

## RESILIENCE TO THE CRISIS IN THE ECONOMIC AND MONETARY UNION

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vadomnicai@gmail.com**Abstract**

*Economic resilience is a specific feature of economic and monetary unions, because their policies of addressing the events with economic impact are limited in number.*

*The resilient economies are capable to eliminate more easily the vulnerability hazard by addressing the shocks head-on, by preventing unsustainable booms, by reducing the amplitude of recession and the spill-over effect. A resilient economy is capable to absorb shocks, without increasing the volatility of economic growth, inflation and unemployment, regaining its previous level of performance.*

*The poor adjustment capacity of Euro-area became a cause for concern, the member states showing uneven and insufficient abilities to address both asymmetric shocks and common shocks with asymmetric effect.*

**Key concepts:** resilience, vulnerability, asymmetric shocks, convergence, spill-over, crisis, resilient economic structures.

**JEL classification:** F34, F45, H63, G01.

**I. THEORETICAL CLASSIFICATIONS**

*Economic resilience* is defined as “the ability of a country to avoid or withstand a shock and to quickly recover, by increasing the gross domestic product (GDP) at the potential pre-crisis level”<sup>2</sup>. Therefore, economic resilience is addressed from three important perspectives: vulnerability to shocks, shock absorption capacity and the ability to quickly recover from shocks.

*Vulnerability* refers to the extent of exposure of an economy to shocks and how powerful the effects of these shocks are. The frequency and intensity of shocks are particularly important in this regard, the vulnerability of a country depending on several factors, among which we mention the structure of the economy, the range of policies, the state of both the financial and non-financial sectors. Some countries may be more exposed than others to a single type of shocks.

*The absorption capacity* reflects the ability of the economy to cushion the direct impact of a shock, by minimizing the scale of production and job losses. A shock can be absorbed by the dissemination of its effects at the level of the entire economy, namely on other indicators than those of production and labour force. The shock may be “diluted” through automatic stabilisers, salaries and prices, credit offer and division of financial risks.

*The recovery* of an economy depends on the persistence of shock effects. It is about the ability to bounce back to the previous state, when the shock is temporary, or about the easy reallocation of productive resources. Permanent shocks usually require a resource reallocation, and the sooner the reallocation is made, the more visible the recovery will be.

As a result, *resilient economic structures* are those structures that are used to prevent the significant and persistent effects of economic shocks on income and on the level of employment, by reducing the effects of economic fluctuations. This is a typical feature of *monetary unions*, in which the policies of addressing the events of significant economic impact are limited in number.

Based on the revision of the most recent literature regarding the early-warning, and the lessons learned as a result of global financial crisis, there have been identified 5 types of indicators which affect the structures in question (Caldera Sánchez et al., 2015)<sup>3</sup>. This is about the internal vulnerabilities, including the imbalances in the financial sector; imbalances of non-financial sector; imbalances of the assets’ market; imbalances in the public sector and the foreign imbalances. In addition to internal imbalances, economies are also vulnerable to shocks and crises originating in other countries and spread internationally, through financial contagion and commercial relations.

After a retrospective study of the 2008-2009 crisis, it is concluded that, as a result of the spread and contagion, the countries without important internal imbalances have also been affected. The vulnerability to

<sup>2</sup> *Economic resilience in EMU*, re[https://ec.europa.eu/info/publications/economy-finance/quarterly-report-euro-area-volume-17-no-2-2018\\_en](https://ec.europa.eu/info/publications/economy-finance/quarterly-report-euro-area-volume-17-no-2-2018_en), accessed on the 04. 09. 2018.

<sup>3</sup> <https://voxeu.org/article/economic-resilience-new-set-vulnerability-indicators>, accessed on the 09.09.2018;

international spread is emphasized by the indicators of commercial and financial openness. Here are included the indicators of global risks, namely the GDP weighted average of the country-specific imbalances.

The vulnerabilities of the five internal categories do not operate in isolation, the simultaneous deployment of a number of imbalances being such as to deepen the crisis. On the other hand, when the decision – makers attack an imbalance, at the same time the vulnerabilities existing in other sectors can be reduced.

