Contagious Effects of Greece Crisis on Euro-Zone States

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Abstract

The purpose of this study is to deeply examine the contagious effects of Greece financial crisis on other European countries. Furthermore, aim of this study is also extended to see how a common currency plays a part to make this crisis worst. Although Greece is the member of Euro-Zone and since November 2009 it is obvious that the main reason of this crisis was the fall of budget deficit and public debt. Greek government feel like millions to accept the rescue plans designed and financed by the IMF and European Union. Many austerity packages were floated and implemented during crisis period. This paper showed that global imbalances and financial crisis are the invention of common causes. The approach adopted in this paper is to answer the questions like "which domestic & international factors provide basis for this crisis?", "how this crisis became threatened for the Euro states?", "How this crisis can be dangerous in global perspective?" and "What measure the Greek government should take to cope with this crisis?". For this purposed related literature has been incorporated. The associated factors of this crisis were the Governments inefficiency, high external debt ratio, common currency, non cooperative behavior from other countries, corrupt politicians. Recently developed long past time series on public debt, along with modern figures on external debts, allows a deeper study of the cycle causal successive debt and banking crisis. The facts confirms a strong relation between banking crisis and sovereign evasion crosswise the financial history of great many countries, advanced and emerging alike. The study may serve as the foundation of future study in terms of devaluation of Euro to cope with this crisis. Devaluation of currency provides the bases of political stability, economic growth and boosting exports which helps to undertake this crisis.

Key Words: Current account deficit, financial crisis, financial reforms, global imbalances, sovereign debt crisis.

1. Introduction

Greece is a developed country having better living standard and human development index. Greece is on 25th rank among the world countries and 33rd in parity during 2007-2008 as data provided by IMF. At that time tourism, shipping, food and tobacco processing, textile, mining and petroleum were the main industries. European currency arose at 1999 but Greece joined Euro on 1st January 2001 (Eurostat, 2010). After adopting Euro as its currency Greece became 12th member state of Euro-Zone.The Greece governments default on their debt obligations become the cause of financial crisis. Financial crisis pushes many governments into default through economic downtrend, short administration revenues, lengthening government deficits and elevated intensity of debts. Presently, Greece is facing "Sovereign Debt crisis" (Belkin, 2010).

Due to Greece debt crisis, the Euro status was at stake. According to Expert opinion, Greece should give up Euro and join another national currency to avoid this crisis. United States and EU have a strong trade relation that's why instability in Greek economy can effect "U.S" economic position. In order to protect the other Euro-Zone member states like Spain, Italy and Portugal from this infectious crisis, Euro-Zone members and IMF proposed financial packages to Greece. Greece debt crisis originated various questions regarding the fixation of responsibility of this crisis which must be answered and the methodology adopted for this study is also to answer the various questions regarding this issues. This study provides the answers to the following research questions.

RQ1: which domestic & international factors provide basis for this crisis?
RQ2: How this crisis became threatened for the Euro states?
RQ3: How this crisis can be dangerous in global perspective?
RQ4: What measure the Greek government should take to cope with this crisis?

2. Economy of Greece before crisis

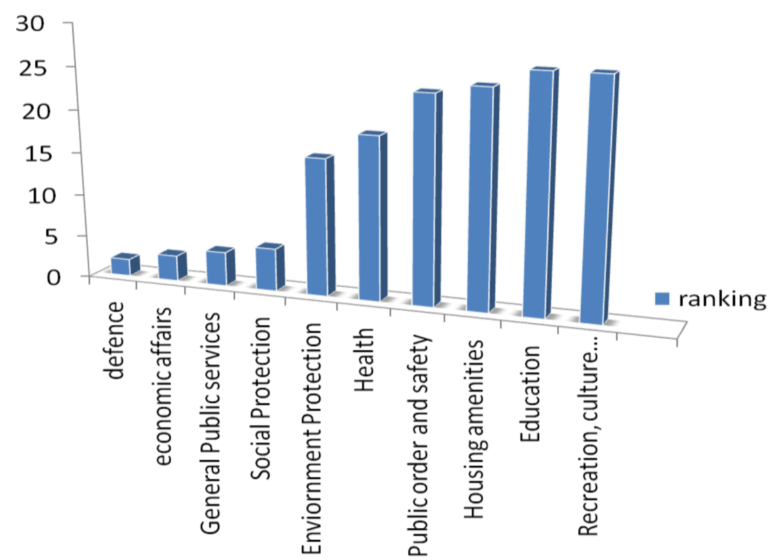
A new epoch begins when Greece entered as Euro-Zone member state. Although in mid 1990's Greece had faced many difficulties related to structure. When Greece government paced attention to fiscal administration & regulation, the Greek economy which was facing financial & economic shocks gradually moves towards the betterment.

