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Citation style: Kubin Tomasz. (2017). The economic crisis in Greece, Spain, and Italy. W: T. Kubin, M. Lorencka, M. Myśliwiec, "Impact of economic crisis on the functioning of political systems : a case study of Greece, Spain, and Italy" (S. 23-86). Katowice : Wydawnictwo Uniwersytetu Śląskiego

Chapter 1

The economic crisis in Greece, Spain, and Italy

Tomasz Kubin

1.1 Introductory notes

The fall of the American investment bank, the Lehman Brothers, on 15 September 2008 marked the symbolic start of the economic crisis (the symptoms of which had already been observed earlier). The crisis is considered as the deepest and most prolonged since the so-called Great Depression of the 1930s. It affected primarily the USA and Europe and led to such problems as economic recession, an increase of public sector deficit, public debt, problems with private debt (both for natural and legal persons), an increase in unemployment, decrease of the average public wealth, etc.

The problems affect particular states in varying degrees. The length of time in which the particular states struggled (or keep struggling) with the aforementioned issues varied. Also, the causes of the economic problems of the particular states, especially those affected by the crisis the most, were not the same — the crisis in the USA was somewhat of a catalyst which revealed, and probably also accelerated and magnified, the states' specific faults, imbalances, tensions, etc.

The consequences of the crisis go far beyond a strictly economic framework. They concern both theoretical matters (generally speaking mostly views on the role and importance of the state and its institutions on the functioning of the state), as well as the practical aspects of the functioning of states or international organisations (such as the European Union or the International Monetary Fund). The political consequences of the economic crisis in three chosen states of the EU, namely, its impact on the shape and functioning of their political systems, are the main subject of this study and will be discussed in detail in its

subsequent parts. Apart from political consequences, the crisis and its aftermath led to the introduction of various economic reforms.

In the case of the said international organisations, it led to very considerable reforms in the functioning of the EU and the Economic and Monetary Union (EMU), as well as to a further deepening of the level of integration between EU states.[1] The crisis and the experiences resulting from the delivery of financial assistance programmes undertaken by the IMF, will certainly have a significant influence on the approach this organisation takes in the future with regard to such issues as prevention of economic crises, the drafting, implementation, and control of assistance programmes or the advisory activity of the IMF.

With regard to the states analysed, namely Greece, Spain, and Italy, among the causes of the crisis are those which were somewhat "external" in nature, that is, they were independent from the politics of these states or which had a very insignificant or indirect influence on its outbreak. They will be subject to a synthetic analysis in section 1.2 of the chapter. The second group of causes are those related to the functioning of Greece, Spain, and Italy in the EU, whereas the third group includes causes which are specific for a state and covers faults in its economic policies and state-specific macroeconomic imbalances. The circumstances and conditions that make up the last two groups of causes that contributed to the crisis are very closely related and for this reason will be presented jointly. These issues will be dealt with in the second part of this chapter (section 1.3). This part includes a series of different statistical data, which presents the economic manifestations and consequences of several years of crisis in Greece, Spain, and Italy. Presenting data only on the three states without comparing them with others, would not provide us with much information. That is why, as mentioned at the beginning, it is necessary to present this data alongside other EU states in order to better show and understand the effects of the crisis.

The economic consequences of the crisis, mainly in the case of Greece, were so severe that the country was not able to cope with them on its own and had to ask for assistance from international organisations and institutions. Spain received much less external assistance to this extent. The conditions of these programmes, control over their execution by EU institutions and the IMF, as well as the effects of the crisis meant that it became necessary to introduce a series of reforms aimed to reinstate economic balance and stability. The economic actions undertaken in Greece, Spain, and in Italy in response to the crisis are the subject of section 1.4. Taking into account the relations between the economy and politics as defined at the beginning, the economic manifestations and consequences of the crisis in Greece, Spain, and in Italy constitute a starting point for the presentation and analysis of their influence on the changes in

[1] See for example T. Kubin: "Kryzys gospodarczy i zadłużeniowy a zróżnicowanie integracji w Unii Europejskiej." *Studia Europejskie* 2012, vol. 3(63), pp. 71—92.

the shape and functioning of the political systems in these countries, which will be discussed in the subsequent chapters.

1.2 General causes of the economic crisis of 2008

The economic crisis began in the USA and its direct cause was the burst of the speculation bubble on the property market in the country. The problems that led to the crisis had been increasing for several years[2] and became apparent in the years 2006—2007. The collapse of the mortgage loans market itself occured in August 2007.[3] The literature of the subject speaks of the following causes of the crisis[4]:

- the monetary policy of the Federal Reserve, which led to an excessive expansion of loans and to the formation of the said speculative bubble on the US properties market[5];
- banks' (especially US banks') persistence in maintaining high equity interest rates in conditions of low central bank interest rates[6];
- the conviction of many politicians and economists that the economic cycles are a thing of the past and that central banks are able to prevent their negative consequences[7];
- the widespread expectation of a further increase of asset prices (especially property)[8];

[2] More on events relating to the crisis in 2007—2008, see for exemple W. Nawrot: *Globalny kryzys finansowy XXI wieku. Przyczyny, przebieg, skutki, prognozy.* Warszawa 2009, pp. 25—40.

[3] D. Rosati: "Przyczyny i mechanizm kryzysu finansowego w USA." *Ekonomista* 2009, no. 3, pp. 315.

[4] T. Kubin: *Legitymizacja systemu instytucjonalnego Unii Europejskiej*. Katowice 2014, pp. 380—383.

[5] Ch. Goodhart: "The financial crisis and the future of the financial system." *Zeszyty BRE Bank-CASE* 2009, no. 100, pp. 10—21. The Fed's monetary policy as a cause of the crisis is also mentioned by, for exemple, L. Balcerowicz and J. Osiatyński: "Tak poprawia się kapitalizm." Interview with L. Balcerowicz. *Gazeta Wyborcza* of 01.10.2008, p. 11; "Kryzys finansowy, czyli chwila prawdy." Interview with L. Balcerowicz. *Gazeta Wyborcza* of 10—11.11.2008, p. 28; "Zostawcie mój kapitalizm w spokoju." Interview with L. Balcerowicz. *Gazeta Wyborcza* of 11.05.2009, p. 26; "Jak długo potrwa kryzys." Interview with J. Osiatyński. *Gazeta Wyborcza* of 26.11.2008, p. 29.

[6] Ch. Goodhart: "The financial crisis…," pp. 10—21.

[7] Ibidem, p. 13. More in for example P. Krugman: *The return of depression economics and the crisis of 2008*. New York—London 2009, pp. 9—29.

[8] Ch. Goodhart: "The financial crisis…," pp. 10—21.

- subprime loans in the USA[9];
- excessive trust in the effectiveness and fluidity of markets[10];
- a lack of proper tools in the hands of supervisory institutions that would help prevent problems from snowballing[11];
- abolition in 1999 of the US Banking Act of 1933, commonly known as the Glass-Steagall Act, named after their promoters, that is, senator Carter Glass and a member of the House of Representatives Henry B. Steagall.[12] It was adopted during the Great Depression and forbade combining investment banking with deposit and loan banking. In 2010, the President of the USA Barack Obama signed a law referred to as the Dodd-Frank Act[13] (from senator Chris Dodd and member of the House of Representatives Barney Frank), which again separated investment banking from retail banking;
- "failure to adjust the regulatory and supervisory systems and risk assessment methods to new events on the financial markets after 1998"[14] — D. Rosati on the quick development of new financial instruments (derivatives) and the globalisation of markets[15];
- "faulty corporate governance,"[16] irregularities in the functioning of financial sector institutions,[17] bankers' and brokers' remuneration programmes encouraging them to take excessive risks[18] and a lack of accountability on the part of managers for their actions[19];

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[9] Ibidem; R. Baldwin, Ch. Wyplosz: *The Economics of European Integration*. Maidenhead 2015, pp. 481—482.

[10] Ch. Goodhart: "The financial crisis…," pp. 10—21.

[11] Ibidem. For more on the causes of the crisis, see also, for example, J. Taylor: *Zrozumieć kryzys finansowy.* Warszawa 2010.

[12] Public Law 73—66, 73d Congress, H.R. 5661: An act to provide for the safer and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations [Banking Act 1933]. http://fraser.stlouisfed.org/docs/historical/congressional/1933_bankingact_publiclaw66.pdf (retrieved: 6.10.2013).

[13] Public Law 111—203, 111th Congress, H.R. 4173: An act to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end "too big to fail", to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes [Dodd-Frank Wall Street reform and consumer protection law]. http://www.sec.gov/about/laws/wallstreetreform-cpa.pdf (accessed 11.11.2013).

[14] D. Rosati: "Przyczyny i mechanizm…," p. 316.

[15] Ibidem.

[16] "Zarabianie jest moralne." A conversation with E. Phelps. *Gazeta Wyborcza* of 21.10.2013, p. 20.

[17] "Jak długo potrwa kryzys…," p. 29.

[18] N. Roubini, S. Mihm: *Ekonomia kryzysu*. Warszawa 2011, p. 21.

[19] J. Kornai: "Widmo socjalizmu krąży nad światem?" *Gazeta Wyborcza* of 11—12.07.2009, pp. 23—24.

- complicated financial innovations and conversion into bonds of subprime mortgage loans whose value was very difficult to estimate[20];
- granting of mortgage loans under political pressure to people who were unable to pay them off[21];
- increase of wealth disparities which led to a "quasi-stagnations of the purchasing power of lower and middle classes"[22] and caused an increase in people's tendency to run into debt (at the same time, banks and financial brokers were very eager to hand out such loans)[23];
- bad functioning of rating agencies[24];
- financial co-dependency of deficit countries (mostly the USA, but also Great Britain, Spain, and Ireland) and countries with financial surpluses (China, West Germany, Japan, and oil-rich countries)[25];
- structural increase of the level of capital in relation to the level of revenue (especially in Europe) accompanied by the hypertrophy of gross financial asset positions between countries.[26]

It is also worth mentioning that according to some researchers, the crisis, that had come afloat in 2008, is not merely another dip in the economic cycle, but is "fundamental in nature" — "it is a systemic crisis of modern-day capitalism, or more specifically, of its neoliberal mutation, which had recently taken precedence in most of the world"[27] and according to Grzegorz Kołodko, could emerge only "in conditions of the neoliberal Anglo-American model."[28]

Taking into account the listed causes of the crisis, it is observed that in essence, the discussion about its genesis fits into a debate which is key for politics, the economy, and economic policy, namely a debate on the optimum level of interference of state institutions in the free-market mechanism. The debate concerns the issue of whether the interference is (or can be) effective and whether it

[20] "Zostawcie mój kapitalizm…," p. 26; "Banki pod spec nadzorem." Interview with J. Lewandowski. *Gazeta Wyborcza* of 29.06.2013, p. 9; "Zarabianie jest…," p. 20.

[21] "Zostawcie mój kapitalizm…," p. 26; "Banki pod spec…," p. 9; "Zarabianie jest…," p. 20.

[22] T. Piketty: *Kapitał w XXI wieku*. Trans. A. Bilik. Warszawa 2015, p. 364.

[23] Ibidem, pp. 364—365.

[24] N. Roubini, S. Mihm: *Ekonomia kryzysu*…, pp. 84—91.

[25] J. Kulig: "Współzależności globalne w przebiegu kryzysu finansowego." In: *Globalny kryzys finansowy a polska gospodarka*. Ed. W. Małecki. Warszawa 2009, pp. 44—46.

[26] T. Piketty: *Kapitał*…, p. 366.

[27] G. Kołodko: "Neoliberalizm i światowy kryzys gospodarczy." *Ekonomista* 2010, no. 1, p. 119.

[28] Ibidem, p. 121. For more on the crisis, see also, for example: A. Wojtyna: "Gospodarki wschodzące w obliczu kryzysu finansowego — duża odporność czy podatność?" In: *Kryzys finansowy i jego skutki dla krajów na średnim poziomie rozwoju*. Ed. A. Wojtyna. Warszawa 2011, pp. 14—28; W. Szymański: *Kryzys globalny. Pierwsze przybliżenie*. Warszawa 2009, pp. 13—118; W. Orłowski: "The nature of the current crisis." In: *Financial crisis in Central and Eastern Europe: From similarity to diversity*. Eds. G. Gorzelak, Chor-Ching Goh. Warsaw 2010, pp. 9—16; D. Rosati: "Przyczyny i mechanizm…," pp. 348—349.

is a rather positive (beneficial) phenomenon, or instead brings about more harm than good to the free market, but, despite its flaws, remains the best possible mechanism for the allocation of resources.