Vulnerability	Absorption		Recovery
Financial sector	Leverage and risk-taking Population debts, including mortgage loans Corporate debt	Approaching bank-sovereign loops Correct functioning of monetary policy transmission mechanism A healthy banking sector, which allows income smoothing by households and companies. Capital markets allowing the diversification of diversification of financing and risk sharing	A procedure for the efficient recovery of sound banks. A procedure for swift resolution of non-payment.
Product market Business environment	Diversified economy	Price flexibility Proper operation of the internal market in which the companies can diversify risks (for instance, by increasing exports when the internal demand weakens)	Business rules Competition- internal market Insolvency procedures Judicial proceedings
Labour market	Responsible salaries Functional negotiation mechanisms Flexible changes regarding the working time	Operation of institutions on the labour market Human capital Labour reallocation towards more productive companies / sectors, sustained by active policies regarding labour market Labour mobility/ transfer of pension rights.	
Public sector	Public debt and solvability risk Long term sustainability of public finance	Appropriate automated and budgetary space to implement them More targeted social security systems	Favourable composition of expenditure growth over the cycle
Taxation	Tax-debt deductibility, namely fiscal features which favour corporate and household debts. Reducing tax distortions in the housing sector in order to reduce the high levels of loans	Differences and complexity of corporate taxation make it difficult for enterprises to diversify risks.	

Table no. 1. Taxonomy of factors affecting resilience. Source: Eurostat.

[https://ec.europa.eu/info/sites/info/files/economy-finance/ip086\\_en\\_1\\_economic\\_resilience\\_emu.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip086_en_1_economic_resilience_emu.pdf).

The poor adjustment ability in the Euro-area represents a major cause for concern for analysts and decision-makers. The insufficient and uneven ability of the member states to address both asymmetric shocks and those common but with asymmetric effect are also of concern.

In a monetary union, the monetary policy and the exchange rate policy are unavailable, or, in the absence thereof, alternative channels of adjustment are proposed, such as the functioning of the product market and its improvement by reforms (Pelkmans et al., 2008, pp.4-5). The better this works, the smaller the costs of adjustment after the shocks are.

The adjustment abilities depend on an entire series of variables, among which we mention tax responses, temporary cash flows and market flexibility. These are specific to each country and vary on a period-by –period and case-by-case basis. “In general, the product market reforms represent changes of the <market institutions>, for the better functioning of goods and services market”, the study mentioned assessing the way in which the reforms “lubricate the adjustment process in the Economic and Monetary Union”. Therefore, after proving the existence of deficiencies in the functioning of goods and resources market in the Eurozone, such as the absence of competition – which is preventing the process resource allocation to take place - , the authors considering that the reform adjustment effect is being felt especially through the “competitiveness channel”.

As a result, *the adjustment ability of a country or its resilience to shocks* represents economy’s ability to cushion the shocks, without, however, increasing the volatility of economic aggregates, such as economic

growth, unemployment and inflation. Likewise, the adjustment ability is emphasized by the relatively rapid return to the previous performances.

(Mongelli, 2008), author of the Optimum Currency Area Theory<sup>4</sup>, reveals which are the means to decrease shock costs. Costs will be kept to a minimum if prices and salaries are flexible enough; factor mobility; full integration of financial markets; member states openness to global trade; diversified consumption and production risks; instruments of fiscal stability that operate and the very existence of the few shock asymmetries and their transmission.

Pelkmans et al. (2008) take the „taxonomy” and say that the product market reform is related to flexible prices and salaries, the integration of financial markets, the openness to trade and - maybe - consumption and production, and last but not least, by shock asymmetry. The authors say that the direct path to market integration is represented by the “openness to global trade”, the already shown openness by a member state to the countries of the European Union and, to those of the Eurozone.

Although there is no devoted literature, there are four notions relating to improving market functioning: product market reforms, regulation reform, structural reform and microeconomic reform. In their opinion, the abovementioned authors, the resilient economies are capable to overcome the danger of vulnerability, by addressing shocks more efficiently, preventing unsustainable booms to happen and by reducing the amplitude of recession and the spill-over effect.

As a result, *the economic resilience is a necessary condition, but not sufficient enough for convergence to the Economic and Monetary Union*. The economic resilience guarantees that a country will be briefly in recession, after which it will resume its long-term growth. Consequently, real convergence temporarily depends on resilience and economies’ adaptability, and on a medium or long term, on the factors determining growth, such as physical and human capital.