When Greece entered in stability & growth treaty, it enabled Greece to maintain its budget and to avoid deficit in the best interest of company (Genacy, 2010). Greece economy was fairly sturdier in 2003. At that that time growth rate was about to 4% of GDP. The significant factors which boost the economy of Greece were private spending and public savings. But Foreign Direct Investment was not up to the standards of European Union. The policies of the government which was mentioned in Stability and Growth treaty submitted to the EU and asked for the reform efforts.

3. Background of Crisis

3.1 Buildup of Greece's Public Debt

Greek crisis----the Hottest financial topic Now a days and has become a threat for the stability of worldwide economic markets. Greek crisis is basically the result of negligence and inefficiency of Greek Government, which was unable to balance the budget related spending. The major spending of Government was related to defense, service, education, housing amenities etc.



Source: Nikos Tsafos , Energy analyst

The profligacy on the part of Greek Government resulted in Budget and current account deficit. As record shows, the budget deficit of Greek Government was 6.7% of GDP and current account deficit averaged 7% per year from 1980 to 2009. After adopting Euro in 2001, it had became easy for Greek Government to access capital in International capital Markets. So, Greek Government raised funds in international market by issuing bonds at lower rate of interest. High spending of Government, weak tax collection and excessive amount of external debts led to current Greek crisis.

3.2-Outbreak of Greece's Debt crisis

The confidence of shareholders was badly shaken when in 2009 the newly-elected Government announced the actual budget deficit which was nearly double of original number. It was 12.7% which is two folds of 6.7 % Nelson, Belkin & Mix (2010). Actually, Government of Greek has deceived the people by concealing the actual amount of debt and deficit. At that time the decline of Euro took place. The Greece bonds' rating was downgraded at BB+ and A2 by Standard & Poor's rating services and Moody's standard respectively (Genacy, 2010). In next month's the Greek Government introduced many austerity packages regarding the safety of other European countries from this crisis. On April 2010, the Greek Government requested to IMF and other Euro-Zone member states for financial assistance. Before providing any assistance, the European Commission demanded the details of proposed budget cuts of 2011 to 2012.

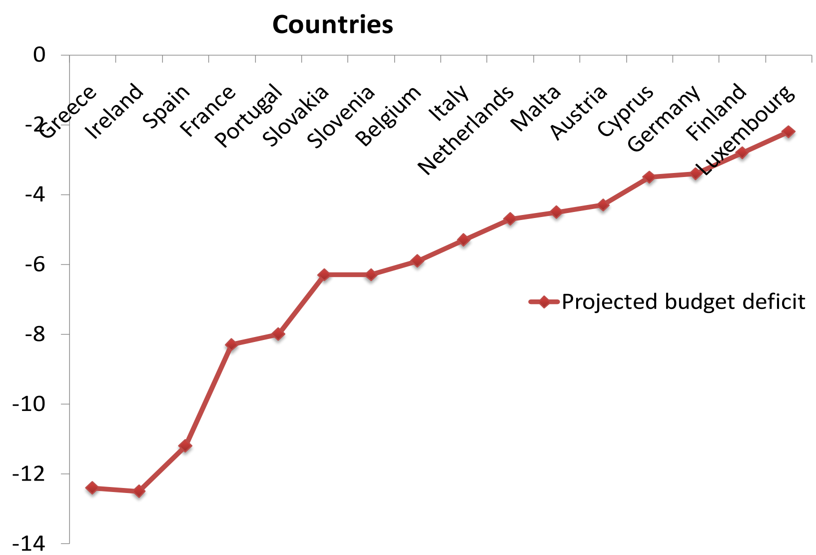
Table 01: Fitch sovereign long term default ratings of selected Euro-Zone States

