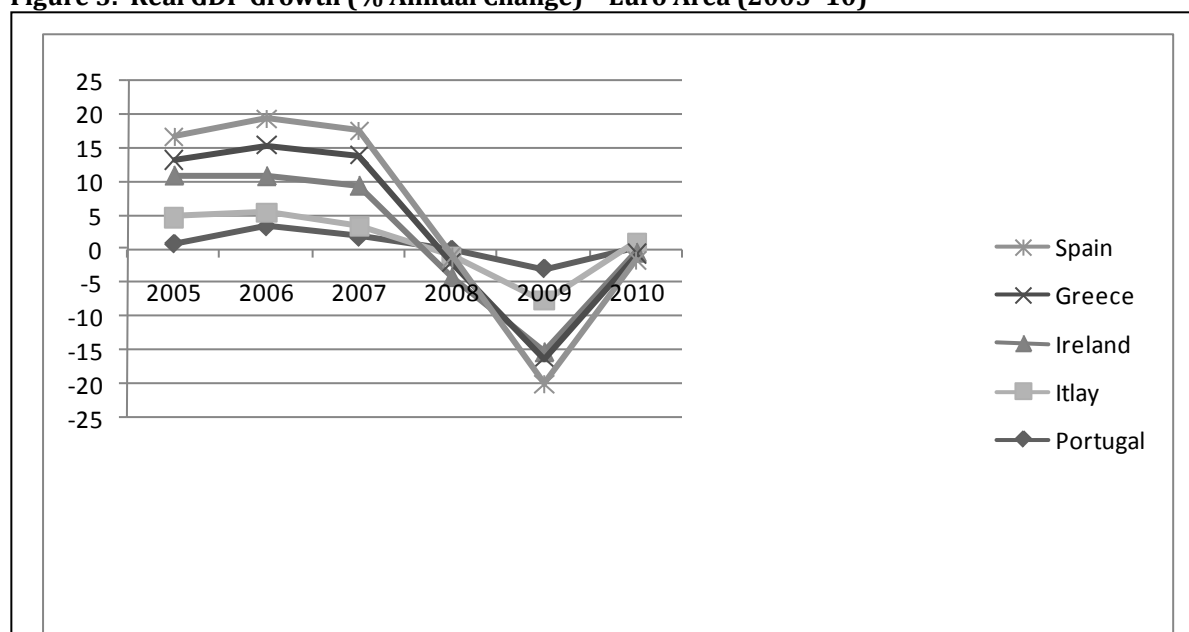
If any member state is seen not to follow these rules and further taking no rectifying measures within 16 months then sanction can be imposed by European Council. These sanctions come in the form of a deposit bearing no interest within the Community which encompasses two parts: a fixed percent of GDP i.e. 0.2% and 1/10th of difference of 3percent GDP (a reference value) and percentage of deficit to GDP for the year in which it was high. However, the Stability and Growth Pact has not been implemented sufficiently in the past. As an example, disciplinary measures were initiated in 2002 against Portugal and in 2005 against Greece but such disciplinary actions were not taken against Germany and France who debt-to-GDP ratio had violated the 60%, earlier in the decade, (Featherstone, 2011). The Stability and Growth Pact was modified in 2005 rendered it more flexible by containing cyclical alterations. In November 2009, referring to the prevailing fiscal deficits and excessive external debts, the European commission set target to rectify the fiscal deficit in several member states. These targets are stretched over year 2012-2013. Further analysis were made for some of the most critical countries – Greece, Spain, France, Ireland and the UK, given relaxation in time required for compliance but it was found that Greece had not taken enough corrective measures to deal with its fiscal position depicting excessive spending in capital expenditures and labor compensation along with large deterioration in deficits as stated by the newly elected government.

Under above scenario in order to satisfy European Commission and to drive out the market fear, Greek government was forced down to introduce an encouraging lay out for its fiscal prudence and budgetary restructuring. This resulted in the Greece's Stability and growth program embarked in mid January. It intends to cut down the budget deficit by 3% by 2012. This is proposed to achieve through reduction in public sector worker compensation, defense, and health care as well as increased tax collection. The government is taking several measures to make this possible which includes the reduction in expenditures, increase in tax collections, rise in petroleum product's duties, no further recruitment, the increase in retirement age limit and no rise in civil employee's wages during 2010 including Prime minister. This stability programme was not only supported by The European Commission and the leaders of EU states but they also recommended some suggestions to achieve this target and they also emphasized the strict monitoring of Greece government so that the plan can be implemented efficiently. European Commission suggested reforms to enhance the competence and transparency of public administration, labor market, financial sector, banking sector, social security and health sector. But there were some constraints that hinder these reforms. It was crucial for the Greece government to implement reforms in social security and reorganize it, with the aging population. Moreover, a big share of state's budget will be spent on social security which is very high in comparison with other states of European Union.

