The Eurozone Crisis in Greece and Italy

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The Collapse of Lehman Brothers and the Global Domino Effect

- Collapse of Lehman Brothers (Sept 2008)
- Triggered a **global financial meltdown**
- European banks heavily exposed
- Echoes of 1929 market crash
- Europe showed **financial dependence on the U.S.**

Greece in the Eurozone Crisis

Greece in the Eurozone Crisis: Why is it interesting?

→ A test for the **euro's resilience** and the **EU's political power**

- The Greek crisis was not just national = **turning point for the EU**
- For the first time, <u>euro membership seemed reversible</u> (Grexit debate, 2015)
- Greece became a political and institutional laboratory for Europe
- The **EU faced a choice**: solidarity or strict discipline
- When the 2008 global crisis hit, **Greece was already fragile and indebted**
- Fake statistics and easy credit masked deep structural weaknesses.
- Without its own currency or fiscal autonomy, <u>Greece had no tools to react</u>

Before the Crisis (Pre-2009): Deep Political and Economic Roots

Context:

- **2001**: Greece joins the **Economic and Monetary Union** (EMU), symbolizing modernity and European convergence
- Beneath the surface, however, **deep structural and political weaknesses persisted**

Main fragilities:

- Rising **public spending** without genuine structural reforms
- **Deficit and debt** concealed or manipulated in official statistics
- **Corruption and clientelism** as endemic features of political life
- **Rent-seeking and populism** undermining fiscal sustainability
- **Administrative inefficiency** and low public-sector productivity

An ***economy increasingly dependent on foreign credit*** with the inability to meet eurozone governance and fiscal standards

Political Dynamics and the Road to Fragility (2001–2009)

Political Leadership:

- **PASOK** (Costas Simitis, center-left)
- **Nea Demokratia** (Kostas Karamanlis, center-right)

Policy continuities:

- No major structural reforms implemented by either government
- Low interest rates under the euro encouraged **borrowing over growth**
- Chronic deficits, corruption, and inefficiency became systemic

Result by 2008:

- A **fragile economy** built on debt, not productivity
- The **2009 crisis** merely exposed decades of poor governance and institutional weakness

The Peak of the Crisis (2010–2015): Default, Austerity, and the Troika

- In late **2009**, Prime Minister George Papandreou revealed that Greece's deficit had reached 12.7% of GDP

- The disclosure destroyed market confidence

- The country faced an **immediate liquidity crisis as investors fled**

- **Greek banks**, heavily exposed to government bonds, faced **mounting losses and deposit flight**. The crisis exposed years of fiscal misreporting, weak tax collection, and structural inefficiencies, fueling social unrest and political instability

THE TROIKA: Who they were and what they did

1. **European Commission** – led by **Jean-Claude Juncker** and **Pierre Moscovici**. It oversaw budgets, negotiated reforms, and balanced European support with strict spending rules through detailed Memoranda of Understandings.

1. **European Central Bank (ECB)** – under **Mario Draghi**. It stopped a banking collapse, opposed a "Grexit," and backed Greek banks with about €25 billion to protect the eurozone.

1. **International Monetary Fund (IMF)** – headed by **Christine Lagarde**, It imposed austerity and reforms but admitted Greece's debt couldn't last. Later, it called for debt relief and a fairer balance between saving money and growth.

The Peak of the Crisis: Bailouts and Impacts

Bailouts and Austerity Measures (2010–2015)

- **First bailout (2010)**: €110bn, prevent default and protect the eurozone
- **Second bailout (2012)**: €130bn, drastic cuts & reforms
- **Third bailout (2015)**: after July summit

- Under **Merkel** and **Schäuble**, Germany led the response, demanding fiscal discipline and making austerity the main condition for aid.
- **Hollande** and **Renzi** pushed for a softer approach, seeking compromise to avoid a "Grexit."
- The **Eurogroup** became the main power center, setting bailout terms and driving EU decisions through national governments.
- Led by Donald Tusk, the **European Council** decided Greece's fate at the July 2015 summit

The Peak of the Crisis: Bailouts and Impacts

AUSTERITY

=

RECESSION

Socio-economic Impacts:

- GDP collapsed by >25%
- Overall unemployment: 26%; youth unemployment: >50%
- Suicides increased +33%, poverty and social distress surged
- Erosion of social protections and welfare systems

Political Effects:

- Traditional parties de-legitimized
- Rise of **populist** and **anti-system** movements (SYRIZA)
- **Alexis Tsipras (SYRIZA) elected Jan 2015** → promised to end austerity while remaining in the euro

- January 2015: SYRIZA wins the elections
- **July 5: Referendum — 61.3% vote OXI ("No") to bailout terms**
- ECB freezes emergency liquidity → capital controls, bank closures, economic paralysis.