Countries	Fitch sovereign long term default rating
Greece	BBB+
Ireland	AA-
Spain	AAA
France	AAA
Portugal	AA
Slovakia	A+
Belgium	AA+
Italy	AA-
Netherlands	AAA
Austria	AAA
Cyprus	AA-
Germany	AAA

Source: The Fitch Credit Rating Agency, 2009

On May 2, 2010 there was 3-year assistance plan amounting €30 billion by IMF and €80 billion by Euro-Zone countries was introduced. After the announcement of this package, the economy of other Euro-Zone states was still at stake. So, the European Union Governments collectively contribute to €500 billion amount which was available for these countries at this difficult time.

Figure 01: Euro-Zone Deficit level



*Projected budget deficit is shown as Percent of GDP
Source: European Commission Autumn forecast

4. Causes of Greece's Debt Crisis

Greece was a developed country with a towering revenue nation, a very high Human growth Index (25th uppermost in the world rank as of 2010) and constantly high worth of living standards. Since 1981, Greece has been the part of European Union & of the Euro-Zone since 2001 & of the NATO since 1952 & ESA since 2005. It is also constituent of the United Nations, the Black Sea Economic Cooperation Organization. Greece's had been started using Euro as national currency from 2001. Despite of all these milestones, Greece is facing a severe debt crisis now a day. These crises are so severe that Greece will go to default soon, Economist concludes.

It is recorded that National debt is about 300 billion euro which is higher than the whole economy. Economists are forecasting it will go upon 120 % of GDP in 2010. The country's budget deficit is 12.7 percent. Remember, there are two ways to pay off debt: Use money you've produced and saved (slow and laborious), or go borrow money (quick and fast) to pay off a debt you happen to owe some other person, bank, bondholder, etc. Greece chose the second option. Like other defaulted nations in history, the reason of Greece's crises is also the inability of Government to pay its debt. Greece has billions of dollars worth of bonds due in less than two weeks. Because their politicians have been spending like drunken sailors, they don't have the money to repay the bond holders. Greece's debt rating -- the valuation of ability to pay back its debts -- move downward in the Euro-Zone, considered as a financial crack by foreign investors.

4.1. Domestic Reasons

Some of them are **domestic reasons** and others are international factors (belkin & E. Mix, 2010). A decade before the current global crises, Greece's government deficits current account deficit and substantial Government Budget with heavy borrowing from abroad (116% of GDP in 2009). Investor took it as a bad signal and their confidence on Greek Government started shaking due to heavy reliance of Greece on external debt. Moreover three major credit rating agencies down grade the Greek bonds. After that new social Government's revised estimate of budget deficit revealed that budget deficit would doubled to 12.7% of GDP in 2009. All these contribute to shaking confidence of investors on Greek Government. The person that buys the bond is simply a lender. They make a deal where they lend their actual money to the government hoping to get their money back, plus interest over some period of time. There are short-term and long-term bonds.

Bonds are considered pretty safe investments, especially when they are issued by governments. Why? Because it's always felt the government will repay the bonds by raising taxes or manufacturing the money that's owed.

But the Greek case is very interesting. Greece doesn't control its currency anymore. It's part of the cabal that uses the Euro. This means that Greece can't go fire up its printing presses to make money to pay off the bond holders. Isn't that interesting! Although printing more money (Euros) to pay back the bondholder isn't such a great idea because new money will devalue the value of the existing money in circulation. The other nations that use the Euro for their currency DON'T want to see their money devalued. Greece's foolish spending is now causing pain for all the countries that use the Euro (Wagner, 2009). At some point, if there's too much money out there, it can lose its value as no one wants to possess it. Scarcity of something is what creates value. How much do you value sand? It's a worthless commodity because there's so much of it. Some reasons are as follows:

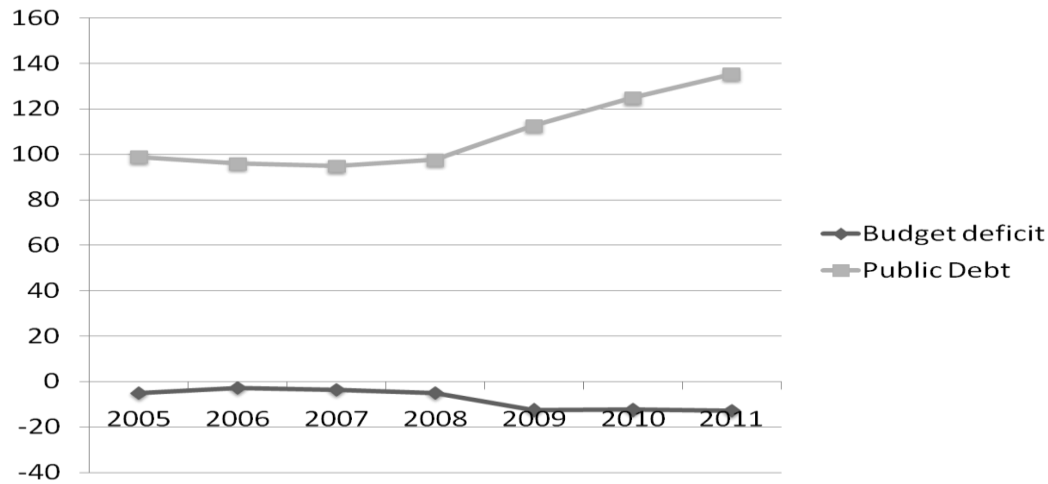
4.1.1 Excessive Government expenditures & feeble Government revenues

Greece's out-of-control spending has leaded it to the financial ruin. Politicians are paying bond holders with BORROWED money, not real dollars that have been saved. It's just like you or I get a new credit card and using the limit on that card to pay off a different credit card bill. It will increase the debt burden instead of decreasing. Due to high budget related spending—the ratio of Government expenses on Public administration is at peak as compared to others of OECD members. And there was also no evidence about the quality of expenses that could make them productive in good interest of country. The main reason is heavy investment of EU and central Government. The growth rate could be sustained if Government of Greece cut down its non productive expenditure. Some argued that weak revenue collection system of Greece has also contributed to Greece's budget deficit. Tax prevarication was the outcome of skyscraping of taxation, undue parameters and ineptitude in public sector (Atkins & Hope, 2010).

4.1.2 High Investment capacity of general public

Economic growth exceptionally has a negative trend in 2009. In 2009, budget deficit growing up to above 13% of GDP (OECD, 2010). During 2001 to 2007, good time for Greece as annual growth rate of GDP was 4.3%, as compare to standard set by Euro-zone which is 3%. The main reason of this growth was that the credit assess was easier for general public which in turn leads to high private investment and high economic growth.

Figure 02: Greece's Economic Indicators



Source: European Commission Statistics

4.1.3 Outmoded Pension system

In European countries the average retirement age was 65 years whereas in Greece it was 58 years (The Economist, 2010a). So disorganized Public management, lavish amount of Pension and expensive health care system also provided the basis to this crisis. Anyway, the inclination of Greek Government towards these unproductive expenses was remain persistent. Thus, in 2009 the expenses of Government were raised up to 50% of GDP. During these 6 years of steady economic growth, Government expenditure grew by 87% while revenues only grew by 31%. And level of budget deficit touched an alarming point.

4.1.4 Structural regulation and moribund international competitiveness

Moreover industries of Greece are not meeting international standards and also not competitive. The Government is facing dilapidated International competitiveness. Primary factor of this declining is high cost of production and low yield on production. When Greece takes euro, there is an annual increase in wages of labor to 5% on annual basis. Government has been taken corrective action in order to boost the industries. Some economists argued that Euro as home currency is a main cause of Greece's build up of debt. Euro is considered as stable currency because two economic heavy weights, Germany and France, have the same national currencies.

4.2.1 Easy access to capital

The perception of investor about Euro as stable currency allowed Greece to make use of it at reasonable interest rates. This allowed Greece to borrow more and easily to finance its budget and budget deficit. This benefit was for short time period because in long run it hurt the Greece most. EU has formed some common Stability & Growth Pact for member countries. But EU did not seriously implement what it planned. It is thought that if EU imposed financial sanction against countries which violate the pact rules, the Greece could be stopped from running up high levels of growth. It is also concluded by some that what is happening in Greece is complicated by the fact that Greece is part of a larger group of countries and cannot make decisions unilaterally. Situation here in the states is beginning to get more complicated due to agreements like NAFTA and the investments made in Greece's federal bonds by other countries. A 'global village' is threatening Greece's own ability to govern itself.