Many critics of USA declare it as a moral failure and reluctance of enforcing reforms regarding taxation and public spending. The feebleness of institutions of European Union is evident from the budgetary problem of Euro-Zone members. It is evident that Maastricht treaty had failed to achieve its targets regarding the fiscal discipline. It was claimed that European policy makers have failed to enforce Maastricht rules properly and in proper response towards crisis (Roberts, 2010). On 15th and 16th February 2010, European Commission in harmony with Financial and Economic Ministers of EU, gave their judgment about the stability programme offered by Greece to reduce its public deficit to the figure of 3 percent of GDP till 2012. They emphasized on a timetable and a revaluation process for the implementation of measures and some extra measures in case of need. It was also decided that a monitoring system should be made so that the European Commission will be able to evaluate the performance of Greece and to know that whether they are following the instructions or not. The report regarding stability programme must be submitted to European Commission, by Greece, on 26th of March 2010 and later on after every three months.

After the scandal of misleading statistics, it was promised that the national statistical service would be refurbished. Regardless of expected 0.3% fall in GDP by the end of 2010 and the rise in growth by 2.5 %, up till 2013, financial market behaved negatively. As it was believed that, it is very difficult to achieve these targets and the ways by which government will reduce the spending after 2010. There was doubtfulness about the forecasted GDP growth rate as well (Rossi & Aguilera, 2010).

Figure 5: Real GDP Growth (% Annual Change) – Euro Area (2005-10)



Source: European Union Commission Statistics (2009)

Although the other European members have undergone the same problems with respect to budget deficit and public debt, yet the intensity of this problem is not equivalent to Greece consequently, the market was badly affected leading towards the major depreciation of Euro against dollar for the first time. In October 2009, The Fitch shifts Greece from the category 'A' to the category 'A-'. Due to inadequate efforts by Greek government and pessimistic forecast by European Union, Fitch placed Greece in BBB+ category in December 2009. Similarly Standard & Poor's shifted Greece from 'A-' to 'BBB+' category and Moody shifted Greece from 'A2' to 'A1' category. The banks of Germany and France have financial claims on Greece, Portugal, Ireland and Spain so these richest countries of European Union i.e. Germany and France are worried regarding their financial markets as their banks are severely affected by the Greece crisis as a result the overall scenario of the debt crisis has worsen. All the states like Greece, Spain, France and Portugal, will bother the entire financial system of European Union as they have financial concerns and had taken loan or issued shares to other states.

5. Is bail-out the only possible solution?

There are only two options available for the Greece i.e. either declares itself as a default or to accept a rescue plan. While considering the bailout option it is important to sort out who will be the rescuer. At a glance, either EU or the IMF seems to be the prominent parties in rescue plan but they have already provided aid to a large number of affected economies during preceding two years. In fact IMF seems to be a rational choice that provides support under three heads generally; flexible credit line, stand by arrangements and extended fund facility (Rossi & Aguilera, 2010). IMF awarded the flexible credit lines to economies having sound basics to avert crisis. No definite policies are fastened to such loans. Stands by arrangements accounts for major portion of IMF financing. These loans are provided to economies having issues of balance of payments in the short run. This rescue package usually disbursed in 12 to 24 months and become due in 3 to 5 years. The economies, which are in immense, need of basic restructuring and addressing severe issues of balance of payment problem can avail such loans. This rescue package usually disbursed in 3 or more years and become due in 5 to 10 years. Flexible credit lines are not suitable for Greece as Greece does not meet the criteria so stand by arrangements are the most suitable rescue arrangements for the Greece.

