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Greece and the Euro Area Economy. The End or the Beginning of a New European Economic Approach?

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Abstract. The paper is focused on the crisis'impact of the Greek economy and its effects across the EU27. Our approach is different and it is not founded in other researches in this topic area. The approach is based on the comparative analysis between the main economic indicators in the Greek and in the EU27 economies. The survey uses the latest official statistical data. An interesting result of the analysis it that to declare that is time to replace Greece, as worst European economy, to other national economies. Moreover, we think that the regional and global political games are more important than the economic performances, nowadays. This is why Greece, a small economy, has to face the impacts of these games, in order to satisfy the need of new power balance of the great economies. And Greece was just the beginning of this process, which will cover at least all little economies in the EU27.

Keywords: economic recovery, crisis, fluctuant evolution, banking union, fiscal integration.

1 Introduction

The global economic crisis seems to be far away of its finish. Moreover, new forms and new trends appear. The Euro area is not able to face the crisis' challenges. As a result, the Euro area member states began to contract their economies again. Some of them supported greater contractions and are not able to manage the economic recovery process.

The instability of the economic environment led to different approaches about the economic decline. As a result, the weak economies were Greece, Spain, Ireland or Italy. Finally, Greece achieved the negative performance to become the main element which caused a lot of theoretical and political debates. Practically, Greece became the discord apple for the greatest economic powers from the Euro area. Germany was the main supporter for the Greek economy. Moreover, Germany and France tried to find economic solutions for the Greek economy recovery.

At the beginning of 2012, the German attitude changed and Greece had to face to a greater pressure from the other Member States in order to adopt and implement painful economic measures.

2 The Greek Economy's evolution

2.1 The impact of the economic crisis

During 1992-2007, Greece succeeded to achieve average economic growth rates of 3.1%. The private and the public consumptions had practically the same positive trends, with annual average growth rates of about 3.0%. The terms of trade of goods were 0.0 during the same period. The average unemployment rate was 9.8% and the inflation rate achieved reasonable values. Maybe the main economic problem was the high general government gross debt (99.2% of the GDP). We can conclude that Greece achieved a good economic trend after its adhering to the European Union. This positive trend was destroyed at the beginning of 2008.

According to the latest official data (European Commission, 2012), Greece faced only with negative annual growth rates during 2008-2011. The peak (-6.9%) was achieved in 2011(see Figure 1).

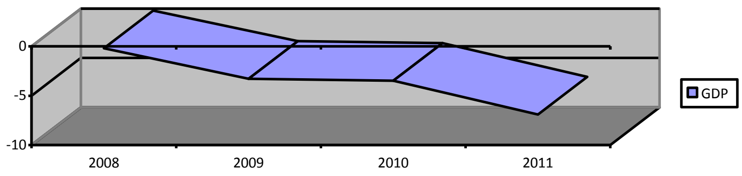

Figure 1 GDP trend in Greece (%)
Source: personal contribution

During 2008-2009, Greece experienced some measures in order to support the private consumption (4.0% in 2008) or the public consumption (4.8% in 2009). The failure of the recovery programs and the agreements signed with the international financial institutes led to an important decrease of the consumption until 2012 (see Figure 2).

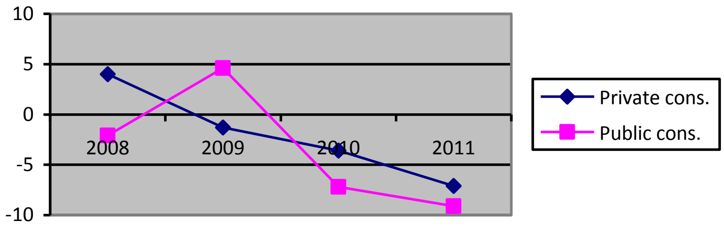

Figure 2 Consumption trend in Greece (%)
Source: personal contribution

The traditional Greek exports were not able to support the economic recovery under the world trade new toughest conditions. Moreover, the Greek government implemented harsh measures in order to decrease the imports. The result consists in better terms of trade of goods in 2010 and 2011 (see Figure 3).

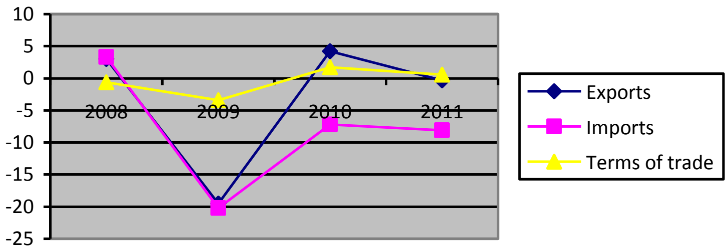

Figure 3 Foreign trade in Greece (%)
Source: personal contribution

The economic environment led to an employment decrease of 8.8% during 2009-2011. As a result, the unemployment rate achieved 17.7% at the end of 2011. The inflation rate had a fluctuant evolution, but it did not achieve high levels (see Figure 4).