5. Addressing Greece's Crisis

Greece's troubles will upshot the other Euro-Zone countries too because they have same national currency i.e. Euro (Dokos, 2009).Greece violates the Euro-Zone rules on dearth administration. A monetary market cautions that Greece is at risk of defaulting on its debt obligation.

This returns badly on the standing of the euro. There are also dangers that fiscal doubts will infect other nations. If Europe needs to way-out to save packages like IMF, this would smash up the euro's character and leads to an extensive decrease besides other fundamental currencies. According to some thinkers, despite of the financial aid by European countries and IMF, the Greece is not still in position to pay its debt obligations. Incapacity of Greece to pay back its debts also hurts other member nations of EU. Think about it from the standpoint of the bond holders. If they don't get their money and the interest due, they'll be very reluctant to buy any more bonds - not only from Greece, but any other country that wants to pay back the amount in Euros. So the countries that are all part of the Euro countries are in emergency meetings right now trying to figure out how to keep the bondholders happy and at the same time get the countries that use the Euro to control spending. It's not going to be an easy task.

5.1 Responses of Domestic policy

Country has implemented austere measures (Government spending cuts and tax increases) and has pursued structural reforms to try to curb debt and to improve the competitiveness of economy. It has instigated severity measures that lower the deficit by $13.7 billion.

5.1.1 Fiscal Asceticism

The Greek Government has taken many corrective actions to bring this deficit in downward trend .In this regard the Greek Government declared a statement about the spending reduction and increment in taxes on January 2010.The basic purpose of this announcement was to back the lost confidence of bondholders on Greece economy .In order to act upon this statement, a three year plan was introduced which was related to the subterranean cuts on spending and expansion of revenue. The other Euro-Zone member states happily accepted this plan. The government has started cutting its spending. Most of the cuts focus on the civil service. It has raised the retirement age by two years which will be delayed the payment of retirement benefits. Government has forced public sector forfeit cuts and new tax skirting rules. Greece has reduced civil service pensions, wages and bonuses. Civil service hiring has been freeze in 2010. In 2011, retirement/recruitment ratio will be 5:1. There is a boost in taxes on tobacco, petroleum and alcohol which will ultimately increase the revenues of the state. Tax rate also increased to 23% from 19% last year. It has restored enough investor confidence in Greek economy and it will help to eliminate the need for outside assistance.

5.1.2 Structural rules

It focused on wide range reforms to the annuity and fitness scheme, and on Greek management structure. Actions are taken to increase industrial competitiveness of Greece in international market, to raise employment level and to reduce corruption from the country. Prime Minister of Greece also took in to the consideration the importance of novelty, research and technical advancement. He also took measures to reduce the size of corporate authorities as a large amount of budget was being spending on this structure. He enforced a proper check and balance system for the accountability of each system.

5.1.3 Challenges and projection

Some economists opposed these measures at that time as there was prevailing an enduring recession in economy. But the Government was hopeful to argue against these trends by encouraging the foreign direct investment level and raising the exports of Greece. The Government has effectively diversified the investment of Greek and other European members' funds in those sectors where the Greek was having relatively burly position for trade. The real challenge, which the Greek Government had to face, was the severe opposition of these measures of public and political parties. People of Greece were not happy with these measures. There is a caution of confrontation from other division's culture. Workers have countrywide dramatic wallop closing airfield, management agencies judges and educational institutions. This trade deed is likely to carry on. When Government of Greek took decision to take the financial aid from IMF, there was robust opposition by a political party with the statement that the measures of IMF are not acceptable by the people of Greece. And this opposition is still continuing.

5.2 Financial assistance to Greece

Greece needed financial assistance and political support in order to implement these fiscal austere measures and structural reforms. Maintaining public and political support was also a challenge for Greece.The package of assistance will engage in corresponding two-sided credit from countries within the ordinary currency area, finances and technological aid from IMF. These packages are considered as last resort in EU. It has been decided that euro region States would donate sum based on Gross Domestic Product (GDP) and inhabitants. On May 2nd, 2010, the members of Euro-zone and IMF endorsed a historic loan of €110 billion to Greek in order to cope up with current downfall.