On the one hand, supporters of minimalistic interference of the state and its institutions in the economy claim that the main causes of the crisis lay in mistakes made by state institutions which had at times been politically motivated and by the interference of the state in market mechanisms. Had it not been for its interference and had the market been left alone, the crisis would not have occurred or it would have been less severe. Furthermore, "public institutions, namely governments, parliaments, central banks, had developed flawed frameworks for the functioning of the financial sector."[29] On the other hand, those who believe that the state and its institutions should not resign from adjusting and influencing the market, emphasise that the crisis is the result of the excessive withdrawal of political institutions from influencing the economy, their lack of tools to do so (either because they abandoned them or lost them), the innovation of the financial sector capable of circumventing restrictions imposed by various regulations, or irregularities and pathologies in the behaviour and actions of financial sector entities (institutions or even individuals). This dispute is ideological in nature and, as such, is unsolvable. It is, however, worth adding that according to, for instance, Thomas Piketty, the crisis did not end in such a deep recession as in 1929, mostly because public institutions performed their roles, that is, governments and central banks of wealthy states "this time prevented the collapse of the financial system and agreed on creating the necessary fluidity,"[30] which helped prevent banks from going bankrupt. Central banks, on the other hand, played the role of the last resort.[31]

1.3 Causes and economic manifestations of the crisis in Greece, Spain, and Italy

Close economic and financial interconnections and dependencies which exist in today's world economy caused many of the economic problems that occurred in the USA, to spread to other states. These states were primarily located in the EU and included, among others, Greece, Spain, and Italy. Apart from the general conditions outlined in the previous point, two other cause categories that apply to the EU include those related to membership in the Union, which covers

[29] "Zostawcie mój kapitalizm…," p. 27.
[30] T. Piketty: *Kapitał…*, pp. 582—583.
[31] Ibidem, p. 583.

both the economic and monetary union, and causes which are specific to each of these states. Of course, such a breakdown of causes is purely conventional, since a precise categorisation is impossible, especially given that all of them occurred simultaneously.

One of the greatest costs the states had to incur in exchange for abandoning their currencies and adopting the euro was relinquishment of their power to manage their own monetary policies, influence the exchange rate of their currencies and adopt restrictions on the freedom to shape their budget policies. The single monetary policy for all of the euro area member states is managed by the ECB, which means, in theory, that at any given moment, particular policy decisions may not serve the best interests of every single state. The economic situation of states belonging to the EMU may drastically differ, even despite the legal regulations and actions of EU institutions and member states aimed to coordinate economic policies. As shown by the experience gained from the economic crisis, this is not only a theoretical possibility.

In turn, the lack of authority to influence the exchange rate by state institutions may, as proven several decades ago, have a negative influence on the regions (states) which are going through a dip in their economic condition.[32] The lack of capability to influence the currency exchange rate signifies a "shift of the economic burden of the adjustment process onto other macroeconomic variables, primarily onto employment and salaries."[33] A tool, which remains at the disposal of the state, is the fiscal policy.[34] However, even here the freedom of member states is restricted by legal regulations applied by the EU (stability and growth pact).[35] Apart from this, as the crisis has shown, whenever any of the EU states decided to depart from the rules imposed by the pact in order to restore these freedoms, they would experience an excessive increase of debt and problems with its repayment.

Public debt. One of the greatest economic problems that arose during the crisis among EU states, one that was most pronounced in Greece, was the issue of public debt. The roots of the problem run deep and the economic crisis was a factor that highlighted its scale and greatly contributed to its exacerbation.

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[32] G. Magnifico: *European Monetary Unification*. London 1973, p. 2.

[33] L. Orężiak: *Integracja walutowa w ramach Europejskiej Wspólnoty Gospodarczej*. Warszawa 1991, p. 9; W. Molle: *Ekonomika integracji europejskiej. Teoria, praktyka, polityka*. Gdańsk 1995, pp. 397—398; H.M. Kaufmann: "European economic and monetary union: Prospects and pitfalls — is EMU premature?" In: *The European Union in a changing world. A selection of conference papers, Brussels 19—20 September 1996*. Luxembourg 1998, p. 171.

[34] P. Kenen: *Economic and Monetary Union in Europe. Moving beyond Maastricht*. Cambridge 1996, p. 81.

[35] More on the influence of membership in the EMU on the independance of the economic policy of a state see: T. Kubin: *Polityczne implikacje wprowadzenia unii walutowej w Europie*. Katowice 2007, pp. 177—198.

Generally speaking, debt is the result of public spending that exceeds the state's revenue levels. This situation had been prevalent in EU states for a very long time. One of the reasons behind this was the unwillingness on the part of the ruling politicians to reduce the public sector deficit, their succumbing to pressure from society or from various interest groups to increase various privileges, deductions, benefits, etc., or at least not to decrease them (resulting in their increased political support), unwillingness and consistency in limiting the extent of the grey market and in collecting taxes, or maintaining economic development through public investment financed through loans. Another circumstance which had a negative impact on public finances was a low birth rate, increased life expectancy and the aging of society, resulting in increased retirement expenses that played a key role in Greece's public debt crisis.[36] What is more, there was a wide disparity between the contributions paid into the retirement system and the pensions eventually paid out.[37]

The regulations that were adopted in the EU following the introduction of the monetary unions were supposed to prevent the particular states of the EMU from becoming excessively indebted. However, the Treaty establishing the European Community (TEC), based on which the EMU was established, contained a provision, which allowed countries into the EMU, whose public debt in relation to its GDP exceeded the reference value of 60% as indicated in the appendix to the Treaty.[38] Article 104c, paragraph 2 of the TEC (in the version following the Maastricht Treaty — TM) stated that in order to become a member of the EMU, the public debt-to-GDP ratio could not exceed this reference value, "unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace."[39] As a result, states with the following debt-to-GDP ratios at admission[40] were taken into the EMU: Belgium 122.2%, Italy 121.6%,[41] Greece 103.4%, the Netherlands 72.1%, Spain 68.8%, Ireland 66.3%, Austria 66.1%,

[36] T. Gruszecki: *Świat na długu*. Lublin 2012, p. 288.

[37] P. Kupisz: "Kryzys w Grecji — geneza, przebieg i konsekwencje." In: *Kryzys i perspektywy strefy euro*. Eds. J. Rymarczyk, M. Wróblewski, D. Brzęczek-Nester. Wrocław 2014, pp. 128—129.

[38] Treaty on European Union. Protocol on the excessive deficit procedure. *Official Journal* C 191, 29.07.1992.

[39] Treaty on European Union. *Official Journal* C 191, 29.07.1992.

[40] Council Decision of 3 May 1998 in accordance with Article 109j(4) of the Treaty (98/317/EC). *Official Journal of the European Communities*, L 139, 11.05.1998. Council Decision of 19 June 2000 in accordance with Article 122(2) of the Treaty on the adoption by Greece of the single currency on 1 January 2001 (2000/427/EC). *Official Journal of the European Communities* L 167, 7.07.2000.

[41] Italy's public debt began to grow in 1964, when public spending surged. Attempts to repair the Italian public finances system were made several times in the 20th century, especially in the 1990s in order to fulfill the convergence criteria and enter the monetary union. See: S. Miklaszewicz: *Deficyt budżetowy w krajach strefy euro*. Warszawa 2012, pp. 208—209.

Portugal 62%, Germany 61.3%. Therefore, had it not been for article 104c, paragraph 2 of the TEC that was adopted for political reasons in order not to exclude from the EMU some states with excessive debt, or if the permissible public debt level was only slightly higher than 60% GDP, but was strictly observed, then the issue of EU states' debt (or the debt of euro area states) would be smaller during the economic crisis. It is noted that when comparing the aforementioned data with the debt levels of EU states from when the crisis began (Table 1.1) we can see that in the case of Greece, its debt was even greater than when it was admitted to the EMU. This means that on average, in the entire period from the decision to qualify EU states to the monetary union until the outbreak of the crisis, public debt did not decrease and did not approach the reference value, as required by the aforementioned article 104c, paragraph 2 of the TEC. On the contrary, public debt was rising.

Data showing public debt among EU states in the years 2007—2015 is contained in Table 1.1. In 2015, this debt was clearly higher in all EU states without exception compared to the period from before the crisis. In relation to the GDP, Greece had the highest debt out of all the EU states in 2015. Greek public debt was the highest in the EU before the crisis (over 103% GDP) and in the recent years it increased to around 180% GDP. It is also worth noting that in the case of several EU states, between 2007 and 2015, the increase of public debt-to-GDP ratio was double that or even more (Croatia, Cyprus, Estonia, Ireland, Lithuania, Luxemburg, Latvia, Portugal, Romania, Slovenia, and Great Britain).

Table 1.1

Public debt of EU states in 2007—2015 (in % GDP)

State/EU	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU 27	57.9	61.0	73.1	78.5	81.1	83.8	85.5	86.8	85.2
EU 28	57.8	60.9	73.1	78.5	81.0	83.8	85.5	86.8	85.2
Austria	64.8	68.5	79.7	82.4	82.2	81.6	80.8	84.3	86.2
Belgium	87.0	92.5	99.6	99.7	102.3	104.1	105.2	106.5	106.0
Bulgaria	16.2	13.0	13.7	15.5	15.3	16.8	17.1	27.0	26.7
Croatia	37.7	39.6	49.0	58.3	65.2	70.7	82.2	86.5	86.7
Cyprus	53.9	45.1	53.9	56.3	65.8	79.3	102.5	108.2	108.9
Czech Republic	27.8	28.7	34.1	38.2	39.9	44.7	45.1	42.7	41.1
Denmark	27.3	33.4	40.4	42.9	46.4	45.2	44.7	44.8	40.2
Estonia	3.7	4.5	7.0	6.6	5.9	9.5	9.9	10.4	9.7
Finland	34.0	32.7	41.7	47.1	48.5	52.9	55.5	59.3	63.1
France	64.4	68.1	79.0	81.7	85.2	89.6	92.4	95.4	95.8
Greece	**103.1**	**109.4**	**126.7**	**146.2**	**172.1**	**159.6**	**177.7**	**180.1**	**176.9**
Spain	**35.5**	**39.4**	**52.7**	**60.1**	**69.5**	**85.4**	**93.7**	**99.3**	**99.2**

Table 1.1 continued

The Netherlands	42.4	54.5	56.5	59.0	61.7	66.4	67.9	68.2	65.1
Ireland	23.9	42.4	61.8	86.8	109.1	120.1	120.0	107.5	93.8
Lithuania	15.9	14.6	29.0	36.2	37.2	39.8	38.8	40.7	42.7
Luxembourg	7.8	15.1	16.0	20.1	19.1	22.0	23.3	22.9	21.4
Latvia	8.4	18.7	36.6	47.5	42.8	41.4	39.1	40.8	36.4
Malta	62.4	62.7	67.8	67.6	69.9	67.5	68.6	67.1	63.9
Germany	63.5	64.9	72.4	81.0	78.3	79.6	77.2	74.7	71.2
Poland	44.2	46.6	49.8	53.3	54.4	54.0	56.0	50.5	51.3
Portugal	68.4	71.7	83.6	96.2	111.4	126.2	129.0	130.2	129.0
Romania	12.7	13.2	23.2	29.9	34.2	37.4	38.0	39.8	38.4
Slovakia	29.9	28.2	36.0	40.8	43.3	52.4	55.0	53.9	52.9
Slovenia	22.8	21.8	34.6	38.4	46.6	53.9	70.0	81.0	83.2
Sweden	38.3	36.8	40.4	37.6	36.9	37.2	39.8	44.8	43.4
Great Britian	43.5	51.7	65.7	76.6	81.8	85.3	86.2	88.2	89.2
Hungary	65.6	71.6	78.0	80.6	80.8	78.3	76.8	76.2	75.3
Italy	**99.8**	**102.4**	**112.5**	**115.4**	**116.5**	**123.3**	**129.0**	**132.5**	**132.7**

Source: Author's own elaboration based on Eurostat tables, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde410&plugin=1 (retrieved: 23.07.2016).

As far as Spain in concerned, it is noted that before the crisis, its public debt was clearly lower than at admission to the third stage of the EMU. This was the result of the conducted reforms and the good economic situation of the country before the crisis erupted. It is said that the macroeconomic reforms carried out in Spain in the 1990s[42] that aimed to fulfil the convergence criteria, "not only brought stability to the public finances system, but also established strong foundations of sustainable consolidation and economic revival."[43] The period from 1997—2007 in Spain was referred to as the "golden decade."[44] An almost threefold debt increase in Spain after 2007 was, as is stated, the consequence of bailouts in the private sector, with most of them going to the financial sector. Another reason was the state's buying out of private sector debt.[45] This, in

[42] Ibidem, pp. 194—197.

[43] Ibidem, p. 196.

[44] M. Golańska-Płuciennik: "Kryzys w Hiszpanii." In: *Kryzys i perspektywy strefy euro*. Eds. J. Rymarczyk, M. Wróblewski, D. Brzęczek-Nester. Wrocław 2014, p. 144.

[45] T. Gruszecki: *Świat na długu…*, p. 75; S. Owsiak: "Wpływ kryzysu finansowego na wydatki publiczne." In: *Finanse publiczne a kryzys ekonomiczny*. Eds. A. Alińska, B. Pietrzak. Warszawa 2011, p. 74.

particular, concerned credit unions, the functioning of which was not regulated as strictly as in the case of banks.[46]

Public finances sector deficit. An increase in public debt is mainly the result of the chronic deficit in the public finances sector. The rapid collapse of the economic situation after 2008 led to an increase of the public finances sector deficits in all of the EU states (Table 1.2). The years 2009—2010 were the worst in this respect. Starting in 2011, a certain improvement was observed throughout the EU, however, the situation in several EU states remains difficult in this regard, and their public sector deficits clearly exceed 3% GDP, which, according to EU law, is considered as excessive beyond this value. As far as the states discussed in this study are concerned, it is clear that Greece has the highest recorded public sector deficit. It is worth noting that Greece had already experienced a high deficit in 2007 (6.7% GDP), that is, before the crisis — which is shown in Table 1.8. Such a high deficit of the public finances sector occurred in Greece despite a GDP growth of 3.3%. For four consecutive years (2009—2012), a public sector deficit of 10% GDP was also recorded in Spain. Italy was in a relatively better situation. Its deficit in 2009 was 5.3% GDP, whereas from 2012 onwards, it oscillated around 3% GDP.

