

Evolution of the greek economic crisis



**ASSIGN
BUSTER**

Introduction to the Greek Economy

Summary of the evolution of the Greek economic crisis and its potential spill-over into other southern Mediterranean countries

Discussion of whether the Eurozone matches the criteria of an optimal currency area and specifically the implications of the fact that no single government backing the currency for the viability of the euro.

Evaluation of the analysis in the context of the suggestion that the very existence of a common currency forces participants to move closer to the criteria for a common currency area e. g. the Greek crisis has forced the participating countries to set up a common fund to bail out governments in crisis over fiscal policy

Conclusion

Reference

Introduction to the Greek Economy

One of the most important element of a nation's economy that can help a reader to understand how good the economy of a particular nation is being managed is the type of the economy, for instance, Greece has a capitalist economy where the public sector contributes 40% of GDP, before its current economic crisis, Greece's GDP per capita GDP was 2/3 that of the leading euro-zone economies. Tourism provides 15% of GDP. Immigrants make up nearly one-fifth of the work force, mainly in agricultural and unskilled jobs. Greece is a major beneficiary of EU aid, equal to about 3. 3% of annual GDP. The years between 2003 and 2007, show that the Greek economy grew by

<https://assignbuster.com/evolution-of-the-greek-economic-crisis/>

nearly 4. 0% per year. But in 2008 the growth of Greek economy dropped to 2% . as if this was not enough, in 2009, the Greek economy went into recession and contracted by 2%, as a result of the world financial crisis.

Summary of the evolution of the Greek economic crisis and its potential spill-over into other southern Mediterranean countries

To most economists, the current Greek economic crisis has come as a shock to all. This is because as far as the last good record of Greek economy is known. Greece had one of the best economies amongst the 27 EU countries. Greece was the 27th largest economy in the world by nominal gross domestic product GDP and the 33rd largest by purchasing power parity (PPP). According to same IMF data before the crisis, the GDP per capita of Greece was the 25th highest in the world before this crisis. The strength of Greek economy can further be justified by its trading memberships with, the World Trade Organisation (WTO), the European Union (EU) and Eurozone , the Black Sea Economic Corporation and the Organisation for Economic Corporation and Development (OECD). The evolution of the Greek economic crisis can be traced to few years back, the crisis particularly started with the tightening of credit conditions, and Athens' failure to address a growing budget deficit, which was triggered by falling state revenues, and increased government expenditures. Greece violated the EU's Growth and Stability Pact budget deficit criterion of no more than 3% of GDP from 2001 to 2006, but finally met that criterion in 2007-08, before exceeding it again in 2009, with the deficit reaching 12. 7% of GDP. Public debt, inflation, and unemployment are above the euro-zone average while per capita income is the lowest of the pre-2005 EU countries; debt and unemployment rose in

<https://assignbuster.com/evolution-of-the-greek-economic-crisis/>

2009, while inflation subsided. Eroding public finances, a credibility gap stemming from inaccurate and misreported statistics, and consistent underperformance on following through with reforms prompted major credit rating agencies in late 2009 to downgrade Greece's international debt rating, which has led to increased financial instability. This precisely was the origin of the Greek economic crisis and how it evolved.

Potential spill-over of the Greek Economic crisis into other southern Mediterranean countries

Its almost impossible for some of the neighbours of Greece to avoid the effect of its economic crisis. As we all know, the Greek economy has being one of the largest in Europe which means, it had many trading partners, the way this crisis will spill-over will follow the routes of Greece's international trade. It will not necessarily spill-over to its geographical neighbours but rather its trading neighbours.

According to Faiola (2010), the Greece's problems aren't its alone. Similar fears have hit nations such as Portugal, Spain and Italy, which also benefited from historically low borrowing rates but which critics say were riskier investments than they seemed. The effect of the Greek economic crisis is likely to affect countries far more than its immediate neighbours because In addition, Greece's \$300 billion debt is 80 percent owned by foreigners — mostly pension funds and banks in Germany, Britain and France that are still recovering from financial crisis. The exposure of U. S. banks to Greek debt stands at about \$18 billion, according to a report by Barclays Capital.