Greece had been made to wait for its rescue. Papakonstantinou, as Finance Minister, told the Greek parliament on 6 May 2010: In less than two weeks, a 9 billion-euro bond comes due and the state coffers don't have this money. As we speak today, the country cannot borrow it from foreign markets and the only way to avoid bankruptcy and a halt on payments is to get this money from our European partners

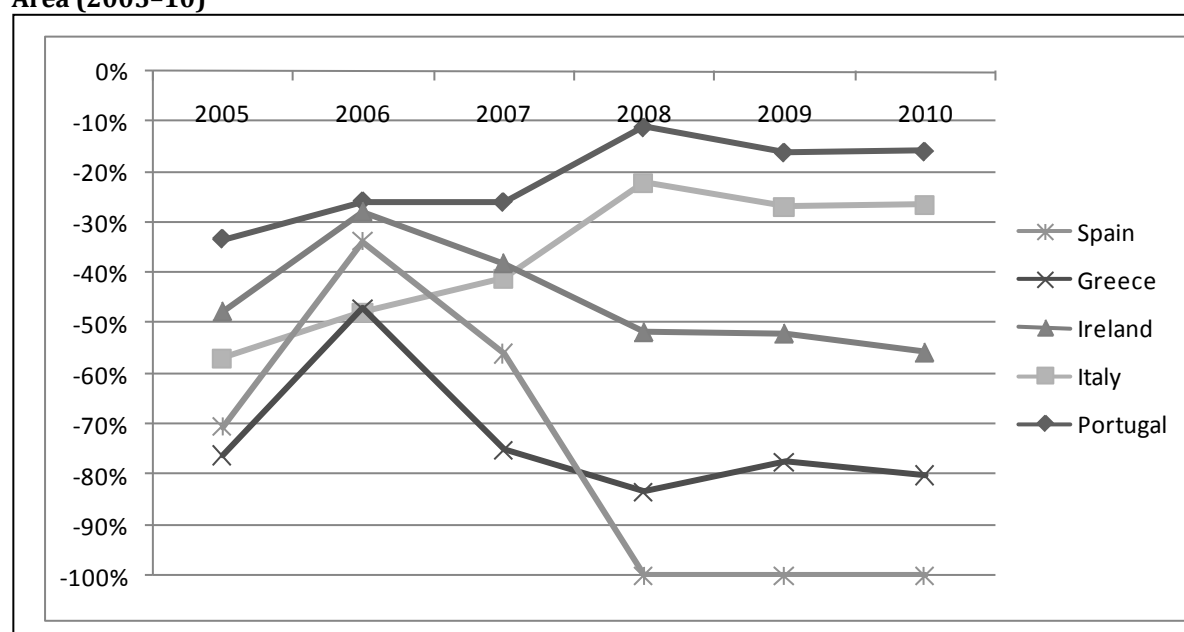
and the IMF (Finance Minister, 2010). After the address of Minister, the investors demand for Greek ten-year bonds in comparison to German debt reached to a massive level of 760 base points. It was clear that EU has no other option than accepting the rescue plan for Greece otherwise Euro system would be in great jeopardy (Feather stone, 2011).

The rescue programme of IMF for Greece resulted in jitter in the market as the integrity of euro area is seems to fall out so it is preferred that the states of European Union provide the bail-out plan for Greece rather than IMF. After the downfall of Lehman Brothers on 14 September 2008, EU, as a whole, had varied record regarding the response towards the banking crisis, preceding to the 'shock' of Greece. Even though, Maastricht Treaty failed in providing proper crisis management. Furthermore Eurosystem failed in proper dealing of crisis due to slow reaction, policy prudence, lack of proper equipment and centralized actions although EU were very positive about the success of precautionary rules (Pisani-Ferry and Sapir, 2009; De Grauwe, 2010). In fact, the states of European Union cannot contribute much in this respect. The larger economies have a special concern regarding the possibility that they would finally have to provide bail out financing to certain irresponsible members lacking fiscal prudence. For this reason, the Maastricht Treaty contains no bailout clause to alleviate prospective problems of such moral perils. Nevertheless, in case of extreme situation Maastricht Treaty do not prohibits to help. As the global crisis was the only significant factor behind the long-term concern of public sector management. Consequently, the responsibility of rescuing Greece falls directly on Germany and France being the major states of European Union.