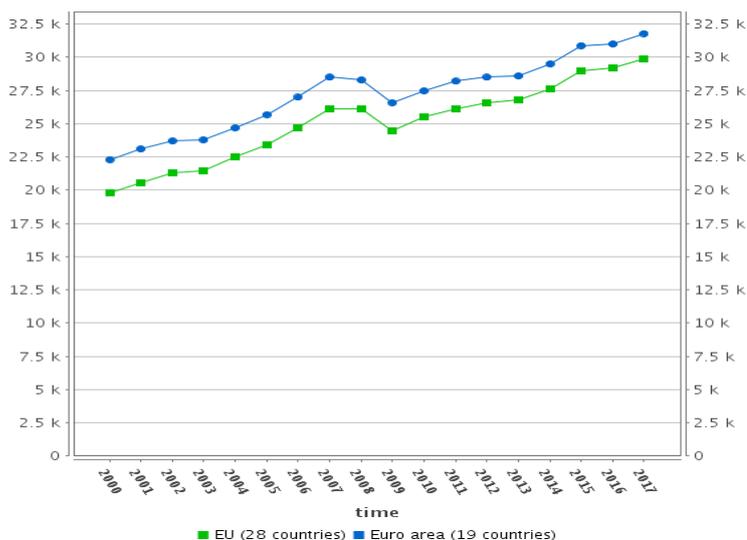
The synchronisation of business cycles, by avoiding unsteady booms and high amplitude and enduring recessions, is an important aspect in a monetary union. This happens because the unique currency policy will not efficiently achieve its aims, when the member states are in different stages of economic cycle or are having different rates of inflation. Insufficiently resilient economies can be exposed to enduring recessions which affect their long term growth, but also their social cohesion, the lack of real convergence affecting both the countries and the Economic and Monetary Union. The less frequent the growth is interrupted by the shocks, the faster the economies grow and are able to catch up with the most advanced countries.

## II. CONVERGENCE IN RESILIENT STRUCTURES

The convergence towards more resilient economic structures in the member states is essential for long term success of the Economic and Monetary Union. (European Commission, 2018, pp. 7-8)<sup>5</sup>. The lack of resilience has significant and enduring consequences on the labour force and on the income of each country, as on the entire Eurozone. The effects are visible especially in the case of the countries that have accumulated vulnerabilities, and recent experience comes to confirm it. An economy capability to mitigate shock effects is increased with the degree of risk sharing on financial market. Unique market proved to be a “convergence engine”, increasing resilience and acting as a “buffer against unpredictable shocks”. However, in order to strengthen the ability to withstand shocks, it is important to have a “better capitalised banking sector and a union of capital markets”. The efficient response to long term shocks and structural changes depends on the good operation of institutions on the labour market, but also on the competitiveness of goods and services markets. Governments’ contribution to the resilient behaviour of economy consists of the effective and efficient adjustment of expenditures and the creation of a fiscal space during the periods of economic impetus. Reaching the targets of the Economic and Monetary Union regarding economic and social cohesion and achieving full employment consistently contributes to achieving real convergence of the income levels and life standards. According to the yearly study on growth performed by the European Commission, after the first decade since the creation of the Economic and Monetary Union, the actual revenue had a substantial growth, the member states having an initial low level of revenue catching up with the GDP per person which separated them from those having higher standards of living.

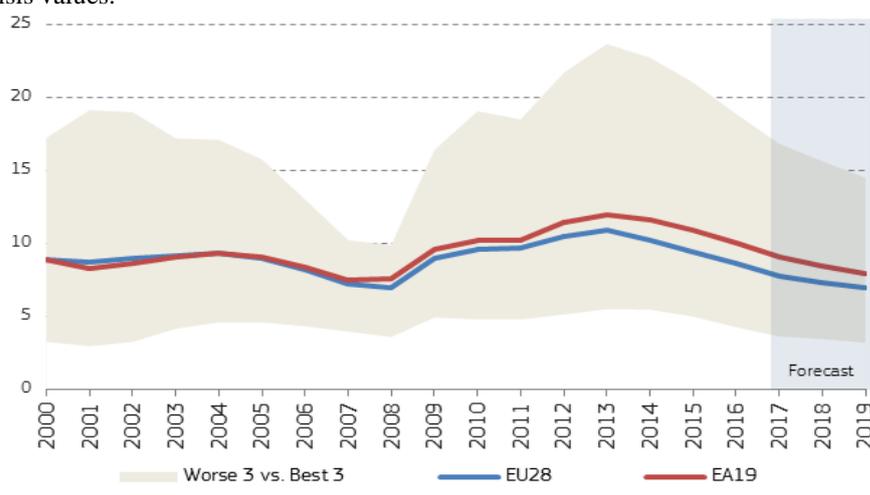
<sup>4</sup>[http://ec.europa.eu/economy\\_finance/publications/pages/publication12081\\_en.pdf&prev=search](http://ec.europa.eu/economy_finance/publications/pages/publication12081_en.pdf&prev=search), accessed on the 10.09.2018:

<sup>5</sup> European Commission, *Annual Growth Survey 2018*, [https://ec.europa.eu/info/sites/info/files/2017-comm-690\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/2017-comm-690_en_0.pdf), accessed on the 09.09.2018.



**Diagram no. 1. GDP evolution per capita adjusted to the purchasing power in the EU and Eurozone. Source: Eurostat.**

Although the 2008 crisis had a negative impact on the respective indicators, during the last few years the situation had a relatively modest improvement. Since 2013 the unemployment rate began level off, maintaining the pre-crisis values.



**Diagram no. 2. Evolution of the unemployment rate in the EU and Euro-area. Source: European Commission.**

These tendencies of the actual convergence evolution are explicable by the structural differences between economies, the crisis being more easily overcome by the states having flexible labour and goods markets, but also having efficient public administrations. „A more vigorous and strong process of adequate reforms, by addressing long-term structural changes, would consolidate the resilience of the economies. Efficient economic structures would be necessary to support an actual convergence and to make it more sustainable over time. These should be accompanied by policies designed to support productivity and the medium and long term potential growth, as well as the appropriate macroeconomic policies” (European Commission, 2018).

### III. VULNERABILITY TO FINANCIAL CRISIS

A government will not be exposed to *confidence crises* if it displays modesty in its expenditures (Reinhart, Rogoff, 2012, pp. 35-38). In case of prolonged budget deficits over a period of several years in a row and short-term credits with a maturity of less than 1 year, the government becomes vulnerable, although the debt level may seem under control. Therefore, vulnerability may be reduced by issuing long-term debts, but this new option would take too long, because the creditors will proceed to the increase in the rate of interest, which would complicate even more the situation of the government found in this situation. As long as, thanks to macroeconomic policies, the government remains credible, it will also benefit from loans on favourable terms.

The degree of *vulnerability caused by the loss of confidence* is difficult to assess, since the public's expectations towards the future events cannot be accurately foreseen, and "when an accident is expected to happen, this will eventually take place". Nevertheless, as in every other accident, the moment of its occurrence is an uncertainty, and a crisis which seemed impossible to be avoided on short term, might even take place after several years.

Over- indebtedness causes short-term problems, because the investors will question government's intention to finance debts on long term. Therefore, "debt's fragility may be as big a problem as its tax burden, sometimes even bigger". In order to reduce crisis exposure, vulnerable countries should proceed to reducing indebtedness, and the financial leverage.

#### IV. GREECE'S CASE

Euro-area crisis first manifested in Greece in October 2009 when, after establishing a new government, they announced that the budgetary deficit of 7% of the GDP estimated by the previous government was not the real one. Moreover, the difference between income and expenditures proved to be almost 13%, and on a further revision, even 15% of GDP (King, 2009, pp. 232-236). As a result, investors and European institutions confidence on the statistic data made available by the Greek authorities collapsed, the author expressing the opinion that "it seemed that Greece had been admitted to the Euro-area based on false information". Not being capable to obtain any loans from the international financial markets, in 2010 Greece calls upon the members of the Euro-area, and in May, in Brussels, they decided to establish a fund of 500 billion euros, which should be used to offer financial support to the countries facing special problems. These countries, with big commercial deficits, must reduce imports and stimulate exports, which is unachievable, including in Greece's case, because this procedure will entail currency devaluation. Therefore, the only solution was to impose measures in order to reduce budgetary expenditures and to increase taxes, which resulted in the decrease of demand and, consequently, in a declining the level of production. The crisis significantly increased in 2011, when loans became more and more expensive, the government bond yields issued by Greece, Ireland and Portugal amounted to almost unimaginable rates. Italy was in a similar situation, with a government debt of 1.7 trillion euros, the third largest in the world. All eyes were on Germany, which was expected to come and help peripheral countries with money, in order for them to regain the confidence of the private financial markets. On the 1<sup>st</sup> of November 2011, Mario Draghi became the new president of the European Central Bank, and according to his strategy, ECB would no longer acquire government bonds. Therefore, the support was directly oriented towards the banking system, which, in case of a threat to the euro, is at risk of falling prey to the depositors' desperate attempts to recover their savings.