Table 1.2

Deficit/surplus of the public finances sector in EU states in the years 2007—2015 (in % GDP)

State/UE	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU 27	–0.9	–2.4	–6.7	–6.4	–4.5	–4.3	–3.3	–3.0	–2.4
EU 28	–0.9	–2.5	–6.7	–6.4	–4.5	–4.3	–3.3	–3.0	–2.4
Austria	–1.3	–1.4	–5.3	–4.4	–2.6	–2.2	–1.3	–2.7	–1.2
Belgium	0.1	–1.1	–5.4	–4.0	–4.1	–4.2	–3.0	–3.1	–2.6
Bulgaria	1.1	1.6	–4.1	–3.2	–2.0	–0.3	–0.4	–5.4	–2.1
Croatia	–2.4	–2.8	–6.0	–6.2	–7.8	–5.3	–5.3	–5.5	–3.2
Cyprus	3.2	0.9	–5.5	–4.8	–5.7	–5.8	–4.9	–8.9	–1.0
Czech Republic	–0.7	–2.1	–5.5	–4.4	–2.7	–3.9	–1.3	–1.9	–0.4
Denmark	5.0	3.2	–2.8	–2.7	–2.1	–3.5	–1.1	1.5	–2.1
Estonia	2.7	–2.7	–2.2	0.2	1.2	–0.3	–0.2	0.8	0.4
Finland	5.1	4.2	–2.5	–2.6	–1.0	–2.2	–2.6	–3.2	–2.7
France	–2.5	–3.2	–7.2	–6.8	–5.1	–4.8	–4.0	–4.0	–3.5
Greece	**–6.7**	**–10.2**	**–15.2**	**–11.2**	**–10.2**	**–8.8**	**–13.0**	**–3.6**	**–7.2**
Spain	**2.0**	**–4.4**	**–11.0**	**–9.4**	**–9.6**	**–10.4**	**–6.9**	**–5.9**	**–5.1**
The Netherlands	0.2	0.2	–5.4	–5.0	–4.3	–3.9	–2.4	–2.4	–1.8

[46] M. Szudy: "Polityka fiskalna Hiszpanii w warunkach kryzysu ekonomicznego 2008+." In: *Finanse publiczne. Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu*. Eds. J. Sokołowski, M. Sosnowski, A. Żabiński. Wrocław 2012, pp. 371—372.

Table 1.2 continued

Ireland	0.3	–7.0	–13.8	–32.3	–12.6	–8.0	–5.7	–3.8	–2.3
Lithuania	–0.8	–3.1	–9.1	–6.9	–8.9	–3.1	–2.6	–0.7	–0.2
Luxembourg	4.2	3.4	–0.7	–0.7	0.5	0.3	0.8	1.7	1.2
Latvia	–0.7	–4.1	–9.1	–8.5	–3.4	–0.8	–0.9	–1.6	–1.3
Malta	–2.3	–4.2	–3.3	–3.2	–2.6	–3.5	–2.6	–2.0	–1.5
Germany	0.2	–0.2	–3.2	–4.2	–1.0	–0.1	–0.1	0.3	0.7
Poland	–1.9	–3.6	–7.3	–7.5	–4.9	–3.7	–4.0	–3.3	–2.6
Portugal	–3.0	–3.8	–9.8	–11.2	–7.4	–5.7	–4.8	–7.2	–4.4
Romania	–2.8	–5.5	–9.5	–6.9	–5.4	–3.7	–2.1	–0.9	–0.7
Slovakia	–1.9	–2.3	–7.9	–7.5	–4.1	–4.3	–2.7	–2.7	–3.0
Slovenia	–0.1	–1.4	–5.9	–5.6	–6.7	–4.1	–15.0	–5.0	–2.9
Sweden	3.3	2.0	–0.7	0.0	–0.1	–0.9	–1.4	–1.6	0.0
Great Britian	–3.0	–5.0	–10.7	–9.6	–7.7	–8.3	–5.6	–5.6	–4.4
Hungary	–5.1	–3.6	–4.6	–4.5	–5.5	–2.3	–2.6	–2.3	–2.0
Italy	**–1.5**	**–2.7**	**–5.3**	**–4.2**	**–3.5**	**–2.9**	**–2.9**	**–3.0**	**–2.6**

Source: Author's own elaboration based on Eurostat tables, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00127&plugin=1 (retrieved: 23.07.2016).

Stability and growth pact. In order to prevent excessive public sector deficit, the EU introduced legal regulations that eventually came to form the stability and growth pact (SGP).[47] The pact made it possible to oversee the economic policies of EU states and, at least in theory, to impose sanctions, including fines, for exceeding the 3% GDP threshold deficit in the public finances sector. However, in 2005, the provisions of the SGP were eased,[48] and the sanctioning of states that exceeded the threshold became even more difficult.[49] First of all, the SGP was not followed. Even though an exceeded deficit was identified in

[47] Two regulations made up the stability and growth pact: Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. *Official Journal of the European Communities*. L 209, 2.08.1997 and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure. *Official Journal of the European Communities* L 209, 2.08.1997 and EC resolution of 17.06.1997 (Resolution of the European Council on the Stability and Growth Pact. Amsterdam, 17 June 1997. *Official Journal of the European Communities* C 236, 2.08.1997).

[48] Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/1997 on the strenghtening of the surveillance of the budgetary positions and the surveillance and coordination of economic policies. *Official Journal of the European Union* L 174, 7.07.2005 and Council Regulation (EC) No 1056/2005 of 27 June 2005 amending Regulation (EC) No 1467/1997 on speeding up and clarifying the implementation of the excessive deficit procedure. *Official Journal of the European Union* L 174, 7.07.2005.

[49] See also: T. Kubin: "Polityczne implikacje…," p. 148.

EU states by the UE Council 38 times in the period from 1999 until 2015,[50] no financial sanctions were ever imposed. Considering the fact that the excessive deficit procedure has been in place for several years (and in some cases even for ca. 10 years), and given that it was initiated twice in many EU states (even three times in Malta), it is noted that excessive public deficit, as understood by the TFEU (previously the TEEC), the public finance sector deficit was and is more of a norm than an exception. Excessive deficit was also noted twice by the Council with regard to Greece and Italy and once with regard to Spain. All three states exceeded their deficits in 2009, which was one of the effects of the financial crisis. Earlier, Greece exceeded its deficit in 2004, while Italy in 2005. With regard to Greece and Spain, the excessive deficit procedure is still underway and the current deadline for its reduction is 2016. Selected facts on the procedure initiated against Greece, Spain, and Italy contained in Table 1.3.

Table 1.3

Excessive deficit procedure initiated against Greece, Spain, and Italy

State	Key facts concerning the excessive deficit procedure	Date
Current deadline for excessive deficit reduction — 2016		
Greece	Council decision giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit	19.08.2015
	Council decision instructing Greece to strengthen and deepen actions aimed at reducing its deficit (amended subsequently on 8 November 2011, 13 March 2012, and 4 December 2012)	12.07.2011
	Council decision instructing Greece to strengthen and deepen actions aimed at reducing its deficit (amended subsequently on 7 September 2010 and 7 March 2011)	10.05.2010
	Council decision stating that Greece did not introduce effective actions in response to the Council's recommendations of 27 April 2009	2.12.2009
	Council recommendation to Greece, for its authorities to reduce excessive budget deficit by 2010	27.04.2009
	Council decision on the occurrence of excessive deficit	27.04.2009
	EC recommendation to the Council to take a decision on the occurrence of excessive deficit	24.03.2009
	Council decision on the occurrence of excessive deficit	24.03.2009
	EC report on the budget situation	18.02.2009
	Council decision abrogating the decision on the occurrence of excessive deficit	05.06.2005
	EC recommendation to the Council to repeal the decision on excessive deficit	16.05.2005
	Council decision addressed to Greece informing it about the need to undertake actions aiming to reduce the deficit	17.02.2005

[50] "Economic and Financial Affairs, The corrective arm," http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm (retrieved: 20.10.2013).

Table 1.3 continued

	EC recommendation to the Council on taking a decision to inform Greece about the need for its authorities to take actions aiming to reduce the deficit	9.02.2005
	Council decision stating that Greece did not introduce effective actions in response to the Council's recommendations of 5 July 2004	18.01.2005
	EC recommendation to the Council on taking a decision on actions introduced by Greece in response to excessive deficit	22.12.2004
	Council decision on the occurrence of excessive deficit	5.07.2004
	EC recommendation to the Council to take a decision on the occurrence of excessive deficit	24.06.2004
	Council decision on the occurrence of excessive deficit	24.06.2004
	EC report on the budget situation	19.05.2004
Current deadline for excessive deficit reduction — 2018		
Spain	Council decision giving notice to Spain to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit	8.08.2016
	Council decision establishing that no effective action has been taken by Spain in response to the Council Recommendation of 21 June 2013	12.07.2016
	Council opinion on the Economic Partnership Programme	10.12.2013
	Presentation by Spain of the Economic Partnership Programme and a Report on actions regarding economic policy	1.10.2013
	Council recommendation concerning Spain for its authorities to reduce excessive budget deficit by 2016	21.06.2013
	Reiterated Council recommendation concerning Spain for its authorities to reduce excessive budget deficit by 2014	10.07.2012
	Council recommendation concerning Spain for its authorities to reduce excessive budget deficit by 2014	2.12.2009
	Council decision on the occurrence of excessive deficit	27.04.2009
	EC recommendation to the Council to take a decision on the occurrence of excessive deficit	24.03.2009
	Council decision on the occurrence of excessive deficit	24.03.2009
	EC report on the budget situation	18.02.2009
Italy	Council decision abrogating the decision on the occurrence of excessive deficit	21.06.2013
	EC recommendation to the Council to repeal the decision on excessive deficit	29.05.2013
	EC communication to the Council on actions taken by Italy with regard to the occurrence of excessive deficit	15.06.2010
	Council decision on the occurrence of excessive deficit	2.12.2009
	EC recommendation to the Council to take a decision on the occurrence of excessive deficit	11.11.2009
	Council decision on the occurrence of excessive deficit	11.11.2009
	EC report on the budget situation	7.10.2009
	Council decision abrogating the decision on the occurrence of excessive deficit	3.06.2008

Table 1.3 continued

	EC recommendation to the Council to abrogate the decision on excessive deficit	7.05.2008
	EC communication to the Council on actions taken by Italy with regard to the occurrence of excessive deficit	22.02.2006
	Council decision on the occurrence of excessive deficit	28.07.2005
	EC recommendation to the Council to take a decision on the occurrence of excessive deficit	29.06.2005
	Council decision on the occurrence of excessive deficit	29.06.2005
	EC report on the budget situation	7.06.2005
	Council decision to close the early warning procedure	5.07.2004
	EC recommendation to the Council to issue and early warning to prevent the occurrence of excessive deficit	28.04.2004

Source: Author's own elaboration based on:
http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/greece_en.htm
http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/spain_en.htm
http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/italy_en.htm (retrieved: 15.11.2016).

It is also worth noting that the Greek authorities sent UE institutions statistical information, which were untrue and did not reflect the real situation of its public finances. The fact that Greece had been falsifying its statistics (based on which it was admitted to the euro area) was known at least since December 2004.[51] Despite the fact that several years had passed from the moment this fact surfaced until Greece began experiencing problems in 2009—2010, neither EU institutions, nor member states took any concrete actions to address this issue. Sanctions for providing false statistical data were not imposed until 2011, when a regulation of the EU Parliament and Council (1173/2011[52]) was passed. The regulation was introduced in the framework of the so-called Sixpack, that is, six legal acts introduced in 2011 aiming to reform the SGP.

Fall of interest rates. As mentioned in the previous section, one of the main causes of the crisis in the USA was the monetary policy of the Federal Reserve and maintaining excessively low interest rates for too long. For several EU states, especially for Greece, but also for Spain and Italy, a similar circumstance played a key role. After the introduction of the euro, the signatory states of the SGP harmonised their interest rates (both nominal and real interest rates[53]) and nearly

[51] R. Sołtyk: "Europrzekręt." *Gazeta Wyborcza* of 2.12.2004, p. 25.

[52] Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area. *Official Journal of the European Union* L 306, 23.11.2011.