Market institutions and analyst showed high concern regarding Greece that whether it would be stood as defaulter on its debts or would be undergone restructuring. As for the conditions imposed by Maastricht treaty Greece cannot be expelled and there is low chances of voluntary exit. Yet an "off-market" loan to help Greece for refinancing for three years is being made available, the critical period would start once the loan had finished. The reaction towards Greece crisis in Germany was baffle and unreceptive. There was huge criticism on Greek government by the press. They demand to sell either islands or the Acropolis by the Greek government for the repayment of their debt rather than the bailout plan. The German public was encouraging in delaying the bailout plan for Greece. Even on 9th may 2010 at North-Rhine Westfalia, Merkel (the new German chancellor) faced a difficult election due to the bailout programme for the Greece as at that time Germany was about to help Greece in repayment of its debts. Merkel is such a chancellor, who prefer the national interests rather than EU as a whole and there has been no such chancellor in the history of Germany who has such restricted interest for the prosperity of European projects.

ECB and Euro Area countries exhibited lateness, incompetency and division toward the problem of Greece crisis. Greece should solve the crisis itself out was the initial response from Ecofin rather than a bailout programme. EU turned to 'deaf ear' in response to calls for bailout (FT, 2010e) but instead In article 126(9) it is demanded that Greece government should reduce its deficits and solve its discrepancies so that in this way the risk of improper functioning of EMU could be minimized (Council of the European Union, 2010). At last there called a meeting of European Council on 26th march 2010, in which Euro area leaders agreed for rescuing the Greece along with the one-third contributions from IMF. However the condition for bailout was the agreeableness of each state and the abidance of instructions by Greece so Greece was subjected to strict scrutiny. Due to severe market pressure, on 23rd April 2010, the Greek Prime Minister (George Papandreou) called for the activation of bailout plan. On 2nd may 2010, after every possible risky delay an amount of 100 billion euro was given as loan to Greece with stringent conditions. The more the EU countries tried to avoid the rescue plan the more they dragged into it; they left with no other option to accept the bailout plan, not only to rescue Greece but their own banking system as well. EU promised €80 billion to Greece, in which Germany contributed 27.9 percent, France contributed 21.0 percent, Italy contributed 18.4 percent and other Euro area government (BNP Paribas, 2010) contributes the rest.

Figure 6: Net Lending (+) or Net Borrowing (-) General Government Balance (%of GDP) - Euro Area (2005-10)



Source: European Union Commission Statistics (2009)

Greece is forecasted to take loan of Euro 17.1 billion just to fund its interest payments by 2012. It was being questioned by observers that whether refinancing of that level of debt would be affordable for Greece. The Greek debt is forecasted by Standard and poor to be 144 percent of GDP by the end of year 2015 and further it is being feared that by 2016 it would be 165-189 percent while others assumed a real possibility of default risk. According to statement given by Willem Buiter at Citibank the default seems cogent with no key deficits but with massive interest payments. On the other side, in August 2010, the Slovakian foreign minister attacked the rescue package for Greece by describing it as the "solidarity of the responsible with the irresponsible" (Der standard, 2010). For three times in past, 1830s, in 1893 and in the 1930s Greece had undergone default (Lykogiannis, 2002, pp. 27, 35-6). Like Mexico (1994), Argentina also declared as default in 2001 even their level of public deficits and debts were low as compared to Greece. Argentina came to a decision of disposing peg of peso with USD. Consequently their currency lost more than half of its worth immediately, the savings of middle class were exhausted, new bonds with the "haircut" of 75% were issued to the creditors and there was a heavy loss to the foreign investors (Olivares-Caminal, 2009; Buckley, 2006, 2010; Porzecanski, 2005). In Mexico, the remnants of crisis were the fall down in the currency and the poor economic performance (Adelman, 1998).

Now Greece crisis is not the problem of Greece only rather its effects are being realized on other countries as well. So, the bailout programme was to limit the effects of crisis to save other effected states; Spain, Portugal and Ireland. Due to economic recession followed by global financial crisis, the other states have to increase their public spending which results in deficit budgets and high public debts. In 2009, the public deficit for Portugal, Ireland, France and Spain was 8%, 12.5%, 8.3% and 12.7% respectively. Moreover public debt to GDP ratio stood at 77.4%, 76.1%, 65.8% and 114.6% for Portugal, France, Ireland and Italy respectively.