An additional loan of €500 billion also announced on 9th May, 2010 (Gencay, 2010). Through this backing it was expected from Greece to meet up its debt obligations.

5.2.1 Assistance by European countries

On March 2010, after a significant conciliation, the leaders of European countries decided to provide loans with collateral on the interest rate which was prevailing in market. A large amount of this loan was provided only by Germany as it was the most stable country of European Union.

5.2.2 Discussion over this assistance

The decision of this assistance was quite difficult for some Euro-Zone member states. But according to some analysts, this aid was very crucial for the stable economy of other Euro-Zone members because of same currency. And the main effect of this crisis was the weaker value of Euro. Some countries were opposing this assistance proposal because they were also facing financial imbalances. And some other countries were hesitating because in their opinion Greece government was deficient to manage and modernize its economy. And it also has deceived the public by concealing the actual figures of deficit. Some observers proposed that it is better to exclude such countries from Euro-Zone which are violating the rules and principles (The economist, 2010b).

5.2.3 Assistance by IMF

The contribution of IMF assistance was one-third of this package. IMF didn't provide the whole amount of loan in one session but still providing it in installments and before providing the next installment make sure that it is being used according to the requirements stated in agreement. The loan provided by IMF is unique in nature because of two reasons-the first is that after adopting Euro it is very first time for any Euro-Zone country to get loan from IMF and the other reason is that IMF has never provided such a large amount of loan to any country before this assistance. Normally, IMF has laid down the limit on loan amount but this authority has right to issue loan beyond this limit without any approval. It is anticipated that IMF share funds can be used to pay the half of Greek debt obligations. U.S.A also has contributed some amount in this fund but the fraction of its contribution is still blurred.

5.2.4 Discussion over this assistance

Before the involvement of IMF in this financial backing, many officers of European Union were against to take help from IMF. They argued that European Countries should embark upon this crisis by their own selves. According to them it was the disgrace of European integration to seek help from outside resources. But at the end of March 2010, this dispute got a new point and consequently, there was an approval of assistance package by the contribution of IMF and European countries. It was happened because Germany really wants the collaboration of IMF in this situation.

5.3-Adequacy of Domestic reforms and Euro-Zone, IMF packages

Some observers find it difficult to implement the measures taken, by Greek government related to spending cuts. According to the perspective of other analysts there should include the reformation of debt in assistance package by IMF, because there was still the chance of failure of Greek government to pay its debts. Through the reformation of loans the burden of this crisis could be shifted to private banking. But some people have given the suggestion that Greece should leave the Euro-Zone and should adopt another currency. But doing so will create the monetary problems for other Euro-Zone countries.

5.4-Broader EU Stabilization Package: EU member countries and IMF

The shareholders were still considering the fears regarding this crisis in spite of the financial assistance package. They were feeling it hard to trust on Greek economy position. This became the cause of further downfall in Euro value. Now it was an alarming situation for other Euro-Zone countries. So, to protect the other Euro-Zone countries another assistance mechanism was introduced by finance minister. This package contained the contribution of European countries and share of IMF as well.

6. Implicit Consequences of Greece's Crisis

6.1 Contagion & Euro-Zone debt concerns

Due to insufficient stabilization mechanism in April 2010, credit ratings of the Portuguese and Spanish reduced which leads to the alarming situation of Euro-Zone. This slackened the confidence of the investors. They were really nervous about the continuity of some countries debt. So, for the new bonds, they claimed higher interest rates and generate problems for those countries in further borrowing & serve their existing debts.

Lesser market confidence includes the investors not only to sell the bonds but also gradual decrease in buying the new bonds. As a result, countries face the cascade of sovereign debt that is they lose the greater part of their value. No doubt, the conditions of the country had a great impact on the investors' confidence. So, in these conditions a number of the questions arise on the ability of the Euro-Zone & IMF to address another crisis in Europe. In these ups & downs, European financial stabilization mechanism guaranteed to lessen the Euro-Zone contagion situation for some time. However some observer purports that this mechanism doesn't solve the root cause of the problem. They suggest that some European countries have to take some crucial steps in order to foster their industrial competitiveness & public finances etc. Portugal and Spain seemed to be the next participant of the potential crisis and Italy & Ireland as well.