In March 2012, Greece had defaulted on debt payments, "becoming the first great European country which faced a depression like the Great Depression of the 1930's in the United States". Moreover, one should note retroactively that between 2007 and 2015, the level of production decreased in Greece below the level of 27% recorded in the USA between 1929 and 1933. Likewise, during the abovementioned period, Greek public and private sectors consumption and investments knew a downfall of 35%. The solution was to restructure debts, a large portion of them being transferred to creditors. In 2015, 80% of the Greek sovereign debt was towards public institutions of the European Union countries, and far from leading to a bigger political integration, it created division among the members of the EU and among the public opinion. At a certain point, at the end of July 2012, the German Government and other member states, the Central European Bank and the European Commission, were taking into account Greece's exit from the euro. However, at the conference on global topics held in London on the 26<sup>th</sup> of July, Mario Draghi, the president of the European Central Bank, made his famous statement, according to which the ECB "will make whatever it takes to maintain the euro zone". By a common statement, the German Chancellor Angela Merkel and the president of France Francois Holland expressed their total adhesion to Mario Draghi's initiative and their commitment to uphold the euro. Against this background, Mervin King noted: *„By the end 2014, 10-years Greek government bond yields decreased from 25% to a little over 8%, the 10-years Portuguese government bond yields decreased from more than 11% to less than 3%, the Spanish government bond yields from more than 11% to less than 2%. Indeed, by the end of 2014, Spain was able to take loans less expensive than the Government of the United States. Obviously, Draghi's initiative had the desired effect”*.

Taking credit for „saving the euro zone” Mario Draghi brought calm on the financial markets, the investors from abroad were stimulated to buy the sovereign debts of the peripheral countries, the government bond yields diminished, the ECB limited the provisions of credit to banks, and Germany abandoned the idea of Grexit.

In January 2015, Syriza, the winner of the elections formed the government and promised the reduction of the burden of austerity imposed by the measures advocated by the troika formed by the European Central Bank, the European Commission and the International Monetary Fund. However, the negotiation focused on making Greece pay its debts incurred until then, even though they were however restructured and rescheduled. During the summer, the debates reach a deadlock, and on the 29<sup>th</sup> of June, on a Monday, after the European

Central Bank limited the provisions of credit, Greek banks remained closed. The consequence was that, on the 30<sup>th</sup> of June, Greece achieved the “performance” of becoming the first developed country which defaulted on its debts towards the International Monetary Fund. In more than one month, through the referendum held on the 5<sup>th</sup> of July, the Greeks rejected at the polls the austerity measures imposed on them by the European partners, but they reacted by requesting more harsh reforms. “In order to avoid a disaster for the country”, on the 13<sup>th</sup> of July, after intense negotiations, the first minister Alexis Tsipras was forced to accept the “irrational” conditions of the creditors, in exchange for 87 billion euros, and for possible future payment rescheduling.

Mervin King, the author of *The End of Alchemy*, shows that, the International Monetary Fund immediately published a report pointing out that “since it was expected that the debt will reach the level of 200% of the GDP in the following 2 years, it will be necessary to extend the grace period for reimbursing the debt towards the rest of the Euro-area by another 30 years or to make explicit yearly transfers to Greece”. The crisis has eased, after the sudden elections held in September 2015, the Syriza Government reconfirmed its position, although the voter participation reached the lowest level since 1974, when Greece restored democracy.

Greece had access to credits with low interest rates on euro adoption on 2001, although the situation of public finances was uncompetitive<sup>6</sup>. While, due to the poor administration, the income obtained from taxes decreased, the government expenditures were higher, and the public debt increased rapidly. The investors’ confidence heading downwards, the economy contracted by almost 30% between 2008 and 2016, and unemployment went off. Moreover, country’s administration was less satisfactory in relation to what was going on in other member states of the Eurozone, the public sector being supersized and with an efficiency below the European standards.