6. Reforming EMU Governance

Greece crisis is the decisive moments for the reforming of Euro area so that such incidents can be avoided in future. However, EU treaties hinder these reforms, as they have to be changed, hence the scope of reforms was restricted. The other hindrance in making reforms is the lack of political spirit among the majority of governments. On 9th May 2010, the step towards reform was taken by ascertaining a mechanism of rescue i.e. 'European Financial Stability Fund'. This mechanism aimed to establish a check over the accumulated debts of the member states and to realize threats, if any, to the Euro due to these debts. Under this mechanism a fund of 750 billion Euro was created and the supporters consider this mechanism parallel to 'shock and awe' in order to prevail over doubts of market.

The arguments regarding reforms gained momentum. For all the confusions to be solved, the European Council created a task force. This task force was under the supervision of Herman von Rompuy along with 27 other finance ministers. They were directed to present their report in the next meeting that held on 28th of October 2010 and in that meeting, ECB advised amendments. There was harmony towards the revision of the rule of Stability and Growth Pact regarding the level of national debts i.e. 60 percents. If such reforms were not made then 12 member states of European Union would be committing breach of treaty. The inclusion of both public and private debt with connotation for national performance was also a point of debate. As if only public debt was included then Italy would be the 'offender' and Spain would be the 'righteous' and if both debts were included then the case would be reversed. A further point at which all the member states were agreed was the reviewing of annual budget's draft in the self-styled 'European semester'. For this purpose a schedule was made commencing in January 2011 (Featherstone, 2011).

Now German government is using the language of 'economic governance', in reaction to Greece crisis although preceding to Maastricht, this was removed by ancestors. Just as Maastricht, Paris was eager to move ahead at great speed with Germany and their two sided axis came into sight, to be restored by the crisis. On 21st July 2010 a joint paper was presented by Christine Lagarde and Wolfgang Schauble on the topic of economic governance. It imagined the option of neutralizing the voting rights of a delinquent state in the Minister's Council and of compelling to make deposits, which bears interest, with the Commission (Euroactiv, 2010a). Such reforms although allow nine member states to prosper without waiting for others but the intuition regarding Germany was for the revolution to be sacred by a treaty. Commission presented the report of proposal along with permits, extensive economic inspection, fiscal monitoring and reporting, at the end of September 2010 (Commission, 2010d). Critically, the package - six governmental suggestions, did not demand any changes in the treaty. Stability and Growth Pact became more rules based. A mechanism of reverse voting was adopted. According to the mechanism the proposal for sanction that is presented by the commission will be accepted if qualifies majority voted in favor. A similar concept had been supported by ECB (Euroactiv, 2010b). So, all the states that will considerably deviate from the rules of SGP, regarding the deficit and public debts, would be required to make an interest bearing deposit. Moreover, if the state failed to take corrective measures then its deposit would be equal to 0.2 percent of GDP and this deposit would be changed into penalty in case of unconformity. The interest that would be earned on such deposits will be transfer to all the worthy members of European Union who abide the rules of treaty.

To make sure that the national fiscal budgets pursued steady policies of budgetary procedures, accounting, forecasting, fiscal rules, statistical reporting and fiscal relations with regional and local authorities; a new decree setting out least requirements was projected. Furthermore It was being advocated by the commission that the macroeconomic imbalances should be properly monitored (Commission, 2010). Most of the concern put forwarded by the ECB'S president, Jean-Claude Trichet was addressed by the commission's package. Five key questions had been underlines on which performance of EMU reforms ought to be ascertained by the European Parliament's Economic and Monetary Affairs Committee on 27 September.

- At first, does the weaknesses that might lead to a future crisis are being properly handled by the fiscal surveillance framework.
- Secondly, are the imbalances of external debt and losses of competitiveness being properly adjusted under the macroeconomic scrutiny framework?
- Third, are the enforcement mechanisms of fiscal and macroeconomic surveillance quasi-automatic and the enlarged sanctions sufficient to protect other members and the monetary union on the whole?
- Fourth, does the agenda include suitable autonomy in supervision and immaculate quality tests of statistics and analysis?
- Finally, are the national frameworks fully incorporating the new principles of economic governance (Trichet, 2010).

There was abrupt criticism on the proposals made by commission. On the ground of presence of too narrow framework of Maastricht design, the increase in strength of sanctions without sufficient institutional advancements of economic governance was mocked by the people.(for example, Charles Wyplosz; see VoxEU, 2010. The authority of the Commission to enforce fines against a democratically elected government was questioned, as was the notion of *ex ante* validation of national budgets.