Schäuble's "Non-Paper" (10 July 2015)

- Proposed temporary Greek exit from the euro (5 years).
- Suggested a €50 billion privatization fund in Luxembourg.
- For the first time, the **irreversibility of the euro was openly questioned**

The weekend that "Saved the Euro"

→ THE JULY SUMMIT - Brussels (11–13 July 2015)

- Negotiations between **Merkel and Tsipras**, mediated by Hollande and Tusk, lasted 17 hours.
- At **08:39 - 13 July**, an **agreement** was reached:
  - Tsipras accepts a **third bailout** to stay in the eurozone
  - **Greece remains in the euro, but loses economic sovereignty**

EURO CRISIS WEEKEND

July 2015 saw intense negotiations to prevent a Greek exit from the Eurozone. It was a tense time!

GREEK REFERENDUM

Greeks voted overwhelmingly against the terms of a bailout deal. This created even more uncertainty.

JULY 5, 2015

EMERGENCY SUMMIT

Eurozone leaders held an emergency summit to try and find a solution. It was make or break time.

JULY 12, 2015

INTENSE NEGOTIATIONS

Negotiations went on through the night, with lots of disagreements and tough compromises needed.

JULY 12-13, 2015

DEAL REACHED

A conditional agreement was finally reached, averting a potential Grexit... for now.

JULY 13, 2015

EURO STABILIZES

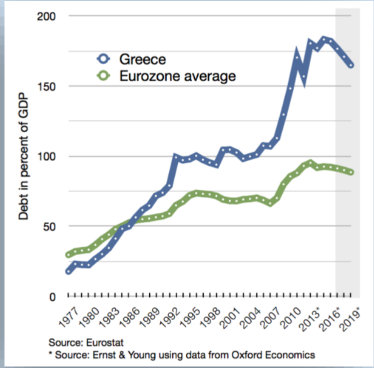
After the agreement, the Euro's value stabilized, calming markets. Relief was palpable.

JULY 2015 (LATE)

After the crisis: Transition and fragile recovery (2016–2019)

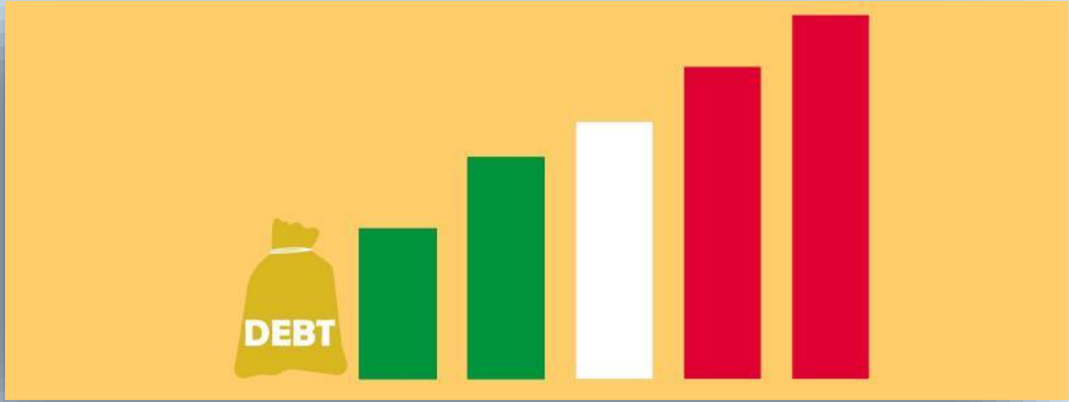
- After **2015**, Greece entered a phase of **apparent stabilization** under the ***Third Memorandum***.
- Fiscal discipline returned, but social and institutional costs remained high.