6.2 Multifaceted Financial Instruments & Financial parameter

In 2001, Goldman and other politicians helped the government to the millions of borrowing. Those dealings conceal from the public, it seems to be like currency trade rather than the loan. First thing they did for deceiving was to invent an instrument which really worked. These instruments which are invented by the Goldman Sachs, Morgan chase & other banks helped the greedy politicians to conceal additional borrowing from Greece, Italy and many more. They make dozens of deals from landmasses & banks by insuring promise of future payment from government and generated liabilities in books forever. The role that played in Greece crisis by the financial instrument creates tension between United States of America and E.U on financial regulations. Some European leaders prohibits to those derivatives. So, financial regulatory reform will regulate the derivatives but not banned at all. Greece debt crisis raises a question on the European Union (EU's) monetary union. When Euro introduced in 1999, a mismatch is being observed in EU's advance economic & monetary union which leads to the incomplete political union. A single monetary policy exists in Euro-Zone but sixteen (16) separate national fiscal policies (Gencay, 2010). This is said by some critics as the root cause of the problem and threatens the feasibility of having same currency.

On the other hand, some said that the European monetary union has to develop the stronger economic union which is no doubted depends on the stronger political union. This is just an attempt to use the cart to bring on the horse rather than putting the cart before the horse. But that worked only for half of the century, not more than that. It worked until and unless crisis goes for the following steps of integration (Gencay, 2010).

- Behind the Monetary hide Fiscal
- Behind the Fiscal hide Economic
- Behind Economic hide Political
- Behind Political hide Historical

6.3-European incorporation

So, personal experiences & memories are bitter reality for European integration to lose the force since 1945.Some northern European countries like Germany have larger account surplus due to dependence on export for growth that is export led growth, moderate wages so that cost of production becomes low and higher level of savings. Some Southern European countries like Spain, Portugal & Greece have larger account deficit due to High wages growth, less spirited export, lower level of savings.

So, in order to finance these deficits, these countries go towards borrowing. No doubt that Greece, Spain, Portugal need to increase their competitiveness. Greece really needs to increase the trade to boost the economy. Trade activities can be increased by less reliance on tourism but as well as they also need to obtain benefit by generating demand of their product &services in Germany and other surplus countries. In order to overcome, it is utmost essential. Strauss Khan's warned about imbalances. It is stated that the competitiveness of other Euro-Zone states is at risk due to Germany's gigantic trade (Warsaw, 2009) Germany rejected this statement by saying that, in order to avoid the imbalances entire Europe needed to lift up its competitiveness.

7. Greece impact on the Economies

7.1-U.S Economy

In result of Greece crisis the chief implications for the United States are five in number, First is basically the exchange rate. It is expected that investors lose their confidence in Euro-Zone up to coming years. The value of Euro-Zone will lessen. It leads U.S lower export & increase imports from Euro-Zone. It means broadening trade deficit. As well as in Euro-Zone countries U.S investment will happen in cheaper dollar. One of the biggest trading partners of European Union (EU) is the United States.

Trade & growth in the region is largely influenced by the financial instability of European Union which has an effect in the US economy. Next implication for the US in result of Greece crisis is the commercial interest. Although European countries having the larger debt portion. It's about 16.6$ billion. Debates of the shortfall and excessive accounts are just like to the inequity between United States of America & China. So, this thing shows how the monetary strategy of individual country affects the supplementary country. Co-operation & coordination is utmost important for the achievement of international financial stability.

