GREEK CRISIS - CAUSES, CONSEQUENCES AND DEVELOPMENTS

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Abstract:
The financial crisis started in 2007, had and continues to have adverse economic consequences on the world economy. The real estate crisis has reached the banking crisis was continued sovereign debt crisis, and then followed Cypriot crisis and again "Achilles heel" of both relapsed into Greek banks as at the state level. In this paper we will analyze the phenomenon in Greece to highlight possible dangers which have an impact on the EU.

Keywords: *crisis, deficit, budget, default, GDP*

JEL: *G01*

1. Introduction

The crisis caused by the impossibility of paying the national debt of the Greek State, how and calls its subsequent for financial support from the IMF and the EU were probably the hardest blow for the European Union in the last decade, preceded only by "crash" - the European Constitution referendums in France and the Netherlands since 2005.

In an important paper is made an analytical treatment of the crisis in the market for Greek government bonds. The authors argue that the crisis itself and its escalating nature are very likely to be the result of: (i) steady deterioration of Greek macroeconomic fundamentals over 2001–09 to levels

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inconsistent with long-term EMU participation; and (ii) a double shift in markets' expectations, from a regime of credible commitment to future EMU participation under an implicit EMU/German guarantee of Greek fiscal liabilities, to a regime of non-credible EMU commitment without fiscal guarantees, respectively occurring in November 2009 and February/March 2010. We argue that the risk of contagion to other periphery EMU countries is significant; and that without extensive structural reforms, the sustainability of the EMU is in question. (Arghyrou, Tsoukelas, 2011, p. 173–191)

Real estate credit crisis led to global financial crisis, and since then central banks and governments of developed countries made great efforts to unlock credit economy, which gradually came into recession. A retrospective of the world economy reveals that there were crises in other countries such as Brazil and Mexico, but they were due to wrong government policies based on low taxation and a fixed rate of conversion of national currencies (Bătrâncea, Bătrâncea, Moscviciov, 2009, p.58-64).

The current crisis led to a significant decrease in the confidence level of consumers, investors and businessmen, which in turn affected stability and economic strength. This created a vicious circle of economic growth based on excessive consumption sustained by debts. Deregulation and financial liberalization did not generate an efficient allocation of resources. Recent measures taken by governments numbered assets acquisition, banks recapitalization, injecting liquidity into the banking system. In spite of these measures, many banks have not escaped the subprime lending problem. At least in Europe, counterbalancing the effects of the financial crisis appears to be an extremely difficult mission. France, for example, created a sovereign fund to assist strategic companies (Bătrâncea, Moscviciov, Sabău, Bătrâncea, 2013, p.16-29).

Greece has faced a number of issues in economic terms in the last decade and is undoubtedly exacerbated by the financial crisis of the late 2000s - 2010. Greek state debts continued to rise up, reaching a step to be in default. Central spending years in a row exceeded receipts from taxes, which is one of the pillars of current tensions (Kashyap, 2015). Given that Greece's problems were accentuated international lenders Greek government proposed a set of austerity measures designed to redress the difficult situation in which it is found. The proposed plan was greeted with less enthusiasm by Greek jurisdiction, being launched a referendum to consult the population on the intention population (or lack thereof) to adopt austerity measures (Johnston, 2015).

Greek crisis broke out in late 2009 continues to confuse and disquiet. Moreover, the literature states that "the few Democrats now offer an eloquent example of the failure of both state institutions, as in the case of Greece." The causes of the deep crisis that destabilizes the present economy and Greek society must be pursued in the evolution of the political climate of this state, during which the main political parties competed "in the race welfare state", materialized in a "saraband" populist measures. The pursuit of political advantage in the short term has brought great harm economic development in the long term, favoring the proliferation of corruption, excessive bureaucracy and, ultimately, the collapse of the political time when the state's overwhelming national debt was revealed citizens and the Community authorities.

The referendum was preceded by a closure of Greek banks in early July 2015 along with a series of regulations imposed on their clients. Also, among other restrictions, withdrawals from automatic were restricted to a maximum of 60 Euros / day and were only allowed the financial transactions between banks in Greece to avoid a removal of capital abroad (Phipps, 2015).