Furthermore, the commission was blamed that the layout envisioned for the adjustment of imbalances is based on short-termism. Beyond such deterrence and penalty decisions, the need to establish new resources and organizations at EU level was debated (Gros and Mayer, 2010)

In spite of the wide ranging package presented by the commission, the Von Rompuy reports was postponed and press leaks found it as indistinct and unmotivated (Eurointelligence, 2010). The uncertainty, of course, remained there whether the package would be successful or what reforms might be executed. No doubt, Euro-Zone is on extreme turbulence at present and it reprieves on frail compromises among the member states along with the assorted political and economic features but it is young as was United State in 1837. The existing financial and debt crisis made it obvious that there are flaws in the institutions of EU and there is a need of correction. By considering the example of USA (in 1842 when United State also faced the debt crisis and was at verge of default), we can conclude that the process of correction would neither be easy nor quick. This may take years as there would be social as well as political consequences of reforms which are difficult to be deal with. So Just as it would have been an error to declare the United states "that blasted country" by Anthony de Rothschildin in 1842, it would be premature to announce Euro-Zone as 'failed experiment' (Roberts, 2010).

7. Conclusions and Policy Implications

The prevailing economic and financial scenario of Greece has exposed the flaws in the EMU governance framework. The deep economic recession and the credit shortage in the member countries of Euro-Zone highlighted the two set of literatures: the performance of Greek state institutions on unsound and dysfunctional grounds and the discrepancy in the framework of Maastricht being evident by its history. The Dodging of the entry criteria for joining the EMU had pointed the common interest of not revealing the state's slackness and lack of discipline. Moreover, the reservations regarding the authenticity and harmony rose after the EMU crisis of 2010. Indeed, as Dyson observed, 'the fundamental point remained that the German model failed to offer an adequate basis for a sustainable EMU', a 'new sense of solidarity that would support "burden-sharing" within EMU' was likely to prove elusive, as 'EMU's Achilles' heel was the prospect of people being asked to make Sacrifices for others with whom there was a weak sense of identity' (Dyson and Featherstone, 1999, see also McKay, 1999). Significantly, the inborn state failure in the Greece resulted in the debt crisis 2010. The Financial and Economic policies of European Union and the competency of surveillance framework have been questioned after the disclosure of Greece crisis. Thus, Greece has been announced as "sick man" of European Union. The downgrading of the financial credibility of the Greece by the credit rating agencies as Fitch, Standards & Poor's and Moody are another prove. Prime Minister of Luxembourg and the president of Euro group emphasized that the gap of balance of payment, in the long run, among the members of European Union has to be prevented if common currency is to be used by the region in order to preserve its sustainability.

Inevitably, Greece has to undergo recession and fiscal austerity to regain its integrity until the fiscal disparities and disciplinary discrepancies have been eliminated. Ironically, the lessons from the similar debt crises as faced by Latin America in 1982 and by Korea during Asia crisis would help Greece to do well with this fiscal crisis. This crisis is a fright for the PIIGS too alarming them to reconsider their structural reforms and adopting precautionary measures. Along with various bailout measures, strong awareness regarding the mutual responsibility is the utmost requirement for dealing current and future happenings as it was concluded on 25th and 26th march on the occasion of meeting of EU Council all the state's heads and governments agreed that there should be strong and clear national policies, predetermined rules and awareness regarding mutual responsibility among all the members state of EU. They also announced full support to the efforts is made by Greece and they showed high confidence toward the budgetary target of 2010 as aimed by Greek government. As the fringe economy accounting for only 2.7 per cent of the Euro-Zone's GDP nearly ruined the whole system, the debt crisis has to be addressed in a diversified and reoriented way by the EMU and major member states to prevent spilling over its damages to rest of the Euro-Zone.

It should be acknowledged; of course, that study has been limited with respect to its scope as several interesting questions regarding the Greece debt crisis is yet to be explored and many aspects of related literatures are overlooked. It further affirms the need of specialist exploration of the domestic scenario of Greece in order to fully comprehend its previous circumstances and outcomes as well as to analyze the alternatives available for the Greece rescue from the debt crisis. Despite these limitations, this study provides an opportunity to probe into the current economic and fiscal scenario of the Greece highlighting possible reasons and consequences and the bailout possibilities available to Greece.

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