“ It is clear that the Eurozone is being tested,” said George Papaconstantinou, the minister of finance. What is being tested is the internal cohesion of the construct

Discussion of whether the Eurozone matches the criteria of an optimal currency area and specifically the implications of the fact that no single government backing the currency for the viability of the euro

Over the years there has always been doubts over whether the Eurozone matches the criteria of an optimal currency area. The obvious answer is yes, as per the aim of maximizing economic efficiency for the Eurozone. Even though some countries within the EU like Great Britain have refused to join the Euro currency, the views of such countries shouldn't be considered as a solid reason to judge whether the Eurozone fulfils the criteria of an optimal currency area. Such countries are only protecting their own economy from being diluted by other member countries that are considered to have a weaker economy than theirs. The Eurozone might not be good enough for a few countries, this doesn't mean it is not good for all. The economy of most EU countries is definitely more efficient than they used to be when they were on their own currency. In addition to all this, let's not be fooled by the current Greek crisis and use it as a yard stick to measure the Euro currency, it's just a problem with regulatory rules within Greece that caused all this but not the Euro, if it was the Euro then it would be happening in all the Eurozone countries. The only difference is that, there is a possibility of the crisis affecting most of the EU countries in the Eurozone, but this is not surprising just like the effect of the subprime mortgages of US affected the whole world because of the consumption effect

This entry gives the gross domestic product (GDP) or value of all final goods and services produced within a nation in a given year. A nation's GDP at purchasing power parity (PPP) exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the United States. This is the measure most economists prefer when looking at per-capita welfare and when comparing living conditions or use of resources across countries. The measure is difficult to compute, as a US dollar value has to be assigned to all goods and services in the country regardless of whether these goods and services have a direct equivalent in the United States (for example, the value of an ox-cart or non-US military equipment); as a result, PPP estimates for some countries are based on a small and sometimes different set of goods and services. In addition, many countries do not formally participate in the World Bank's PPP project that calculates these measures, so the resulting GDP estimates for these countries may lack precision. For many developing countries, PPP-based GDP measures are multiples of the official exchange rate (OER) measure. The differences between the OER- and PPP-denominated GDP values for most of the wealthy industrialized countries are generally much smaller.

Evaluation of the analysis in the context of the suggestion that the very existence of a common currency forces participants to move closer to the criteria for a common currency area e. g. the Greek crisis has forced the participating countries to set up a common fund to bail out governments in crisis over fiscal policy

The Greek crisis has definitely given some the countries in the EU and Eurozone something to think about, just like Papaconstantinou (Greek

Finance Minister) has said, this crisis has challenged the Eurozone to its limit. It's undeniable that, the existence on common currency has brought participants closer to the criteria of common currency area, countries like Germany and France and even Britain who has refused to join the Eurozone despite the size of its role in the EU are closer and united in the battle than non-European countries. I guess this is what justifies being united in fight against a common enemy.

It's further true that the Greek economic crisis has forced or may in the future force participating countries to set up a common fund to bail out governments in crisis over fiscal policy. I believe this one of the challenges Papaconstantinou might be hinting. The crisis has opened up the minds of the EU administration to this direction of thinking.

Conclusion

The Greek crisis should not be looked at as a one-off occurrence of Greek origin; it should be looked at as illustration of what could happen if other countries failed to regulate their financial systems as required. Over the last few years ever since the subprime mortgage of the US financial markets, we have seen dozens of financial crisis striking nations we never thought would be affected. The way it affected the US is a testimony that, no nation is immune to the crisis. You are only immune if you do the right thing otherwise you will fall suit, typical example of this was the Dubai crisis come and go, except that its magnitude was relatively smaller than this. What many European nations are left to ponder is how the Greek crisis will affect all those in the Eurozone. Efforts should be put towards avoiding the spill-over than celebration of the end of the crisis. What this is more important is

to learn that, this is the first ever major challenge to the Eurozone. It's also important that the Eurozone now comes up with measures to handle such situations in the future