[53] J. Pietrucha: "Kryzys w strefie euro jako tło zmian w zarządzaniu gospodarczym." In: *Zarządzanie gospodarcze w strefie euro*. Eds. J. Pietrucha, J. Żabińska. Warszawa 2014, p. 16.

equalised the yield values of debt securities issued by the euro area countries. As the subsequent events showed, the financial markets failed to adequately differentiate the particular states of the monetary union based on the condition of their public finances, and the difference in debt security yields were lower than the states' actual economic situation would suggest. It later turned out that a state's membership in the euro area was perceived too much as a marker of its credibility and solvency. Such indicators as public and private debt, the situation of the public finances sector, economic growth rate, or competitiveness, on the other hand, played a smaller role. As a result, differences in the yields of debt securities issued by the particular euro area states were relatively low, as shown by the level of risk in case of an issuer's potential insolvency. One of the results of this state of affairs was that for such countries as Greece, Spain, and Italy (and also Portugal), it became relatively cheaper to borrow than before the introduction of the monetary union. What is more, a higher inflation rate in the so-called periphery states of the euro area (which also included Greece and Spain) in relation to the other EU states belonging to the monetary union resulted in lower real interest rates.[54] This resulted in the mentioned increase, instead of a decrease, of public debt.

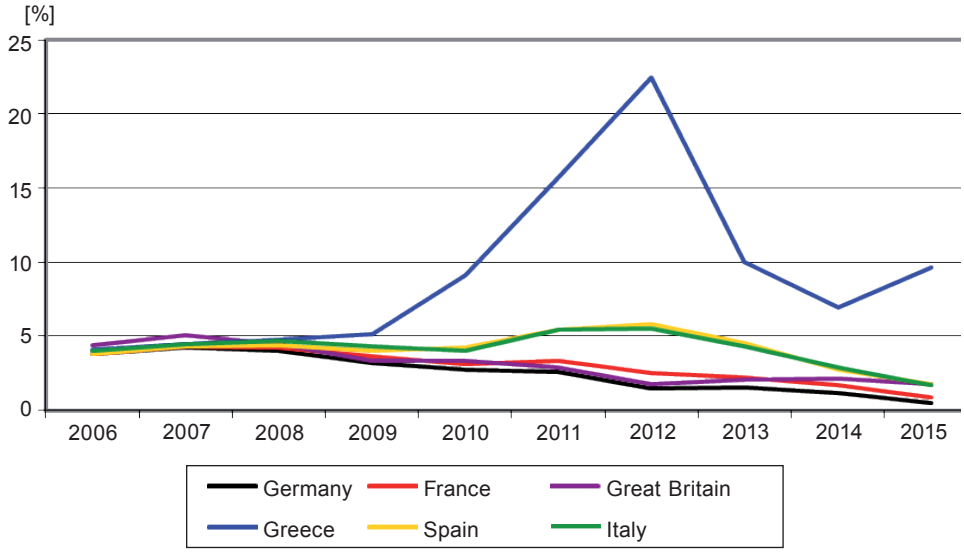

Chart 1.1. Long-term governmental debt security yields (as a criterion defined in the Maastricht Treaty; annual average values) in selected EU states in the years 2006—2015

Source: Author's own elaboration based on Eurostat tables: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00097&plugin=1 (retrieved: 24.07.2016).

[54] Ibidem.

Starting in the period 2008—2009, the situation changed dramatically and financial market institutions became aware of the differences amongst euro area states with regard to their risk of insolvency and that the EMU does not provide a mechanism guaranteeing that money borrowed by the states belonging to the monetary union will be returned in time. The crisis led to a different treatment of the particular states, and differences in their economic situations were taken more carefully into account. As a result, debt security yields of states with the highest debts and with the worst macroeconomic conditions increased markedly. The yields of long-term debt securities issued by selected EU states in the years 2006—2015 are shown in Chart 1.1.

The increase in Greek security bond yields, which is clearly visible in Figure 1.1, meant the country could no longer borrow from the market due to the securities' excessive interest rates. On the other hand, as observed in the case of Germany, which is presented here for comparative reasons, the borrowing costs for this country fell after the crisis, which is surely one of the more significant reasons why German politicians were unwilling to issue euro bonds.

Creditworthiness. Apart from debt security yields, another indicator presenting the creditworthiness of a debtor is a state's credit rating. Setting aside the issue of the credibility and reliability of credit rating agencies signalled in section 1.2 it is true that the ratings they announce play an important role in determining a state's borrowing capabilities and the loan costs. The downturn in the economic position of Greece, Spain, and Italy indicated earlier was clearly reflected in their ratings. This is presented in Table 1.4, which contains long-term credit ratings issued by three main rating agencies covering the period from the introduction of the third stage of the EMU until recently.

Table 1.4

Long-term credit ratings of Greece, Spain, and Italy
issued by Moody's, Standard&Poor's and Fitch Ratings rating agencies in the years 1999—2016
(selected dates, foreign currency)

Greece			Spain			Italy		
Moody's	S&P	Fitch	Moody's	S&P	Fitch	Moody's	S&P	Fitch
2015-07-01 **Caa3**	2016-01-22 **B–**	2015-08-18 **CCC**	2014-02-21 **Baa2**	2015-10-02 **BBB+**	2014-04-25 **BBB+**	2012-07-13 **Baa2**	2014-12-05 **BBB–**	2013-03-08 **BBB+**
2015-04-29 **Caa2**	2015-07-21 **CCC+**	2015-06-30 **CC**	2012-06-13 **Baa3**	2014-05-23 **BBB**	2012-06-07 **BBB**	2012-02-13 **A3**	2013-07-09 **BBB**	2012-01-27 **A–**
2014-08-01 **Caa1**	2015-06-29 **CCC–**	2015-03-27 **CCC**	2012-02-13 **A3**	2012-10-10 **BBB–**	2012-01-27 **A**	2011-10-04 **A2**	2012-01-13 **BBB+**	2011-10-12 **A+**
2013-11-29 **Caa3**	2015-06-10 **CCC**	2014-05-23 **B**	2011-10-18 **A1**	2012-04-26 **BBB+**	2011-10-07 **AA–**	2002-05-15 **Aa2**	2011-09-19 **A**	2006-10-19 **AA–**
2012-03-02 **C**	2015-04-15 **CCC+**	2013-05-14 **B–**	2011-03-10 **Aa2**	2012-01-13 **A**	2010-05-28 **AA+**			2002-06-17 **AA**

Table 1.4 continued

2011-07-25 **Ca**	2015-02-06 **B–**	2012-05-17 **CCC**	2010-09-30 **Aa1**	2011-10-13 **AA–**	2003-12-10 **AAA**			
2011-06-01 **Caa1**	2014-09-12 **B**	2012-03-14 **B–**	2001-12-13 **Aaa**	2010-04-28 **AA**				
2011-03-07 **B1**	2012-12-18 **B–**	2012-03-09 **RD**						
2010-06-14 **Ba1**	2012-12-05 **SD**	2012-02-22 **C**						
2010-04-22 **A3**	2012-05-02 **CCC**	2011-07-13 **CCC**						
2009-12-22 **A2**	2012-02-27 **SD**	2011-05-20 **B+**						
2002-11-04 **A1**	2011-07-27 **CC**	2011-01-14 **BB+**						
1999-07-14 **A2**		2010-04-09 **BBB–**						
		2009-12-08 **BBB+**						
		2009-10-22 **A–**						
		2004-12-16 **A**						

Source: Author's own elaboration based on: http://countryeconomy.com/ratings/greece, http://countryeconomy.com/ratings/spain, http://countryeconomy.com/ratings/italy (retrieved: 23.07.2016).

The summary shows very clearly how much the economic crisis and public finance issues contributed to the decrease of the creditworthiness of Greece, Spain, and Italy. It is worth to point out here that there is always a close correlation and interdependence between the condition of the public finance system, yields on governmental debt securities and rating agency scores. This is to say that an increase of deficit and the deterioration of public finances increases loan demand and the loan costs, which even further deepens issues with public finances and subsequently leads to a decrease of ratings, which for lenders is a reason to demand higher interest rates, etc. due to the increased risk.

Private debt. Apart from public debt, another indicator shedding light on a state's economic situation is the debt of private entities. Proceeding economic integration in the framework of the EU communities and development of a single market that led, among others, to the free movement of capital, and to the monetary union, provided better access to financing in the international market. For Greece and Spain, this also meant a significant inflow of foreign capital, especially in the form of interbank loans. The banks in these countries acquired

access to capital, which resulted in loan values becoming independent from the accumulated deposits and an increase in loan supply.[55]

Table 1.5

Net loan supply in the private sector
(non-financial corporations, households, non-profit institutions)
in Greece, Spain, and in Italy in the years 1995—2015 (in % GDP)

Year	Greece	Spain	Italy	Year	Greece	Spain	Italy
1995	1.5	3.5	4.5	2006	16.3	35.0	10.4
1996	5.3	5.1	2.3	2007	16.2	26.4	12.0
1997	3.3	7.8	2.7	2008	15.6	11.7	6.6
1998	6.7	12.2	4.0	2009	2.4	–1.2	0.8
1999	6.2	15.0	8.2	2010	5.6	0.9	5.0
2000	10.5	17.1	8.8	2011	–6.5	–3.7	3.1
2001	11.0	14.6	8.3	2012	–5.7	–11.2	–0.8
2002	8.0	14.8	6.3	2013	–6.2	–10.3	–2.7
2003	10.4	18.1	6.9	2014	–2.7	–7.4	–0.9
2004	11.4	19.4	7.5	2015	–3.2	–2.7	n/a
2005	14.3	27.0	9.6				

Source: Author's own elaboration based on Eurostat tables, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tipspc20&plugin=1 (retrieved: 23.07.2016).

Data showing net loan supply in the private sector in Greece, Spain and in Italy in the years 1995—2015 (in % GDP) is contained in Table 1.5. The increase in supply in these states is clearly visible the moment the monetary union was opened. Loan supply in the private sector rose in the year immediately preceding the crisis, and was most notable in Spain. According to the literature, private debt increase resulted mainly in the development of construction and of the so-called speculative bubble in the real-estate market. Before the crisis in 2008, Spain experienced the greatest speculative activity in the real-estate market right after the USA.[56] Easier access to loans and its lower price led to an increase in property demand causing property prices to rise, which further fuelled loan demand.[57] The real-estate and construction sectors were the main drivers of economic growth before 2007. This situation was the effect of the aforementioned loan cost decrease caused by entering the euro area, rise of property demand due to demographic processes (demand for property by baby boomers, immigration to Spain and the demand generated by the citizens of other EU states, especially from Northern Europe and Great Britain) and liber-

[55] Ibidem, pp. 16—17.
[56] S. Owsiak: "Wpływ kryzysu…," p. 74.
[57] J. Pietrucha: "Kryzys w strefie euro…," p. 19.

alisation of the law on construction land, which meant an increase of accessibility of this kind of land (which occurred in 2003).[58]

The increase of demand for property led to an obvious rise in its supply and prices (in 1997—2007 house prices increased year-to-year by 11.4% on average, which meant an aggregate price increase of 232%[59]). The lending activity of Spanish banks was mostly financed by external capital — when the effects of the crisis in the USA started to be felt in Europe's banking sector, the reduction in external financing for Spanish banks led to a deceleration of lending activity and an increase of mortgage interest rates. This resulted in a decrease of demand for these kinds of loans and for property, which caused a slowdown of the construction industry. The banking sector also suffered because of this.[60]

The data presented in Table 1.5 clearly show a decrease of loan supply in the private sector starting in 2009, which, on the one hand, was caused by the crisis, while on the other hand, contributed to the occurrence and deepening of a series of other negative phenomena, such a economic recession and increased unemployment.

Also in Italy, the increase in lending in the first decade of the 21st century led to "an illusion of economic growth" and when it deteriorated after the eruption of the crisis in the USA, "it turned out that many projects financed by banks were unprofitable."[61] In the years 2000—2008, property prices rose in Italy by 85% (53% considering the inflation rate) and have been falling ever since. Despite the fact that the extent of the lending activity on the property market was not that extensive as in other EU states, it slowed down economic activity, which in turn resulted in less profits earned by the Italian budget.[62] Another source of problems for Italian banks was the outflow of deposits caused by decreased investor confidence in the banking system; the problem also concerned Greece and Spain.[63]

Table 1.6 contains data on the global debt of the private sector in particular EU states in the years 1995—2015 (in % GDP). This data suggests that even a relatively high level of private debt does not have to lead to a crisis, at least in the short-term. It is also observed that almost all EU states over the least two decades have experienced a marked increase of private debt, which was severalfold at times. Greece, Spain, and Italy were part of this trend. Private debt has

[58] M. Golańska-Płuciennik: "Kryzys w Hiszpanii…," pp. 145—146.

[59] C. Cuerpo, P. Pontuch: "Spanish housing market: adjustment and implications." *ECFIN Country Focus*, vol. 10, issue 8, December 2013, p. 1. Cf. also, for example: M. Golańska-Płuciennik: "Kryzys w Hiszpanii…," p. 149.

[60] M. Golańska-Płuciennik: "Kryzys w Hiszpanii…," pp. 150—152.

[61] M. Benedyk: "Kryzys we Włoszech." In: *Kryzys i perspektywy…*, p. 112.

[62] Ibidem, p. 113.

[63] Ibidem, pp. 115—116.