- **Positive trends (2017–2019)**
  - GDP growth after eight years of recession (fragile, halted by COVID-19)
  - Budget deficit turned to primary surplus within Maastricht limits
  - Improved current account balance, yet below northern EU standards



Italy in the Eurozone Crisis

Before the Crisis (Pre-2009): Deep Political and Economic Roots



Key Fragilities:

- High **public debt** (>100% of GDP since 1990s)
- Stagnant economic growth: low productivity,
- North-South divide
- **Weak politics**: unstable governments, delayed reforms

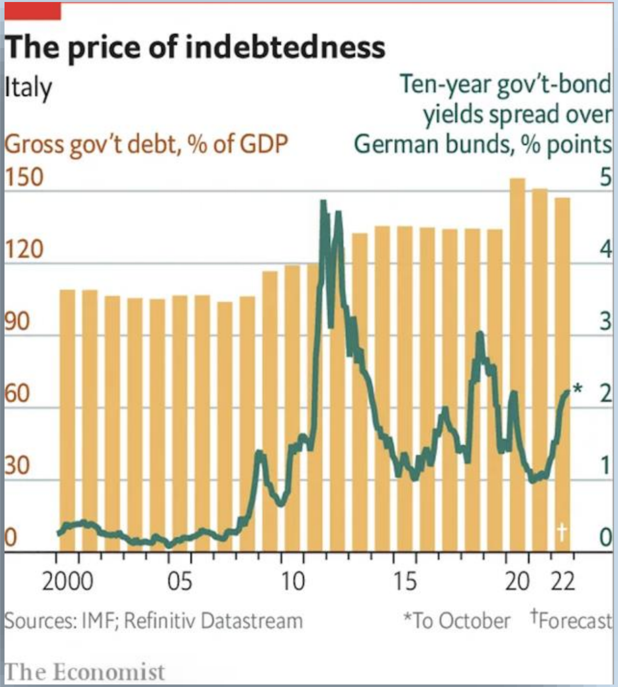
= a **fragile economy**

2008-2009 Global crisis

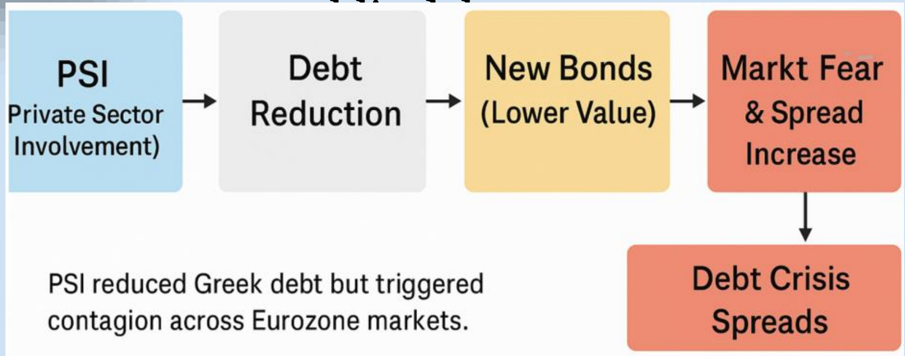
- US crisis shock → export & production fall = Italian economy in **recession**
- Italian **GDP -5% in 2009**

- Berlusconi government: limited structural response
- Rising debt surpasses **120% of GDP**

2010-2011 Sovereign Debt Crisis



- **<u>Greek crisis</u> triggers eurozone** debt fears
- Crisis of confidence in governments' ability to repay debt
- Introduction of **PSI** → investors demand higher yields
- Spread **BTP-Bund** enters



Summer 2011: ECB letter and political crisis

- ECB (Trichet and Draghi) demands immediate reforms
- Threat of **Troika** intervention
- Spread reached **575 points**
- Berlusconi resigns, Italy **near bailout**


Nov 2011: Monti technocratic government

- **Mario Monti** appointed **to avoid default** and Troika
- **Fornero pension** reform (retirement age to 66)
- **Austerity**: taxes increase and spending cuts

= goal → restore market and rise EU confidence

July 2012: Draghi's "Whatever it takes"

- **Draghi** "ECB ready to do ***whatever it takes***"