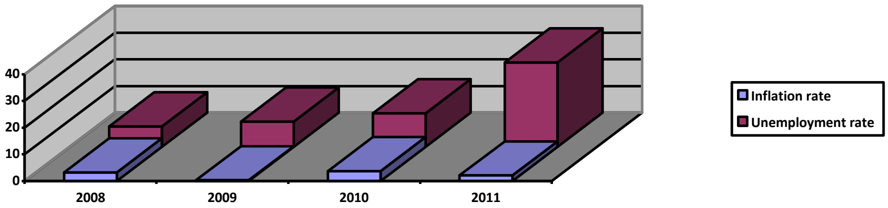

Figure 4 Inflation and unemployment in Greece (%)
Source: personal contribution

Greece entered under the crisis' impact with a general government gross debt of 99.2% of GDP. The macroeconomic management was not able to decrease that debt and it achieved 165.3% of GDP in 2011. A positive sign was the decrease of the general government deficit from 10.3% of GDP in 2010, to 9.1% in 2011. The Greek government has to continue the cuts in expenditures and to support measures able to put the public finances on a sustainable trend (see Figure 5).

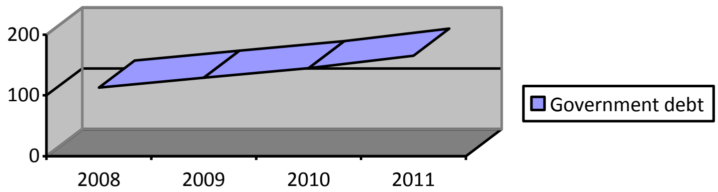

Figure 5 General government gross debts in Greece (% of GDP)
Source: personal contribution

2.2 Greek economy's forecast

It is very difficult to realise economic forecasts under the global crisis' impact. As a result, the first constraint is the short forecasts' horizon. The European Commission is able to realise forecasts only for the next two years. Moreover, Eurostat realises these forecasts twice a year and the differences between them are significant.

According to the latest official data, the average GDP growth rate will achieve 0.0% in 2013, while the private and public consumptions will face with negative growth rates. Across the Euro area and the EU27, the GDP growth rate will be higher than in Greece during 2012-2013 (see Figure 6).

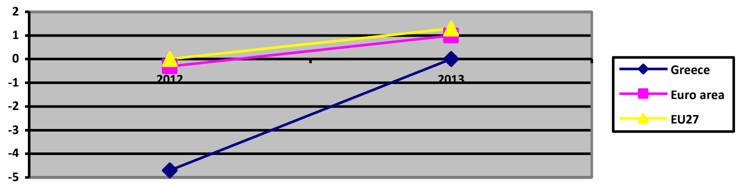

Figure 6 GDP forecast (%)
Source: personal contribution

A hasty conclusion is that Greece will represent a burden for the future EU27 economic evolution and this country has to go out from the Euro area. This idea was supported by France, Italy and, at least, by Germany. But we consider that it is a false idea, which is not based on an economic approach. In 2011, the GDP of Greece was 215,088 million Euros and the GDP of the EU27 was 12,629,458 million Euros (Eurostat, 26.04.2011). As a result, the Greek GDP represented 1.703% of the EU27's GDP. The percentage will decrease to 1.637% in 2012 and 1.601% in 2013 (IMF, 17.04.2012), according to the IMF's latest forecast (see Figure 7).

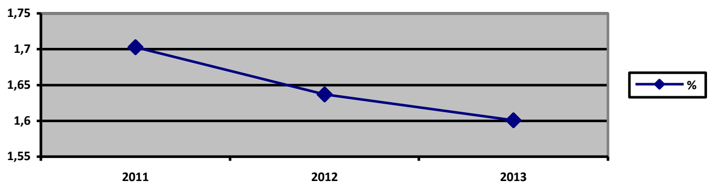

Figure 7 Greek GDP/ EU27's GDP (%)
Source: personal contribution

According to Figure 7, the Greek GDP has a minimal influence on the EU27's GDP during 2012-2013. As a result, the Greek economy does not represent the Achilles' heel for the European economy. The SF scenarios, connected to the Greek economy and the fall of the Euro area economy, have not an economic approach, maybe a powerful political one.

In order to enlarge the analysis, we can use the trend of the inflation rate. Across the EU27, the inflation rate will decrease to 1.9% in 2013. The same economic indicator in Greece will achieve negative values in 2012 and 2013 (Eurostat, 2012). A second conclusion is that the prices' trend in Greece is better than in the EU27 (see Figure 8).