Table 1.6

Private debt (non-financial corporations, households, non-profit institutions) in the EU in 1995—2015 (in % GDP)

State	1995	1999	2003	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	103.2	115.2	125.2	124.6	127.5	132.8	132.9	130.1	128.9	127.8	126.6	n/a
Belgium	90.2	110.8	117.4	134.4	162.2	164.7	161.6	174.1	186.8	161.7	159.4	162.3
Bulgaria	n/a	n/a	41.2	122.5	130.8	134.1	134.3	125.2	125.7	132.2	124.3	n/a
Croatia	n/a	n/a	67.3	100.7	110.3	118.6	125.2	122.6	119.7	118.4	119.4	n/a
Cyprus	318.0	305.0	259.7	267.6	287.8	309.2	318.6	324.6	325.4	338.9	348.3	n/a
Czech Republic	64.8	60.9	46.5	57.5	63.7	66.0	68.1	68.6	71.0	74.1	72.7	68.6
Denmark	138.1	147.9	173.3	208.4	222.8	233.3	222.1	222.6	225.5	218.5	218.8	212.8
Estonia	28.9	54.1	74.8	123.0	136.7	153.2	140.4	122.9	123.2	115.8	116.1	n/a
Finland	95.3	87.8	104.9	123.6	132.7	142.8	148.5	145.0	148.3	147.7	147.3	155.7
France	93.0	94.7	103.4	115.6	122.2	130.5	131.8	135.3	138.6	138.0	142.7	n/a
Greece	**35.7**	**44.1**	**68.4**	**101.9**	**113.5**	**117.1**	**128.9**	**131.1**	**132.5**	**130.5**	**129.9**	**127.2**
Spain	**74.5**	**93.6**	**126.0**	**191.2**	**195.7**	**201.4**	**200.3**	**196.2**	**187.3**	**176.1**	**165.3**	**153.3**
The Netherlands	182.8	199.9	215.9	214.9	216.3	231.4	229.5	228.1	229.1	226.9	229.6	228.8
Ireland	n/a	n/a	141.3	197.6	236.4	256.1	257.7	274.6	278.4	266.7	257.7	n/a
Lithuania	21.0	29.8	34.9	74.7	76.7	83.3	74.5	64.8	61.1	56.4	52.5	n/a
Luxembourg	n/a	n/a	248.0	408.9	362.8	356.1	311.9	339.2	359.8	355.9	342.2	n/a
Latvia	n/a	n/a	n/a	102.8	104.6	125.5	134.1	115.6	98.2	92.7	96.4	n/a
Malta	n/a	n/a	n/a	145.3	152.9	167.6	162.0	158.4	153.3	147.3	146.9	136.8
Germany	105.6	120.3	122.6	110.7	109.4	112.9	107.1	103.3	102.7	103.0	100.4	n/a
Poland	n/a	n/a	46.3	54.4	67.3	67.1	69.7	73.9	73.5	75.4	77.9	78.9

Table 1.6 continued

Portugal	81.5	124.5	162.0	185.0	196.2	204.2	201.5	204.1	209.7	202.2	190.2	180.1
Romania	n/a	28.2	32.8	57.8	65.5	71.9	73.9	72.9	71.9	66.6	62.1	58.3
Slovakia	66.7	58.9	47.0	60.8	65.3	69.8	68.1	70.9	71.3	74.9	76.2	n/a
Slovenia	n/a	n/a	62.9	96.3	105.6	113.5	115.1	113.0	112.6	108.2	99.1	86.3
Sweden	113.3	132.8	145.1	168.9	189.9	202.0	189.9	191.3	192.5	192.4	194.4	n/a
Great Britain	112.0	127.3	148.7	172.1	181.5	185.5	175.5	173.1	174.0	167.8	160.0	157.9
Hungary	41.0	49.1	67.6	94.2	105.6	117.1	115.6	114.9	102.0	95.4	91.4	86.0
Italy	**68.5**	**71.8**	**86.3**	**109.7**	**113.9**	**120.8**	**121.6**	**121.1**	**123.5**	**121.0**	**119.3**	**119.5**

Source: Author's own elaboration based on Eurostat tables, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tipspd20&tableSelection=1 (retrieved: 23.07.2016).

stabilised since the crisis in Greece and in Italy, while clearly falling in Spain. This is the result of a decrease of the net loan supply presented in Table 1.5.

Current account balance. Greece and Spain belong to those countries whose economies have had a negative current account balance since the 1980s. After the establishment of the monetary union, their deficits increased. This was due to an increase of domestic demand (which resulted in the mentioned increase of public and private debt), as well as an increase of labour costs — wages rose faster than work efficiency. This in turn led to an appreciation of the real currency exchange rate in periphery states[64] (including Greece and Spain) and to a deterioration of their export competiveness.[65] At the same time, membership of a state in the monetary union means that it can no longer influence the economy by altering the currency exchange rate (e.g. improving export competitiveness by devaluing/depreciating its currency).

Table 1.7

Current account balance of Greece, Spain, and Italy in the years 1997—2015 (in % GDP)

Year	Greece	Spain	Italy	Year	Greece	Spain	Italy
1997	n/a	–0.8	2.5	2007	–11.8	–8.7	–1.3
1998	n/a	–1.0	2.4	2008	–13.9	–9.3	–2.0
1999	n/a	–1.9	1.7	2009	–14.2	–7.7	–2.1
2000	n/a	–3.1	0.7	2010	–13.0	–5.8	–2.8
2001	n/a	–4.0	0.2	2011	–11.3	–3.8	–2.8
2002	n/a	–4.2	–0.2	2012	–8.4	–2.4	–2.3
2003	n/a	–4.0	–0.3	2013	–5.3	–0.6	–0.9
2004	–7.7	–4.4	–0.4	2014	–2.7	0.8	0.8
2005	–8.3	–5.7	–0.7	2015	–1.4	1.3	1.6
2006	–9.4	–7.4	–1.0				

Source: Author's own elaboration based on Eurostat tables, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tipsbp10&tableSelection=1 (retrieved: 23.07.2016).

The current account balance of Greece, Spain, and Italy in the years 1997—2014 (expressed in % GDP) is shown in Table 1.7. In Greece in particular, these deficits were high in the period before the crisis began and in its first years after its outbreak. They began to subside in 2011. In Spain, the current account balance peaked in the years 2007—2009. Afterwards it began falling until a surplus was achieved in 2014. Italy was in a clearly better situation in this respect. In the entire mentioned period, its deficit did not exceed 3% GDP. According

[64] J. Pietrucha: "Kryzys w strefie euro…," pp. 21—23.

[65] R. Baldwin, Ch. Wyplosz: "The economics…," p. 491; T. Gruszecki: "Świat na kredycie…," p. 285.

to, for example, Kazimierz Łaski and Jerzy Osiatyński, one of the three leading causes of the euro area crisis (apart from the strict pursuit of a balanced budget and separation of the monetary and fiscal policies, which is characteristic for the EMU) was EU's tolerance of persistent surpluses in foreign trade or on current account balances in selected euro area countries at the expense of other states.[66]

Economic growth. One of the most important manifestations of the economic crisis and one of the crucial causes of the deterioration of public finances outlined earlier, was economic recession in the EU states (Table 1.8). The worst in this respect was 2009, when a negative economic growth rate was recorded in all of the EU states with the exception of Poland.

Table 1.8

Economic growth rate in EU states in the years 2007—2015
(in %, compared to the previous year)

State/EU	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU 28	3.1	0.5	–4.4	2.1	1.8	–0.5	0.2	1.4	2.0
Austria	3.6	1.5	–3.8	1.9	2.8	0.7	0.1	0.6	1.0
Belgium	3.4	0.7	–2.3	2.7	1.8	0.2	0.0	1.3	1.4
Bulgaria	7.7	5.6	–4.2	0.1	1.6	0.2	1.3	1.5	3.0
Croatia	5.2	2.1	–7.4	–1.7	–0.3	–2.2	–1.1	–0.4	1.6
Cyprus	4.9	3.7	–2.0	1.4	0.4	–2.4	–5.9	–2.5	1.6
Czech Republic	5.5	2.7	–4.8	2.3	2.0	–0.8	–0.5	2.7	4.5
Denmark	0.8	–0.7	–5.1	1.6	1.2	–0.1	–0.2	1.3	1.0
Estonia	7.7	–5.4	–14.7	2.5	7.6	5.2	1.6	2.9	1.1
Finland	5.2	0.7	–8.3	3.0	2.6	–1.4	–0.8	–0.7	0.2
France	2.4	0.2	–2.9	2.0	2.1	0.2	0.6	0.6	1.3
Greece	**3.3**	**–0.3**	**–4.3**	**–5.5**	**–9.1**	**–7.3**	**–3.2**	**0.7**	**–0.2**
Spain	**3.8**	**1.1**	**–3.6**	**0.0**	**–1.0**	**–2.6**	**–1.7**	**1.4**	**3.2**
The Netherlands	3.7	1.7	–3.8	1.4	1.7	–1.1	–0.2	1.4	2.0
Ireland	3.8	–4.4	–4.6	2.0	0.0	–1.1	1.1	8.5	26.3
Lithuania	11.1	2.6	–14.8	1.6	6.0	3.8	3.5	3.0	1.6
Luxembourg	8.4	–0.8	–5.4	5.7	2.6	–0.8	4.3	4.1	4.8
Latvia	10.0	–3.6	–14.3	–3.8	6.2	4.0	3.0	2.4	2.7
Malta	4.0	3.3	–2.5	3.5	1.9	2.9	4.3	3.5	6.4
Germany	3.3	1.1	–5.6	4.1	3.7	0.4	0.3	1.6	1.7
Poland	7.0	4.2	2.8	3.6	5.0	1.6	1.3	3.3	3.6
Portugal	2.5	0.2	–3.0	1.9	–1.8	–4.0	–1.1	0.9	1.5

[66] K. Łaski, J. Osiatyński: "Konsolidacja finansów publicznych a kryzys strefy euro." *Ekonomista* 2013, no. 1, pp. 9—30.

Table 1.8 continued

Romania	6.9	8.5	–7.1	–0.8	1.1	0.6	3.5	3.0	3.8
Slovakia	10.8	5.7	–5.5	5.1	2.8	1.5	1.4	2.5	3.6
Slovenia	6.9	3.3	–7.8	1.2	0.6	–2.7	–1.1	3.0	2.9
Sweden	3.4	–0.6	–5.2	6.0	2.7	–0.3	1.2	2.3	4.2
Great Britain	2.6	–0.6	–4.3	1.9	1.5	1.3	1.9	3.1	2.2
Hungary	0.4	0.8	–6.6	0.7	1.8	–1.7	1.9	3.7	2.9
Italy	**1.5**	**–1.1**	**–5.5**	**1.7**	**0.6**	**–2.8**	**–1.7**	**–0.3**	**0.8**

Source: Author's own elaboration based on Eurostat tables, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1 (retrieved: 23.07.2016).

The economic growth rate is an indicator which clearly shows that the crisis affected particular EU states in varying degrees and that they are re-establishing economic growth at different rates. Spain, Italy, and Greece belong to those states that are experiencing most difficulties with the crisis, with Greece leading the way. Recession was observed in Greece for six consecutive years (2008—2013), during which time the aggregate GDP decrease amounted to ca. 30%. In 2015, the GDP in Spain and in Italy was lower than in 2007.

Relative level of wealth/quality of life. Rises and falls in GDP and alterations in its global value among EU states resulted in changes in the GDP per capita in relation to the EU average (at purchasing power parity) — Table 1.9. This indicator is a synthetic presentation of their levels of wealth in relation to other EU states.

Table 1.9

GDP per capita at purchasing power parity in EU states in the years 2007—2015

State/EU	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU	100	100	100	100	100	100	100	100	100
Austria	123	124	125	126	127	131	131	129	127
Belgium	115	114	116	119	119	120	120	118	117
Bulgaria	42	45	46	45	45	46	46	47	46
Croatia	61	63	61	59	59	60	59	59	58
Cyprus	100	105	105	102	96	91	84	82	81
Czech Republic	83	81	83	81	83	82	83	84	85
Denmark	121	123	122	126	125	126	126	125	124
Estonia	68	68	62	63	69	74	75	76	74
Finland	117	120	116	115	116	115	113	110	108
France	107	106	107	108	108	107	108	107	106
Greece	**92**	**94**	**94**	**87**	**77**	**74**	**74**	**73**	**71**

Table 1.9 continued

Spain	**103**	**101**	**101**	**97**	**94**	**92**	**91**	**91**	**92**
The Netherlands	137	139	137	134	134	132	132	131	129
Ireland	146	132	129	130	132	131	131	134	145
Lithuania	60	63	56	60	65	70	73	75	74
Luxembourg	259	255	247	254	263	258	264	266	271
Latvia	60	60	52	52	56	60	62	64	64
Malta	78	80	84	86	84	84	86	86	89
Germany	117	118	116	121	124	124	124	126	125
Poland	53	54	59	62	64	66	67	68	69
Portugal	79	79	81	81	78	77	77	78	77
Romania	41	48	49	50	51	54	54	55	57
Slovakia	67	71	71	73	73	74	76	77	77
Slovenia	87	89	85	83	82	81	80	82	83
Sweden	127	126	122	125	126	127	124	123	123
Hungary	61	63	64	65	65	65	66	68	68
Great Britain	117	114	112	108	106	107	108	109	110
Italy	**105**	**105**	**104**	**103**	**102**	**101**	**98**	**96**	**95**

Source: Author's own elaboration based on Eurostat tables, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1 (retrieved: 24.07.2016).