Popular vote of 5 July 2015 rejected the recovery plan proposed by the European Union, media globally speculating a Greek exit from the Euro zone **(**O'Brien, 2015). One embodiment of this would have serious consequences for the Greek region. An immediate effect would be played by the reintroduction of the Greek drachma **-** the currency used before accession to the Euro area or the launch of a new currency. This may entail various other shortcomings. First, it was the question of uncertainty regarding the ability of the Greek Central Bank to put into circulation a money supply in sufficient time to replace the existing euro herds. Furthermore, a return to the drachma would mark the emergence of a hyperinflation. It was intensively discussed and the high unemployment rate, as a possible cause which led to placing Greece in such a position of economic difficulty (Bird, 2015).

Greece's sovereign debt crisis is anything more than a default or leaving the currency bloc. Many believe that the results will be similar to those of bankruptcy US investment banks, relatively unnoticed until the moment when it started to spread the effect of the global financial crisis - Lehman Brothers.

However, the core issue of Greek - economy agrarian and industrial pressed bureaucracy pride and a social sector "as" we offer that case classic and extremely rare in the history of the world economy, the reasons for the outbreak of the crisis are so mundane and clear disappears the need to search for and discover new scientific theories.

While great leaders of EU faces the problem of solving the crisis, this tiny state that adds 2% to the GDP of the Union jeopardize the whole existence of the euro zone. To understand the deeper causes of such impact, and the events of 2015, we'll start by "compile" an overview of the Greek economy.

2. Developments and causes of the crisis

A glance at some statistics on Greece compared with other countries; we see that there were indications that Greece will face greater difficulties in the global financial crisis. Thus in 2014 the GDP reached up to 285 billion USD Greece registering an upward slope.

Table 1: Evolution of GDP in Greece

Year	GDP Bil.USD	Indices %
2014	285,9	101,02
2013	283,0	100,21
2012	282,4	100,00

Suorce: http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators

From the above data it is noted that since 2012 the Greek economy registered a slight increase, 0.21% in 2013 and 1.02% in 2014 compared with previous years, a trend which we consider insufficient the gain amid Greece's sovereign debt.

Developments in the economy are determined by the evolution of industry, agriculture and services to achieve SFM, as shown in the table below:

Table 2: Structure of branches of the Greek economy as a percentage of total employees in 2014

Sectors	Percentages %
Agriculture	70,3
Industry	16,7
Services	13,0

Source: http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators&Type=TABLE

From the above data shows that over 2/3 of the active population works in agriculture and services and only 15% work in industry, which can cause great difficulties for Greece's exit from the current crisis.

Regarding the contribution of these sectors to GDP formation, we find that agriculture contributes 82.8%, industry 13.3% and services by 3.8%, as shown in the following table.

Table 3: Structure of branches of the Greek economy as a percentage of GDP in 2014

Sector	Percentages %
Agriculture	70,3
Industry	16,7
Services	13,0

Source: http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators&Type=TABLE

Export of goods for 2014 reached 36 billion, exports of services 50.9 billion, while cumulative import of goods and services exceeded 97 billion USD 2014 ended with a negative balance of approximately USD 5.7 billion, which constitutes 2.4% of GDP.

Greece's sovereign debt has exceeded 425 billion USD, and is currently about 178% of GDP and unemployment has increased in the last 7 years by nearly 19%.

Interestingly to note that the tax burden to when the crisis was around 40% of GDP and the end of 2014 exceeded 48%. Considerable revenue for the state is the income tax, given the increased interest in relatively cheap villas on the Greek beaches.

After agriculture and industry an important role in the Greek economy they have business service sector. The slow development of the industry has resulted in corporate structure, so if the pre-crisis period predominated micro, currently their number was reduced by 25%, they move their business into neighboring countries - Bulgaria, Albania and Turkey.

A major cause of the crisis is the degree of perception of corruption, which in 2014 has placed Greece 69th along with Italy, Romania and Bulgaria (https://www.transparency.org/cpi2014/results, 2014). Spending excessive government bureaucracy is one of the causes that led to the current crisis, along with social benefits and the pension system unsustainable Greece.