To overcome the financial crisis, starting with the year 2010, by implementing relief plans, Greece received 288.7 milliard euros. Within Greek Loan Facility during the period from 2010 to 2011, as well as the European Financial Stability Facility, between 2012 and 2015, Greece implemented comprehensive reforms, and in 2015 had recorded an increase in the gross domestic product (GDP) for the first time since 2007, but also a reduction of the unemployment rate. However, as already has been mentioned, during the first half of 2015, the reforms have slowed down, and the country entered into recession. Therefore, in August, it was agreed within the European Stability Mechanism (ESM) on the third relief program, which maintained Greece in the euro zone, but with tough reform measures.

Greece is going to reimburse its credits obtained through the European Stability Mechanism (ESM) from 2024 to 2060. According to those agreed, the loans related to the European Financial Stability Facility (EFSF) must be reimbursed from 2023 to 2056. Nevertheless, in June 2018, Eurogroup considered that a weighted average extension by 10 years of the maturity of the loan of 96.4 billion euros, granted through EFSF, this measure being subject to the approval by its Board of Directors. The total amount granted by the Euro-area through ESM and EFSF 203.77 billion euros.

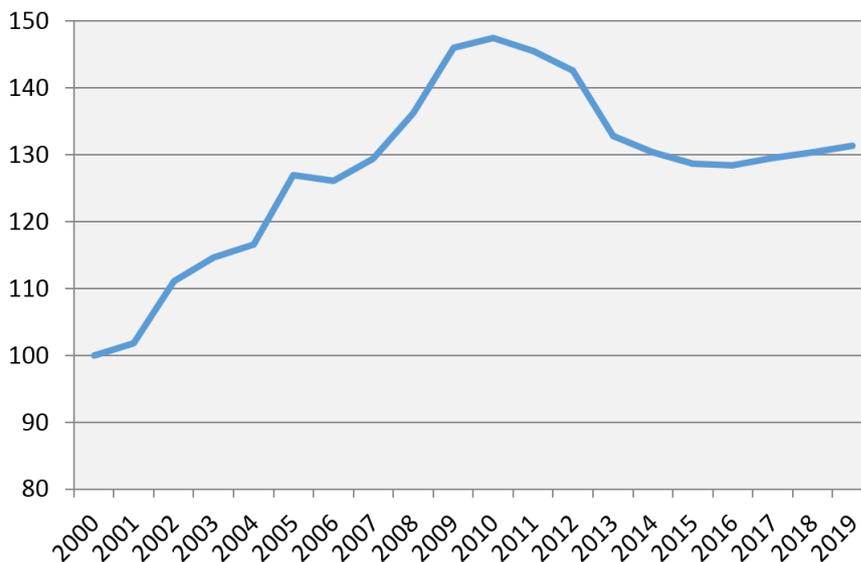
Financial assistance programmes for Greece	Credits (billion euros)	
First programme	Euro-area	52,9
	IMF	20,1
	Total	73,0
Second programme	EFSF	141,8
	IMF	12,0
	Total	153,8
Third programme	ESM	61,9
Total from the Eurozone, EFSF and ESM		256,6
Total from the IMF		32,1
Total value of loans actually paid		288,7

Table no. 2. ESM, EFSF and IMF assistance for Greece. Source: European Commission.

According to the ”Explainer” regarding the financial assistance through ESM and EFSF, starting with 2010 Greece visibly limited its macroeconomic and fiscal disequilibrium. Therefore, “through an unprecedented adjustment”, the deficit of the general budget was reduced by almost 16 percentage points of the gross domestic

<sup>6</sup> <https://www.esm.europa.eu/assistance/greece/explainer-esm-and-efsf-financial-assistance-greece>, accessed on the 07.09.2018.