The data contained in Table 1.9 also shows that the effects of the crisis were different in the particular EU states, that is, in most of them, the relative average level of wealth increased in the years 2007—2015. Greece, Spain, and Italy found themselves at opposing ends — a relative decrease of wealth was observed in all these states, which was particularly visible in Greece (decrease from 91% of the EU average in 2007 to 71% in 2015). Spain and Italy, which had remained slightly above this EU average value in 2007 (103% and 105%, respectively), had found themselves below this level a few years after the crisis began (92% and 95% in 2015, respectively).

An indicator that paints a more complex picture of the level of development and wealth of a state than GDP, is the HDI (Human Development Index) computed and published by the United Nations Development Programme. It covers three variables: life expectancy of newborns, length of school education, and the gross domestic product per capita at purchasing power parity (in USD).

Table 1.10 presents the position of EU states in the world based on their HDIs in the years 2007—2014. All three states discussed fell in the ranking. Greece fell by four positions in the ranking, which is a relatively small decrease compared to Italy (9 places) and Spain (11 positions). As a result, all three states fell to places 29, 27, and 26, respectively, in 2014.

Table 1.10

Human Development Index for EU states in the years 2007—2014

State	Global HDI position					
	2007	2010	2011	2012	2013	2014
Austria	14	25	19	18	21	23
Belgium	17	18	18	17	21	21
Bulgaria	61	58	55	57	58	59
Croatia	45	51	46	47	47	47
Cyprus	32	35	31	31	32	32
Czech Republic	36	28	27	28	28	28
Denmark	16	19	16	15	10	4
Estonia	40	34	34	33	33	30
Finland	12	16	22	21	24	24
France	8	14	20	20	20	22
Greece	**25**	**22**	**29**	**29**	**29**	**29**
Spain	**15**	**20**	**23**	**23**	**27**	**26**
The Netherlands	6	7	3	4	4	5
Ireland	5	5	7	7	11	6
Lithuania	46	44	40	41	35	37
Luxembourg	11	24	25	26	21	19
Latvia	48	48	43	44	48	46
Malta	38	33	36	32	39	37
Germany	22	10	9	5	6	6
Poland	41	41	39	39	35	36
Portugal	34	40	41	43	41	43
Romania	63	50	50	56	54	52
Slovakia	42	31	35	35	37	35
Slovenia	29	29	21	21	25	25
Sweden	7	9	10	7	12	14
Hungary	43	36	38	37	43	44
Great Britain	21	26	28	26	14	14
Italy	**18**	**23**	**24**	**25**	**26**	**27**

Source: Author's own elaboration based on: Human Development Report 2009, 2010, 2011, 2013, 2014, 2015:
http://hdr.undp.org/sites/default/files/reports/270/hdr_2010_en_complete_reprint.pdf
http://hdr.undp.org/sites/default/files/reports/271/hdr_2011_en_complete.pdf
http://hdr.undp.org/sites/default/files/reports/14/hdr2013_en_complete.pdf
http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf
http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf (retrieved: 24.07.2016).

The relative position of a state in the ranking does not provide a full picture of the situation and may, to a certain degree, be misleading. This is because the situation in the state may improve, at times even significantly, however, if the situation in other countries in the ranking were to improve even more, the position of the state under analysis would fall regardless. Alternately, a state may go up in the ranking even though it experienced a setback. This would happen when other states would be experiencing even greater problems.

Therefore in order to gain a clearer picture of the changes taking place in Greece, Spain, and Italy, Table 1.11 presents HDI values for the period 2007—2014. This data shows that the fall in the position of Greece, Spain, and Italy, compared to other states of the world (Table 1.10), was not only caused by a relative change of their situation due to the improvement or deterioration of the situation in other states. In all of the three countries, the HDI in 2013 was only slightly lower than in 2007. In 2014, there was a marked improvement by Greece and Spain, wherein they reached an HDI of 2007.

Table 1.11

HDI for Greece, Spain, and Italy in 2007—2014

State	2007	2008	2009	2010	2011	2012	2013	2014
Greece	0.865	0.858	0.863	0.862	0.861	0.860	0.853	0.865
Spain	0.874	0.857	0.874	0.876	0.878	0.885	0.869	0.876
Italy	0.878	0.868	0.870	0.873	0.874	0.881	0.872	0.873

Source: As in Table 1.10.

Unemployment. Taking into account the data on economic growth in the years 2007—2015 in EU states (Table 1.8), an increase in unemployment observed in this same period does not come as a surprise (Table 1.12). Also in this respect, there is a certain level of differentiation in the situation between EU states, that is, there are states in which unemployment at the end of 2015 was lower than at the end of 2007 (Czech Republic, Malta, Germany, Poland, Hungary), while in the other EU states it increased. The highest unemployment level was recorded in Greece and Spain, where it increased threefold, achieving a value of one quarter of all people fit to work. In Italy, the increase was more or less twofold — from 6.1% in December 2007 to 11.9% in December 2015.

Table 1.12

Unemployment in the EU in the years 2007—2015 (in %, in December of each year)

State/EU	2007	2008	2009	2010	2011	2012	2013	2014	2015
UE 27	7.2	7.0	9.0	9.6	9.6	10.4	10.8	10.2	9.4
EU 28	7.2	7.0	9.0	9.6	9.7	10.5	10.9	10.2	9.4
Austria	4.9	4.1	5.3	4.8	4.6	4.9	5.4	5.6	5.7
Belgium	7.5	7.0	7.9	8.3	7.2	7.6	8.4	8.5	8.5

Table 1.12 continued

Bulgaria	6.9	5.6	6.8	10.3	11.3	12.3	13.0	11.4	9.2
Croatia	9.9	8.6	9.2	11.7	13.7	16.0	17.3	17.3	16.3
Cyprus	3.9	3.7	5.4	6.3	7.9	11.9	15.9	16.1	15.0
Czech Republic	5.3	4.4	6.7	7.3	6.7	7.0	7.0	6.1	5.1
Denmark	3.8	3.4	6.0	7.5	7.6	7.5	7.0	6.6	6.2
Estonia	4.6	5.5	13.5	16.7	12.3	10.0	8.6	7.4	6.2
Finland	6.9	6.4	8.2	8.4	7.8	7.7	8.2	8.7	9.4
France	8.0	7.4	9.1	9.3	9.2	9.8	10.3	10.3	10.4
Greece	**8.4**	**7.8**	**9.6**	**12.7**	**17.9**	**24.5**	**27.5**	**26.5**	**24.9**
Spain	**8.2**	**11.3**	**17.9**	**19.9**	**21.4**	**24.8**	**26.1**	**24.5**	**22.1**
The Netherlands	4.2	3.7	4.4	5.0	5.0	5.8	7.3	7.4	6.9
Ireland	4.7	6.4	12.0	13.9	14.7	14.7	13.1	11.3	9.4
Lithuania	4.3	5.8	13.8	17.8	15.4	13.4	11.8	10.7	9.1
Luxembourg	4.2	4.9	5.1	4.6	4.8	5.1	5.9	6.0	6.4
Latvia	6.1	7.7	17.5	19.5	16.2	15.0	11.9	10.8	9.9
Malta	6.5	6.0	6.9	6.9	6.4	6.3	6.4	5.8	5.4
Germany	8.5	7.4	7.6	7.0	5.8	5.4	5.2	5.0	4.6
Poland	9.6	7.1	8.1	9.7	9.7	10.1	10.3	9.0	7.5
Portugal	9.1	8.8	10.7	12.0	12.9	15.8	16.4	14.1	12.6
Romania	6.4	5.6	6.5	7.0	7.2	6.8	7.1	6.8	6.8
Slovakia	11.2	9.6	12.1	14.5	13.7	14.0	14.2	13.2	11.5
Slovenia	4.9	4.4	5.9	7.3	8.2	8.9	10.1	9.7	9.0
Sweden	6.1	6.2	8.3	8.6	7.8	8.0	8.0	7.9	7.4
Great Britain	5.3	5.6	7.6	7.8	8.1	7.9	7.6	6.1	5.3
Hungary	7.4	7.8	10.0	11.2	11.0	11.0	10.2	7.7	6.8
Italy	**6.1**	**6.7**	**7.7**	**8.4**	**8.4**	**10.7**	**12.1**	**12.7**	**11.9**

Source: Author's own elaboration based on Eurostat tables, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec450&plugin=1 (retrieved: 24.07.2016).

With regard to Greece, it is worth noting here one additional circumstance. In 2009, there were approx. 5 million people fit to work, which constituted 54% of the population. Of this number, 514 thousand people were unemployed and 972 thousand worked either directly in the public sector or in companies that cooperated therewith. This means that approx. one in every five people worked in the public sector, while at the same time in Germany, this figure amounted to one in twenty.[67]

[67] A. Ioannis: *The Greek Tragedy. The European Financial Crisis in Simple Words*. (n. p.) 2015, p. 43.

From among the EU states, only Cyprus experienced a higher unemployment level than Greece and Spain in the same period. In this case, however, in 2007, the unemployment rate was ca. two times lower than in Greece and Spain. An unemployment rate of 25%, which was noted in Greece and Spain, is considered to be very high and is a crucial factor, the effects of which go far beyond the economy itself.

Income differentiation. Another indicator that provides us with a certain level of information about the condition and dynamics of changes in the economic system of a state, is the Gini coefficient. It is a measure of inequality of income or wealth among residents. It assumes a value of 0 (perfect equality, i.e. everybody possesses an equal amount of wealth) to 1 (or 100; perfect inequality, i.e. one person possesses all the wealth). This means that the higher the Gini coefficient, the greater the inequality. In practice, the value ranges from ca. 25 (some EU states) to over 60 (e.g. some African states).

The Gini coefficient values (concerning income distribution) in EU states in the years 2007—2015 are contained in Table 1.13. This information tells us that in all of the analysed states, the income inequality in this period was higher than the average for the entire EU. Of the three states, Italy's index remained closest to the average. In the case of Greece and Italy, the crisis did not lead to any significant income inequalities — in 2015, they were almost identical as in 2007. The greatest increase of income inequality occurred in Spain — from 31.9 in 2007 to 34.6 in 2015, and after Cyprus (and France, in which the Gini coefficient was clearly lower), this was the highest increase in the entire EU.

Table 1.13

Gini coefficient (showing income inequality) in EU states in the years 2007—2015

State/EU	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU	n/a	n/a	n/a	30.4	30.8	30.4	30.5	31.0	n/a
Austria	26.2	27.7	27.5	28.3	27.4	27.6	27.0	27.6	27.2
Belgium	26.3	27.5	26.4	26.6	26.3	26.5	25.9	25.9	26.2
Bulgaria	35.3	35.9	33.4	33.2	35.0	33.6	35.4	35.4	37.0
Croatia	n/a	n/a	n/a	31.6	31.2	30.9	30.9	30.2	n/a
Cyprus	29.8	29.0	29.5	30.1	29.2	31.0	32.4	34.8	n/a
Czech Republic	25.3	24.7	25.1	24.9	25.2	24.9	24.6	25.1	n/a
Denmark	25.2	25.1	26.9	26.9	26.6	26.5	26.8	27.7	27.4
Estonia	33.4	30.9	31.4	31.3	31.9	32.5	32.9	35.6	n/a
Finland	26.2	26.3	25.9	25.4	25.8	25.9	25.4	25.6	25.2
France	26.6	29.8	29.9	29.8	30.8	30.5	30.1	29.2	n/a
Greece	**34.3**	**33.4**	**33.1**	**32.9**	**33.5**	**34.3**	**34.4**	**34.5**	**34.2**
Spain	**31.9**	**32.4**	**32.9**	**33.5**	**34.0**	**34.2**	**33.7**	**34.7**	**34.6**

Table 1.13 continued

The Netherlands	27.6	27.6	27.2	25.5	25.8	25.4	25.1	26.2	26.4
Ireland	31.3	29.9	28.8	30.7	29.8	29.9	30.0	30.8	n/a
Lithuania	33.8	34.5	35.9	37.0	33.0	32.0	34.6	35.0	n/a
Luxembourg	27.4	27.7	29.2	27.9	27.2	28.0	30.4	28.7	n/a
Latvia	35.4	37.5	37.5	35.9	35.1	35.7	35.2	35.5	35.4
Malta	26.3	28.1	27.4	28.6	27.2	27.1	27.9	27.7	n/a
Germany	30.4	30.2	29.1	29.3	29.0	28.3	29.7	30.7	n/a
Poland	32.2	32.0	31.4	31.1	31.1	30.9	30.7	30.8	n/a
Portugal	36.8	35.8	35.4	33.7	34.2	34.5	34.2	34.5	34.0
Romania	37.8	36.0	34.9	33.3	33.2	33.2	34.0	34.7	n/a
Slovakia	24.5	23.7	24.8	25.9	25.7	25.3	24.2	26.1	n/a
Slovenia	23.2	23.4	22.7	23.8	23.8	23.7	24.4	25.0	24.5
Sweden	23.4	24.0	24.8	24.1	24.4	24.8	24.9	25.4	n/a
Hungary	25.6	25.2	24.7	24.1	26.9	27.2	28.3	28.6	28.2
Great Britain	32.6	33.9	32.4	32.9	33.0	31.3	30.2	31.6	n/a
Italy	**32.2**	**31.0**	**31.8**	**31.7**	**32.5**	**32.4**	**32.8**	**32.4**	**n/a**

Source: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tessi190&plugin=1 (retrieved: 24.07.2016).