Table 4: Comparison of macroeconomic indicators between EU states of North and South in 2014

UE Member	**GDP/Capita (USD)**	**Sovereign Debt (% of GDP)**	**Corruption perception index**
Germany	44700	74,7	12
Holland	47400	69	8
Belgium	41700	102	15
Austria	45400	84,5	23
Spain	33000	97,6	37
Portugal	26300	128,7	31
Italy	34500	134,1	69
Greece	**25800**	**178,8**	**69**
Romania	19401	41,84	69
Poland	24400	45,6	35

Source: Own representation

From the above data that the progress reported GDP per capita, Greece lags group Southern European countries in the euro zone, in last place with 25,800 Euro per capita and 178.8% of GDP. This development is close to that of Romania, which although it has a lower GDP and a debt of only 41.84% of GDP, has a level of perception of corruption equal to that of Greece 69.

If we analyze the two groups of countries in the north and south of the continent we find that Nordic countries are ranked first at the level of GDP per capita, and in terms of debt per capita and the level of perception of corruption. Among them into a provisional ranking is in descending order Netherlands, Germany, Austria and Belgium.

In Southern European countries the group first place is Spain, followed by Italy, Portugal and Greece.

In a recent research it finds that three factors can explain the recorded developments in sovereign spreads: an aggregate regional risk factor, the country-specific credit risk and the spillover effect from Greece. Specifically, higher risk aversion has increased the demand for the Bund and this is behind the pricing of all euro area spreads, including those for Austria, Finland and the Netherlands. Country-specific credit ratings have played a key role in the developments of the spreads for Greece, Ireland, Portugal and Spain. Finally, the rating downgrade in Greece has contributed to developments in spreads of countries with weaker fiscal fundamentals: Ireland, Portugal, Italy, Spain, Belgium and France (Santis, 2012).

During 2015, many analysts and all EU officials have analyzed possible scenarios for a Greek exit from the euro zone and the national changeover. Greece foreseeable consequences of this scenario meant the collapse of the banking system, a Greek national currency devaluation, hyperinflation, rising unemployment and a sharp impoverishment of the population.

In a paper on the Greek contagion, many authors find that, except for Greek banks, news about Greece does not lead to abnormal returns while news about a bailout does, even for banks without any exposure to Greece or other highly indebted euro countries. This finding suggests that markets consider news about the bailout to be a signal of European governments' willingness in general to use public funds to combat the financial crisis. Sovereign bond prices of Portugal, Ireland, and Spain respond to both news about Greece and news about a Greek bailout (Mink, Haan, 2013’, p.102 - 113).

In the Euro zone consequences would be significant depreciation of the euro against the dollar and other currencies, restricting trade with EU countries and not least a political vulnerability of the EU to the new challenges facing the EU today.

Many analysts felt after 2010, the only action that should be taken for overcoming the sovereign debt of EU countries facing such problems as exit from the euro zone, external payments arrears and then re-entering the euro zone scenario that has been refuted by subsequent developments on the continent.

The recent crisis of immigrants showed that measures to prevent Grexit adopted by the EU countries have managed to stop a phenomenon even more dangerous than the economic namely chaos that would have included Greece following the wave of refugees that produce a seismic shift in Europe.

3. Conclusions

From the above it can be said that the crisis undergone by Greece is not only the bankruptcy of a small country or leaving it in the euro zone, but warns of the danger threatening the highly indebted countries.

The current crisis debt SUVERA especially those of the PIIGS can be placed both on account of policies of fiscal relaxation practiced by these Member States of the European Union, and on account of bank loans in economic sectors overly profitable under no prudential, loans fueled real estate bubble.

The banking sector through taxpayer-funded, had the immediate consequence of the sovereign debt crisis with negative implications on the EU economy and world.

Greece's sovereign debt crisis has produced an extensive phenomenon is financial contagion in the EU and especially in the United States, a phenomenon which causes instability in the financial markets

Economic realities in Greece showed that the countries in the EU harmonization measures are needed deeper fiscal harmonization bank to reduce budget deficits, sovereign debt reduction and not least to the accelerated economic development of the countries of southern Europe.

All austerity measures imposed some EU countries since 2010, did not bring the changes they were expecting many analysts, but on the contrary in some cases, such as that of Greece caused a malfunction that led to street movements and the emergence of political groups contesting the EU.

Last but not least we believe that without a feasible project on EU long-term investment and labor productivity growth in less developed countries in the region cannot talk of increasing public confidence in the future of the EU and the euro.

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