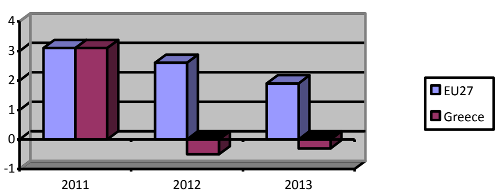

Figure 8 Inflation rates in Greece and EU27 (%)
Source: personal contribution

A new step of the analysis is to realise a comparison between the unemployment rate in Greece and the EU27. The unemployment rate in Greece is and will be higher than in the EU27, at least for the next two years (Eurostat, 2012). On the other hand, Spain had an unemployment rate of 24.3% in

2011, higher than in Greece see Figure 9). As a result, Greece has not the worst unemployment rate in the EU27.

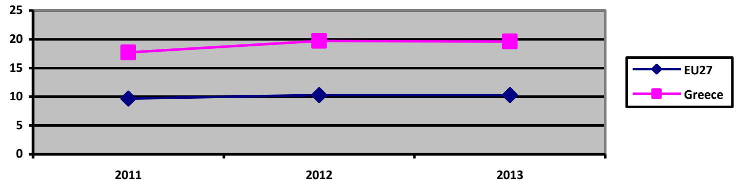

Figure 9 Unemployment rates in Greece and EU27 (%)
Source: personal contribution

In 2011, the public debt in Greece achieved 165.3% of GDP and it will continue to increase during 2012-2013. The same trend will have the average EU27 public debt (see Figure 10). The problem is that there are other Member States with higher public debts, as Italy (120.1% of GDP), Portugal (107.8%) and Ireland (108.2%) (Corsetti, Kuester, Meier, Mueller, 2012).

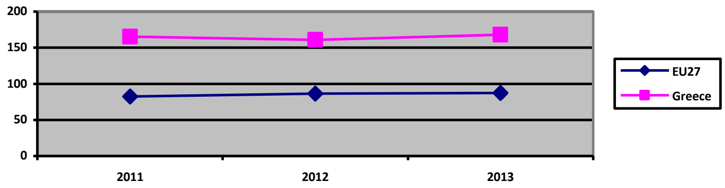

Figure 10 Public debts in Greece and EU27 (% of GDP)
Source: personal contribution

The analysis of the regional variation across the EU27 supports the idea that the Greek economic development is not the poorest. The Greek NUTS 2 regions do not belong to the EU27's economically weakest regions (Eurostat, 20.02.2011).

Moreover, the richest NUTS 2 region from Greece achieve the same GDP per capita as the EU27' average or greater. As a result, the richest Greek region, Attica, had a GDP per capita of 29100 Euros (124% of the EU27 average) and the poorest Greek region, Hepirus, had a GDP per capita of 15300 Euros (65% of the EU27 average). There are other regions with lower GDP per capita than Hepirus: Severozapaden- Bulgaria (27% of the EU27 average), Guiana- France (53%), Eszak- Hungary (40%), Latvia (51%), Lithuania (56%), Lubelskie- Poland (41%), Norte-Portugal (64%), North-East-Romania (29%) and Vychodne-Slovakia (49%) (Eurostat, 13.03.2012).

3 What is the truth?

Despite extraordinary measures, the state banks and the debt markets from many parts of the Euro area remain under acute pressure, raising questions about the viability of monetary union. The economic and financial conditions continue to deteriorate. The investors deprive of financing those Member States which have the greatest need, transferring capital to the housing and pushing the risk premiums on new records. From the IMF's point of view, the European monetary system needs a banking union and fiscal integration, in order to end the decline of confidence spreading through the region.

On the other hand, the Stoxx Europe 600 index of leading European shares fell almost 9% from March 16, when it achieved the last peak, because of fears of possible output of Greece from the Euro area and the Spanish banking sector crisis. German Chancellor Angela Merkel strongly oppose to the idea of common bonds in the Euro area. This solution would balance the interests in the region, providing lower interest rates in the South, but would significantly increase funding costs for countries like Germany, Austria, Netherlands and Finland. Germany is the main financier of the Eurozone crisis programs, including interventions in Greece, Portugal and Ireland. It covers 27% in the paid capital of the European Central Bank.

On the other hand, the Cypriot government will require a financial package for banks, at the end of June. The loan will be used in order to recapitalize the Cyprus Popular Bank (1.8 billion Euros). Moreover, the executive in Nicosia is considering a bilateral loan of 3-5 billion Euros from Russia.

Spain asked for financial aid for the banking sector, and will negotiate details of this support, including European facility connected to a credit line of up to 100 billion Euros.

Is time to replace Greece, as worst European economy, to other national economies? Why? Is this approach realistic? We think that the regional and global political games are more important than the economic performances, nowadays. This is why Greece, a small economy, has to face the impacts of these games, in order to satisfy the need of new power balance of the great economies. And Greece was just the beginning of this process, which will cover at least all little economies in the EU27.

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