Wages and income levels. It seems that such values as the economic growth rate, public debt, public sector deficit etc. are abstract for most people. For most people they do not have any personal significance, nor is there any perceivable connection between changes in these factors and people's personal material situation. However, indices measuring the standard of living of a given state's residents paint a different picture. Any alternations in this respect also affect people's opinions, preferences and political behaviours much more than "abstract" macroeconomic data.

As mentioned previously, after establishment of the monetary union, there was a significant inflow of capital into so-called EU periphery states, which led, among others, to an increase in wages.[68] Data showing the average annual salary increase in Greece, Spain, and in Italy and changes in household income in the years 2001—2015 is contained in Table 1.14. The table clearly shows that in pre-2009 Greece, wages were clearly rising and this increase was higher than in, for example, Spain or Italy. After the crisis, wages fell quickly and significantly — over a period of six years between 2009 and 2015 by ca. 25%.

[68] "Nie udawaj Greka. Oszczędzaj." A conversation with Hans-Werner Sinn. *Gazeta Wyborcza* of 23.05.2011, p. 28—29.

Table 1.14

Wages and changes in disposable household income in Greece, Spain, and Italy in the years 2001—2015

State/ index	Greece		Spain		Italy	
	Average income (annually, USD)	Household income (net, year to year change in %)	Average income (annually, USD)	Household income (net, year to year change in %)	Average income (annually, USD)	Household income (net, year to year change in %)
2001	26,200	3.7	34,266	3.3	33,720	2.6
2002	28,634	4.4	34,518	3.4	33,492	1.0
2003	29,877	7.6	34,425	4.0	33,485	0.6
2004	30,413	3.2	34,070	3.0	34,138	1.4
2005	30,322	0.6	34,268	2.9	34,528	0.6
2006	30,685	5.4	34,138	2.1	34,768	1.0
2007	30,677	3.2	34,585	1.2	34,732	1.2
2008	30,217	0.8	35,977	2.4	34,770	–1.1
2009	31,635	0.6	38,414	3.4	34,941	–1.9
2010	29,528	–10.5	37,755	–2.9	35,275	–1.4
2011	27,590	–10.6	37,220	–1.2	34,728	–0.6
2012	26,340	–9.8	36,062	–5.2	33,681	–4.9
2013	24,812	–6.6	36,382	–1.8	33,730	–0.7
2014	24,993	–1.6	36,034	0.6	33,890	0.0
2015	25,211	n/a	36,325	n/a	34,140	0.6

Source: Author's own elaboration based on OECD data:
https://data.oecd.org/hha/household-disposable-income.htm
https://data.oecd.org/earnwage/average-wages.htm (retrieved: 24.07.2016).

In Spain and Italy, the trend was the same as in Greece, but the scale much less extensive, that is, the ratio of the pre-crisis wage increase to its post-crisis fall was not that high. One of the consequences of the wage increases in Greece and Spain, which were introduced faster than in other EU states, was a deterioration of the economic competitiveness of these states (as confirmed by economic competitiveness scores, which will be mentioned later). In 2011, for instance Hans-Werner Sinn stated that "in Greece, the salary and price cuts necessary for the reestablishment of competiveness would have to amount to 20—30 percent. This is a very difficult situation from a political point of view. Unions will most probably step out on the streets rather than accept such salary cuts."[69] Subsequent political events showed that it is extremely difficult to expect

[69] Ibidem.

social acceptance for wage cuts. At the same time, the statistical data contained in Table 1.14 suggests that such cuts were actually adopted.

Household debt. Another crucial indicator allowing for a more precise determination of changes in the material situation of states affected by the crisis is household debt. Relevant data concerning Greece, Spain, and Italy presenting debt-to-income ratios in the period from 2001 to 2014 is contained in Table 1.15.

Table 1.15

Household debt in Greece, Spain, and Italy in the years 2001—2014
(in % of disposable income)

Year	Greece	Spain	Italy	Year	Greece	Spain	Italy
2001	37.9	87.1	56.6	2008	87.1	150.2	81.7
2002	43.8	94.1	59.4	2009	87.8	145.1	86.6
2003	48.2	102.3	62.6	2010	105.2	148.1	90.5
2004	54.9	113.6	66.3	2011	112.0	142.4	90.0
2005	67.2	128.2	71.3	2012	119.8	140.8	92.1
2006	74.0	144.3	76.2	2013	121.6	133.9	90.9
2007	82.6	154.4	80.2	2014	115.0	127.3	90.2

Source: Author's own elaboration based on OECD data: https://data.oecd.org/hha/household-debt.htm (retrieved: 24.07.2016).

Based on the above information we can see that in Greece, the household debt in relation to income rose systematically until 2013 and finally fell in 2014 for the first time in the entire analysed period. Italy's debt stabilised in 2010 at approx. 90% of the disposable income. In Spain, however, the highest level of household debt was noted in 2007, after which it stabilised for a few years, only to clearly begin decreasing in 2010, and had remained at the highest level out of all the three states in question for the whole time.

Economic competitiveness. A synthetic evaluation of the changes taking place not only in the economy itself, but also in the entire political and social spectra is provided by different economic competitiveness rankings prepared and published by various institutions. None of them, however, is able to provide a complete picture of the situation. Nevertheless, given the fact that the rankings are prepared using different methodologies and that they take into account several to several hundred different factors (both of an objective, i.e. numerical data, and subjective nature, i.e. interviews), treating them in combination provides a certain picture of the processes taking place in the economy of a state. As mentioned in the introduction, this chapter will present summaries showing how the rankings of Greece, Spain, and Italy evolved over time compared to the other EU states. The summaries are based on periodically published rankings of four international institutions and organisations.

Table 1.16

Position of EU states in terms of economic competitiveness according to the World Economic Forum in 2008/2009—2015/2016

State	2008/2009		2011/2012		2013/2014		2015/2016	
	Place (out of 134 states)	Points (1—7)	Place (out of 142 states)	Points (1—7)	Place (out of 148 states)	Points (1—7)	Place (out of 140 states)	Points (1—7)
Austria	14	5.23	19	5.14	16	5.15	23	5.12
Belgium	19	5.14	15	5.20	17	5.13	19	5.20
Bulgaria	76	4.03	74	4.16	57	4.31	54	4.32
Croatia	61	4.22	76	4.08	75	4.13	77	4.07
Cyprus	40	4.53	47	4.36	58	4.30	65	4.23
Czech Republic	33	4.62	38	4.52	46	4.43	31	4.69
Denmark	3	5.58	8	5.40	15	5.18	12	5.33
Estonia	32	4.67	33	4.62	32	4.65	30	4.74
Finland	6	5.50	4	5.47	3	5.54	8	5.45
France	16	5.22	18	5.14	23	5.05	22	5.13
Greece	**67**	**4.11**	**90**	**3.92**	**91**	**3.93**	**81**	**4.02**
Spain	**29**	**4.72**	**36**	**4.54**	**35**	**4.57**	**33**	**4.59**
The Netherlands	8	5.41	7	5.41	8	5.42	5	5.50
Ireland	22	4.99	29	4.77	28	4.92	24	5.11
Lithuania	44	4.45	44	4.41	48	4.41	36	4.55
Luxembourg	25	4.85	23	5.03	22	5.09	20	5.20
Latvia	54	4.26	64	4.24	52	4.40	44	4.45
Malta	52	4.31	51	4.33	41	4.50	48	4.39
Germany	7	5.46	6	5.41	4	5.51	4	5.53
Poland	53	4.28	41	4.46	42	4.46	41	4.49
Portugal	43	4.47	45	4.40	51	4.40	38	4.52
Romania	68	4.10	77	4.08	76	4.13	53	4.32
Slovakia	46	4.40	69	4.19	78	4.10	67	4.22
Slovenia	42	4.50	57	4.30	62	4.25	59	4.28
Sweden	4	5.53	3	5.61	6	5.48	9	5.43
Hungary	62	4.22	48	4.36	63	4.25	63	4.25
Great Britain	12	5.30	10	5.39	10	5.37	10	5.43
Italy	**49**	**4.35**	**43**	**4.43**	**49**	**4.41**	**43**	**4.46**

Source: Author's own elaboration based on: *The Global Competitiveness Report 2008—2009, 2011—2012, 2013—2014, 2015—2016*, http://www.weforum.org/reports?filter[type]=Competitiveness (retrieved: 11.12.2015).

The first contains selected competitiveness rankings from the period of 2008/2009 — 2015/2016 prepared by the World Economic Forum (Table 1.16). Out of the three states of interest, Spain ranked the highest. It first experienced a downturn right after the crisis, only to gradually make up its losses in the consecutive years. This slight fall of Spain's position is observed in relative terms when compared to other states (position in the ranking), and in absolute values (number of points given). The same kind of evolution took place in Greece, except that this state's economy was evaluated as being much less competitive compared to that of Spain. It is noted that before the crisis, Greece was documented as almost the least competitive economy in the entire EU (before the least competitive economies of Romania and Bulgaria) and the crisis made its situation even worse. Since the 2011/2012 report, Greece's economy is considered clearly the least competitive in the entire EU. Italy's competitiveness of economy ranks lower than Spain's, but is higher than that of Greece and remains relatively stable.

Table 1.17

Competitiveness of EU states according to the International Institute for Management Development in the years 2008—2014

State	2008		2010		2012		2014	
	Place (out of 55 states)	Points	Place (out of 58 states)	Points	Place (out of 59 states)	Points	Place (out of 60 states)	Points
Austria	14	75.028	14	84.085	21	77.67	22	73.699
Belgium	24	68.746	25	73.586	25	73.48	28	66.595
Bulgaria	39	51.392	53	47.756	54	48.45	56	45.784
Croatia	49	45.203	56	40.056	57	45.30	59	38.974
Cyprus	n/a	—	n/a	—	n/a	—	n/a	—
Czech Republic	28	62.247	29	65.433	33	66.19	33	62.213
Denmark	6	83.852	13	85.587	13	84.88	9	84.040
Estonia	23	69.648	34	62.641	31	66.95	30	64.383
Finland	15	75.025	19	80.002	17	82.47	18	78.159
France	25	66.012	24	74.372	29	70.00	27	67.941
Greece	**42**	**48.761**	**46**	**52.304**	**58**	**43.05**	**57**	**42.244**
Spain	**33**	**57.515**	**36**	**58.752**	**39**	**61.12**	**39**	**57.913**
The Netherlands	10	80.476	12	85.650	11	87.16	14	81.144
Ireland	12	77.638	21	78.144	20	78.47	15	80.360
Lithuania	36	56.234	43	54.098	36	63.42	34	62.014
Luxembourg	5	84.405	11	86.867	12	86.05	11	82.164

Table 1.17 continued

Latvia	n/a	—	n/a	—	n/a	—	35	61.848
Malta	n/a	—	n/a	—	n/a	—	n/a	—
Germany	16	74.735	16	82.730	9	89.26	6	85.782
Poland	44	47.986	32	64.482	34	64.18	36	61.767
Portugal	37	54.657	37	57.096	41	60.38	43	54.403
Romania	45	47.549	54	40.056	53	48.93	47	52.841
Slovakia	30	59.365	49	51.092	47	55.67	45	53.302
Slovenia	32	57.904	52	48.689	51	52.96	55	46.245
Sweden	9	82.464	6	90.893	5	91.39	5	85.833
Hungary	38	52.932	42	54.124	45	57.34	48	52.505
Great Britain	21	71.904	22	76.808	18	80.14	16	79.814
Italy	**46**	**46.921**	**40**	**56.320**	**40**	**60.64**	**46**	**52.871**

Source: International Institute for Management Development, *IMD World Competitiveness Yearbook 2008, 2010, 2012, 2014*, http://www.imd.org (retrieved: 11.11.2015).

The second list presented here is the competitiveness ranking of states, prepared by the International Institute for Management Development. Table 1.17 presents the position of EU states in terms of this criterion in the period from 2008 until 2014. In 2014 the classification covered 60 states. That year, Italy had maintained its position from 2008, it has to be being noted, however, that it was rather low to start with (46th out of 55 states in 2008 and out of 60 states in 2014). Greece and Spain, though, noted considerable decreases — Greece for 42nd place in 2008 to 57th in 2014, whereas Spain from 33rd to 39th in the same period. In the case of Greece, its relative fall in the ranking was accompanied by a clear decrease in the amount of points. Spain, on the other hand, was ranked almost identically, while Italy's position clearly improved, which, as mentioned, helped maintain its position from 2008 in 2014. Additional reasons for such a low level of competitiveness of the Greek economy to those mentioned earlier also include its unwillingness to privatise even the most unprofitable state companies and holding them in favour at the expense of private ones (e.g. when subsidising), as well as subsidising the labour market and its lack of flexibility.[70]

Another classification (Table 1.18), which provides us with a picture on how the economic crisis influenced the economies of EU states, is an assessment on the ease of conducting business activity for small and medium-sized enterprises. In 2015, 189 states were assessed in terms of their laws regulating business activity, such as starting a business, debt recovery, or international trade.