7.2 Global Effect

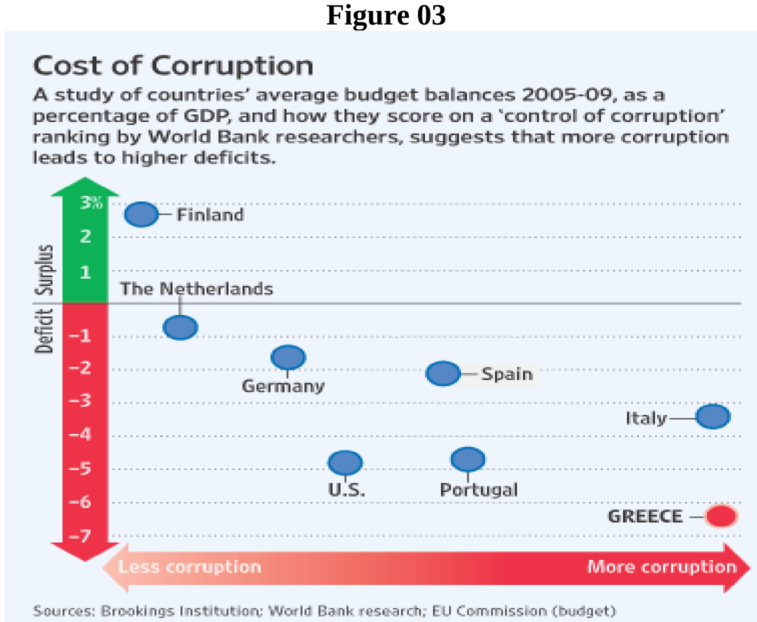
Since 1982, the trade relationships between European countries and India have been developed.
At the same time US economy also dependent on the European Union regarding trade concerns so a fall down in the European union affect the US economy. As we know that all these countries are interdependent on each other due to trade relations. That's why the financial imbalance in one country will automatically affect the economy of other country.

8. Policy Implications

To lessen the fiscal deficit & debt ratio, Greece is required to have a strong and sustainable adjustment program.
In order to cope up with this current crisis, Greece is suggested to:

Cut the cost of public spending. The main reason of this crisis is considered the unproductive spending of the Greek Government. So to handle this crisis it is expected from the Greek Government to show mature behavior towards the welfare of state. It is also recommended to Greek government to reduce the cost of production because before this crisis a huge amount was spent as the wages of employees and ultimately there was an increase in the production cost. And also Increase productivity level while maintaining quality. Enhance trade relations with surplus countries to boost the exports. Some thinkers have stated the concept of currency devaluation. As due to devaluation in the value of currency there will be more chances of growth and political stability. And there will be the reduction in the real value of debt. The strong and strengthen banking system is also the immediate need to resolve this crisis. ECB was basically developed in order to protect the banks of European countries. But now in this critical situation a big amount as a financial assistance and active involvement is being expected on the behalf of ECB. As it is stated in above discussion that Germany reluctance, to help the Greece was the big hurdle in handling of this crisis (Gencay, 2010). So, EU integration------sense of coordination & cooperation on the behalf of Euro-Zone is badly needed to tackle this crisis. (Bratsis, 2010) has described that it's the time for European countries to reorganize themselves and they should encourage the economic interdependencies through the common economic market. Another main cause of this crisis was the inability of ruling class of Greece. That class had a big share in politics and economics of country. But this class showed a very immature behavior towards the welfare and stability of their country by giving priority to their personal interests. This behavior shows the corruption of ruling class.

Figure 03



In regards to solve this crisis a devoted and strong society should be there which give preference to national interests over their personal interests. Similarly the evaluation system of public spending and financial auditing system in Greece is not up to the mark. A proper check and balance system should be introduced to avoid the negligence of people which is creating disturbance in the smooth working of country. It is also beneficial for the Greek Government to pay attention towards its tourist and energy industry. As in earlier of Greece these both industries was playing the major role in its growth. Last but not least according to the circumstances its better for the Greece to quit the Euro-Zone (Papic et al., 2010). And also take some quick measures because after leaving Euro the banking system of Greece can be badly affected.

9. Conclusion

The burden of this financial crisis has already shifted to the shoulders of new government of Greece, which must enforce the application of callous & detested spending cuts. The government should operate on a balanced Federal budget, just as the states are forced to do. It should run the nation as we run our own personal finances. To achieve this goal, Greece needs to elect politicians that have the foresight to do this. Some economists have suggested that Greece should issue new national currency and should abandon Euro (Rein frank, 2010). Greek's government should also focus on improving exports and foreign investment. Greece should focus on those sectors and industries in which it has strong competitive and comparative advantage for trade and investment. It should also remain focused on austerity measures in long run along with in short run. The great opportunity for Greece is that for its rescue, European Union is there. It will take years to recover Greece from these crises. It can only be happen if it gets sincere leadership and assistance from politicians, society and member countries as well.

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