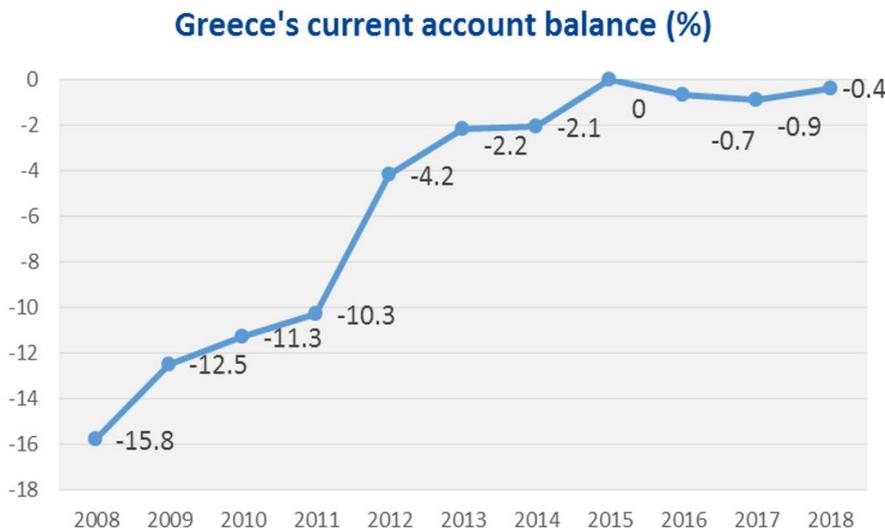
product (GDP), starting from a deficit of 15.1% in 2009 and reaching surplus of 0.8% in 2017. The economic growth returned from a level of - 5.5%, in 2010, to 1.4 %, in 2017. At the same time, after cutting the unitary costs with labour force, the Hellenic economy improved its competitiveness.



**Diagram no. 3. Unitary cost of the labour force in Greece (2000 = 100). Source: European Commission.**

On the other hand, the positive evolution is also revealed by the evolution of the current account. Therefore, in case of a deficit of 15.8% in 2008, after a decade, namely in 2018, a deficit of - 0.4% was reached.

The unemployment rate of 12.7% in 2010, reached the level of 27.5% in 2013, then coming down to 18.5% in May 2018, still remaining the highest of all EU member states.



**Diagram no. 4. GREECE'S CURRENT ACCOUNT BALANCE FOR THE PERIOD FROM 2007 TO 2018. Source: European Commission.**

In order to achieve these performances, starting with 2010, Greece was forced to proceed to the implementation of a wide range of reforms, focusing on four areas. Firstly, it was targeted the restoration of the sustainability of public finances through the revision of personal income taxation system; the simplification of the VAT refund system and the reduction of the possibility of fraud, but also the revision of the pension system. In what the financial sustainability is concerned, the governance of Greek banks was consolidated and adapted to best international practices, after which the legislation regarding personal and companies insolvency was revised, and the stock of non-performing credits was diminished.

A further aspect was that of structural policies, the implementation of reform measures aiming at accelerating the pace of the economic growth, increasing investment and competitiveness. In this spirit, the focus

was on reformation of labour market, by improving the collective negotiation system; reducing the obstacles to goods market and lifting of the restrictions imposed on regulated professions; opening the energy market to natural gas and electricity, but also the modernization of services and monetization of state key assets. There was a strong focus on a better functioning of the public sector, between 2009 and 2017 its size decreasing by 25%. They imposed the yearly analysis of the performance of civil servants, as well as the competitive selection of the top leadership of public institutions. Finally, a major concern consisted of increasing the efficiency of judicial system.

In March 2012, the debts of the private banks were restructured. Greece's global debt burden was reduced by almost 107 billion euros. By involving the private sector, 97% of the private bonds, amounting to 197 billion euros, have undergone a decrease of 53.5% of the nominal value of each bond. In November 2012, the Eurogroup came with a new set of measures destined to reduce the public debt, among which was the reduction by 100% of the bilateral interest within the Greek loan facility, the extension of the maturity of the loans within the same facility from 15 to 30 years; the extension of the weighted average of the maturity within the EFSF from 15 to 32.5 years; deferral of payment of interest rate for EFSF loans by 10 years; the cancellation of guarantee fee of EFSF loans by 10 basis points, for their entire duration, which resulted in savings of 2.7 billion euros.

In May 2016 the Eurogroup announced other measures regarding the needs of gross financing, in January 2017 ESM and EFSF Governing Council announced measures to save short-term debt, and in June 2015, Eurogroup announced measures aiming at saving medium-term debt. In the last case, the package of measures envisaged the reduction of Greece's debt in GDP by almost 30% percentage points by 2060, as well as the ratio of financing gross need in GDP by 8 percentage points. According to the „Explainer” regarding the financial assistance through ESM and EFSF for Greece, in 2032, at the end of the EFSF grace period, Eurogroup will consider whether to take supplemental measures for accomplishing the objectives regarding the gross need of financing. *“An emergency mechanism on debt could be activated in case of an unexpected negative scenario. In case of activation by the Eurogroup, this could involve measures like further reconversion and limitation of interest payment towards the EFSF, in the extent necessary to fulfil the relevant benchmark for gross needs of financing of 15-20% of GDP”*, reveals the cited analysis.