- Markets reassured, spreads fall
- creation of OMT to buy state bonds
- ECB seen as lender of last resort

2013-2014 Post crisis

- No bailout, but **heavy social cost**
- **Unemployment** > 12%, youth > 40% (NEET)
- business failures, “**esodati**” issue
- North-South divide worsens
- EU rules: Fiscal Compact, balanced budget

- Growing social **discontent** and **distrust**
- rise of **anti-establishment** sentiment
- **anti-euro** and **anti-austerity** narratives

Social and political impact

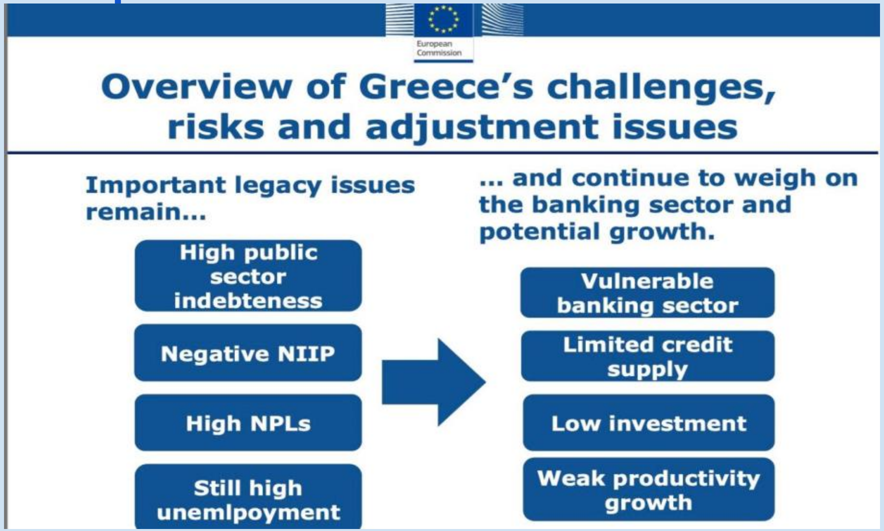
Post Eurozone Crisis: Persistent Problems and Possible Paths Forward

From Greece to Italy - Lessons for the future of the Europe

Beyond the Financial crisis

The official narrative: the Eurozone “overcame” the 2010–2014 crisis through reforms and austerity.
Reality: the crisis didn’t end — it **transformed**.

Today’s challenge: a **structural, political, and institutional crisis**, not just financial instability.



Post crisis, the European Semester was strengthened to give Country Based Recommendations to countries like Italy and Greece:

Italy has often received recommendations related to public debt sustainability, labour market reforms, and improving government efficiency.

Greece was monitored closely after its bailout programmes to ensure it implemented reforms in public administration, tax collection, and the rule of law.

Persistent economic problems … and possible solutions

Persistent Problem (Greece & Italy)	Key Data	Possible European Solution
Chronic debt	Greece 180% Italy 140% of GDP → high fiscal pressure	**European Growth Plan**
Low productivity	Economies survive, but don't grow. Investments still below pre-crisis levels.	**Common industrial and investment policies**
Weak institutions	Administrative inefficiency and fragile governance	**Support administrative capacity**
Fragile employment	Unemployment falling slowly, but jobs remain unstable	**EU labor and innovation initiatives**
Populism and mistrust	Low political trust and social fatigue after austerity	**Strengthen EU political legitimacy**

The Greek lesson and Europe at its limits

- Proper Economic Governance: the need for a shared fiscal authority alongside a shared monetary union, that ensures stability.

- Risk of relying on market confidence and Political stability: can distort rational economic decision making and delay the process when investor confidence is dependent on perceptions.

- Need for stronger European integration: Strengthening of federal institutions and ensuring fiscal sovereignty; making sure the European Central Bank is used for last resort could have prevented or mitigated the crisis.

- Increased distrust among European states, with the lack of collective institutions and overreliance on Austerity measures.

QUESTIONS FOR CLASS DEBATE

1. The European Union has often prioritized financial stability and strict economic rules to protect the euro. **But has this focus on stability come at the cost of solidarity among member states?**

1. After years of crises — financial, political, and social — the European Union is still searching for its identity. **Is the EU today a true political union, or just an economic alliance held together by rules and markets?**

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