Greece successfully completed the financial assistance programme through the European Stability Mechanism on the 20<sup>th</sup> of August 2018<sup>7</sup>. Greece's exit from the assistance programme took place, after 3 years during which, Greek banks have made payments of 61.9 billion euros through ESM for macroeconomic adjustment and bank recapitalisation. The remaining 21.1 billion euros, of the maximum of 86 billion euros initially approved, had never been awarded. The financial assistance package was approved in August 2015, date by which Greece had already received from EFSF, during the period from 2012 to 2015, credits which amounted to 141.8 billion euros. The amount allotted by both bailout funds was of 203.77 billion euros, at favourable rates, which is totally unprecedented in the modern loan period. From 2010 to 2012, Greece received 52.9 billion euros as bilateral loans within the so-called Greek Loan Facility, from the euro-area Member States. Klaus Regling, the executive manager of the European Stability Mechanism (ESM) states that „Greece is the fifth country after Ireland, Spain, Portugal and Cyprus which exists the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM)”, mentioning that the latter ones hold 55% of the total debt of Greece. The borrowing conditions of EFSF and ESM have been especially advantageous, with small interest rates and long-term maturity, benefiting from an unprecedented solidarity from the euro-area member states. Thanks to these facilities, Greece saves almost 12 billion euros from the annual debt service, namely almost 6.7% of GDP, each year. Furthermore, the International Monetary Fund granted Greece credits in total amount of 32.1 billion euros, of which 21 billion euros were reimbursed. Greece will work closely with ESM within the Early Warning System, designated to provide insurance that the beneficiary countries are capable to make the agreed repayments. For that purpose, the Financial Stability Mechanism (FSM) will require Greece to provide periodic reports and will join the European Commission within the „Enhanced Surveillance”<sup>8</sup>.

<sup>7</sup> <https://www.esm.europa.eu/press-releases/greece-successfully-concludes-esm-programme>, accessed on the 07.09.2018.

<sup>8</sup> [www.esm.europa.eu/assistance/greece](http://www.esm.europa.eu/assistance/greece). Accessed on the 08.09.2018.

## V. CONCLUSIONS

Greece's case helps us confirm that it is easier for the states having flexible labour and goods markets and efficient public administration to overcome the crisis. However, Greece proved to be vulnerable due to increased and extended budget deficits and short-term credits. When joining the euro-area in 2001, given the fact that the political criteria mattered more than the criteria established in Maastricht, Greece had easy access to credits with reduced interest, which led to over-indebtedness. However, all this happened due to uncompetitive finances, inadequate taxation management, major expenditure, super-sized public sector with low efficiency.

When investors lost their confidence in the statistical data provided by the government, Greece could no longer borrow on the international financial markets, those loans being more and more expensive. Under these circumstances, rescuing Greece led to indebtedness towards the euro-area Member States, which led to division among the European public opinion, and nowhere near to strengthening the political integration. Whereas Greece no longer had within its reach the possibility of currency devaluation, emphasis was placed on cutting imports and increase of exports. Against a background of reduced flexibility of labour and product market, the Troika imposed drastic austerity measures, which have been contested by the population.

For the purpose of withstanding the shock of confidence crisis, sovereign debt and the depression which followed, Greece adopted reforms destined to reduced vulnerability, making adjustments regarding the sustainability of public finances, income management and social insurance system. There was a focus on the intensification of economic growth, increasing investments, reforming the labour market, the improvement of the functioning of the public sector, reducing its size and increasing its efficiency. All this was to confirm the importance of adjustment through the intermediary of the "competitiveness channel", Greece being able to obtain results regarding the reduction of the budgetary imbalance, GDP growth, cutting costs with labour force, improving the balance of the current account and reducing unemployment. Nevertheless, the future generations will be overshadowed by the debt that Greece will have to repay over the next decades with close monitoring from the creditors.

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