[70] P. Kupisz: "Kryzys w Grecji…," pp. 128—129.

Table 1.18

Position of EU states in the world in terms of ease of economic activity in the years 2007—2015

State/EU	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	25	26	31	28	32	29	30	21	21
Belgium	19	20	22	27	28	33	36	42	43
Bulgaria	46	42	51	57	59	66	58	38	38
Croatia	97	110	89	79	80	84	89	65	40
Cyprus	n/a	36	35	49	40	36	39	64	47
Czech Republic	56	66	82	70	64	65	75	44	36
Denmark	5	5	6	5	5	5	5	4	3
Estonia	17	22	17	18	24	21	22	17	16
Finland	13	14	11	14	11	11	12	9	10
France	31	31	28	26	29	34	38	31	27
Greece	**100**	**100**	**97**	**101**	**100**	**78**	**72**	**61**	**60**
Spain	**38**	**51**	**48**	**45**	**44**	**44**	**52**	**33**	**33**
The Netherlands	21	28	29	29	31	31	28	27	28
Ireland	8	7	8	8	10	15	15	13	17
Lithuania	26	25	26	25	27	27	17	24	20
Luxembourg	42	53	42	44	50	56	60	59	61
Latvia	22	30	27	31	21	25	24	23	22
Malta	n/a	n/a	n/a	n/a	n/a	102	103	94	80
Germany	20	27	21	19	19	20	21	14	15
Poland	74	72	73	59	62	55	45	32	25
Portugal	37	48	33	30	30	30	31	25	23
Romania	48	45	54	65	72	72	73	48	37
Slovakia	32	35	40	43	48	46	49	37	29
Slovenia	55	58	43	37	37	35	33	51	29
Sweden	14	17	18	9	14	13	14	11	8
Hungary	45	41	52	46	51	54	54	54	42
Great Britain	6	6	4	6	7	7	10	8	6
Italy	**53**	**74**	**76**	**83**	**87**	**73**	**65**	**56**	**45**

Source: Author's own elaboration based on *Doing Business 2008, 2010, 2011, 2012, 2013, 2014, 2015, 2016*, http://www.doingbusiness.org (retrieved: 24.07.2016).

In contrast, a significant relative improvement was noted for Greece in this respect — it advanced from place 100 in 2007 to 60 in 2015, the improvement itself occurring in the period from 2011—2014. No other state in the EU had recorded such a drastic improvement. The reason behind the improvement

most probably included the reforms introduced to counteract the economic crisis. Spain also advanced 5 places in 2015 compared to 2007 (from 38 to 33). Also Italy, following a significant fall in the ranking in the years 2008—2011, reached a much better position in 2015 than in 2007 (a move from position 53 to 45).

Table 1.19 shows EU states in the years 2008—2014 in terms of their position in the economic freedom index prepared by The Heritage Foundation. The index includes a classification of over 180 states from around the world and a state's score takes into account the following ten criteria: respect for property rights, level of corruption, taxes, public spending, ease of doing business, labour market regulations, monetary policy regulations, foreign trade regulations, investments, and financial transfers. The maximum score for each of the criteria is 100, whereas the final score is the average of the ten criteria, its maximum being 100.

The data presented in Table 1.19 shows that both Greece and Spain, as well as Italy, dropped significantly in terms of the economic freedom index in the years 2008—2014 compared to other countries around the world. Spain fell by 18 positions, Italy — 22, and Greece by 39. In absolute values, that is, taking into account the index value change — the scale of deterioration is clearly smaller, but affects all three states. This means that the fall in the ranking was caused mainly by an improvement of the situation in other states, although its deterioration in Greece, Spain, and Italy also took its toll.

Table 1.19

Economic freedom index in the EU (prepared by The Heritage Foundation) in the years 2008—2014

State	2008		2010		2012		2014	
	Global position	Points	Global position	Points	Global position	Points	Global position	Points
Austria	30	70.0	22	71.6	28	70.3	24	72.4
Belgium	20	71.5	30	70.1	38	69.0	35	69.9
Bulgaria	59	62.9	75	62.3	61	64.7	61	65.7
Croatia	113	54.6	92	59.2	83	60.9	87	60.4
Cyprus	22	71.3	24	70.9	20	71.8	46	67.6
Czech Republic	37	68.5	34	69.8	30	69.9	26	72.2
Denmark	11	79.2	9	77.9	11	76.2	10	76.1
Estonia	12	77.8	16	74.7	16	73.2	11	75.9
Finland	16	74.8	17	73.8	17	72.3	19	73.4
France	48	65.4	64	64.2	67	63.2	70	63.5
Greece	**80**	**60.1**	**73**	**62.7**	**119**	**55.4**	**119**	**55.7**

Table 1.19 continued

Spain	**31**	**69.7**	**36**	**69.6**	**36**	**69.1**	**49**	**67.2**
The Netherlands	13	76.8	15	75.0	15	73.3	15	74.2
Ireland	3	82.4	5	81.3	9	76.9	9	76.2
Lithuania	26	70.8	29	70.3	23	71.5	21	73.0
Luxembourg	15	75.2	14	75.4	13	74.5	16	74.2
Latvia	38	68.3	50	66.2	56	65.2	42	68.7
Malta	47	66.0	48	67.2	50	67.0	58	66.4
Germany	23	71.2	23	71.1	26	71.0	18	73.4
Poland	83	59.5	71	63.2	64	64.2	50	67.0
Portugal	53	64.3	62	64.4	68	63.0	69	63.5
Romania	68	61.5	63	64.2	62	64.4	62	65.5
Slovakia	35	68.7	35	69.7	51	67.0	57	66.4
Slovenia	75	60.6	61	64.7	69	62.9	74	62.7
Sweden	27	70.4	21	72.4	21	71.7	20	73.1
Hungary	43	67.2	51	66.1	49	67.1	51	67.0
Great Britain	10	79.5	11	76.5	14	74.1	14	74.9
Italy	**64**	**62.5**	**74**	**62.7**	**92**	**58.8**	**86**	**60.9**

Source: Author's own elaboration based on 2008, 2010, 2012, 2014 Index of Economic Freedom
http://thf_media.s3.amazonaws.com/index/pdf/2008/Index2008_ExecutiveSummary.pdf
http://thf_media.s3.amazonaws.com/index/pdf/2010/Index2010_ExecutiveHighlights.pdf
https://thf_media.s3.amazonaws.com/index/pdf/2012/Executive-Highlights.pdf
http://www.heritage.org/index/pdf/2014/book/executivehighlights.pdf (retrieved: 11.11.2015).

The "informal economy." The informal economy is the reason why official data does not always reflect the actual situation concerning, for example, unemployment, income differentiation, or the standard of living. Its scale, for obvious reasons, is very difficult, if not impossible, to assess and measure. It is worth however obtaining a rough estimate of its extent. Table 1.20 contains estimates of the size of the informal economy in EU states in relation to the GDP in the years 2008 and 2014. The figures are based on the results of tests conducted for the last dozen or so years by Friedrich Schneider of the Linz University.

The above data shows us that in Greece, and to a lesser extent, in Italy, the size of the informal economy is greater than the average for the EU, whereas in Spain, it is roughly the same. During the crisis, that is, between 2008 and 2014, the size of the informal economy in neither of the states in question, did not undergo any significant change.

Table 1.20

Size of the informal economy in EU states in relation to their GDP in the years 2008 and 2014 (in % GDP)

State	"Informal economy"		State	"Informal economy"	
	2008	2014		2008	2014
EU	19.6	18.6	Lithuania	29.1	27.1
Austria	8.1	7.8	Luxembourg	8.5	8.1
Belgium	17.5	16.1	Latvia	26.5	24.7
Bulgaria	32.1	31.0	Malta	25.8	24.0
Croatia	29.6	28.0	Germany	14.2	12.2
Cyprus	26.0	25.7	Poland	25.3	23.5
Czech Republic	16.6	15.3	Portugal	18.7	18.7
Denmark	13.9	12.8	Romania	29.4	28.1
Estonia	29.0	27.1	Slovakia	16.0	14.6
Finland	13.8	12.9	Slovenia	24.0	23.5
France	11.1	10.8	Sweden	14.9	13.6
Greece	**24.3**	**23.3**	Great Britain	10.1	9.6
Spain	**18.4**	**18.5**	Hungary	23.0	21.6
The Netherlands	9.6	9.2	**Italy**	**21.4**	**20.8**
Ireland	12.2	11.8			

Source: F. Schneider: *Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2015: Different Developments*, pp. 6—7, http://www.econ.jku.at/members/Schneider/files/publications/2015/ShadEcEurope31.pdf (retrieved: 9.11.2015).

Corruption. The last summary concerns the level of corruption in the public sector based on data prepared by Transparency International (TI). Table 1.21 contains relevant data concerning EU states in the years 2008 and 2014, that is, their position in the world and the perceived level of corruption expressed in points. The states are arranged according to their place in the world as of 2014.

The data in Table 1.21 shows that the perceived level of corruption in the public sector in Greece, Spain, and in Italy rose between 2008 and 2014. And like before, this value concerns both the relative position of these states — all of them in 2004 were classified a dozen or so positions lower than in 2008, and the corruption values expressed in points. It is also worth noting that in Spain, the perceived level of corruption is, according to TI, clearly lower (37th position in the world in 2014) than in Greece and Italy (position 69 of both the states in 2014). In both these states, along with Bulgaria and Romania, the level of corruption in the public sector in 2014 was, according to TI, the highest in the entire EU.

Table 1.21

Corruption Perception Index acc. Transparency International in the EU in the years 2008 and 2014

State	2008		2014	
	Position in the world	Corruption level[a]	Position in the world	Corruption level
Denmark	1	9.3	1	92
Finland	5	9.0	3	89
Sweden	1	9.3	4	87
The Netherlands	7	8.9	8	83
Luxembourg	11	8.3	9	82
Germany	14	79	12	79
Great Britain	16	7.7	14	78
Belgium	18	7.3	15	76
Ireland	16	7.7	17	74
Austria	12	8.1	23	72
Estonia	27	6.6	26	69
France	23	6.9	26	69
Cyprus	31	6.4	31	63
Portugal	32	6.1	31	63
Poland	58	4.6	35	61
Spain	**28**	**6.5**	**37**	**60**
Lithuania	58	4.6	39	58
Slovenia	26	6.7	39	58
Malta	36	5.8	43	55
Latvia	52	5.0	43	55
Hungary	47	5.1	47	54
Czech Republic	45	5.2	53	51
Slovakia	52	5.0	54	50
Croatia	62	4.4	61	48
Bulgaria	72	3.6	69	43
Greece	**57**	**4.7**	**69**	**43**
Italy	**55**	**4.8**	**69**	**43**
Romania	70	3.8	69	43

[a] Perceived level of corruption in the public sector on a scale from 0 (very high corruption) to 100 (very low corruption). In 2008, the scale ranged from 0 to 10.

Source: Transparency International: Corruption Perception Index 2014, http://www.transparency.org/cpi 2014/results; Transparency International: Corruption Perception Index 2008, http://www.transparency.org /research/cpi/cpi_2008 (retrieved: 9.11.2015).

1.4 Greece, Spain, and Italy in the fight with the economic effects of the crisis

In several EU states, the consequences of the crisis that started in 2008, as well as the deterioration of the macroeconomic position was so severe, that they were forced to turn for financial assistance to the EU and other international organisations and institutions. Eight of the following EU states did so: Ireland, Greece, Spain, Latvia, Hungary, Portugal, Romania, and Cyprus. The bailout totals (not in all cases were they used up entirely), their sources and the periods they were granted for, are contained in Table 1.22. The assistance mainly came from funding institutions created by the EU (EFSM, EFSF, ESM[71]) but also from the IMF, from bilateral loans granted by other member states as well as from the EU itself, from the World Bank, the European Bank for Reconstruction and Development, and the European Investment Bank.

Table 1.22

Financial assistance granted to EU states because of the crisis

State	Value (maximum, in billion euros)	Sources	Duration
Hungary	20	EU, IMF, WB	2008—2010
Latvia	7.5	EU, IMF, WB, EBRD, bilateral loans	2009—2012
Romania	1st assistance programme: 20	EU, IMF, WB, EIB, EBRD	2009—2011
	2nd assistance programme: (preventive, unused): 1.4	EU, IMF	2011—2013
	3rd assistance programme: (preventive, unused): 2	EU, IMF	2013—2015
Ireland	85	EFSM, EFSF, IMF, bilateral loans	2010—2013
Greece	**1st assistance programme: 77.3 + 30**	**bilateral loans IMF**	**2010—2013**
	2nd asisstance programme: 164.5	**EFSF, IMF**	**2012—2015**
	3rd assistance programme: 86	**ESM**	**2015—2018**

[71] The European Financial Stabilisation Mechanism was created in 2010. That same year, the EFSF, that is, the European Financial Stability Facility was founded. The institution was a limited liability special purpose vehicle of a temporary nature. In 2011, a paragraph was added to article 136 of the TEU allowing the EMU to create a "stability mechanism." As a result, the EFSM and the EFSF were to operate until 2013 and were eventually replaced with the ESM (the treaty establishing it entered into force in 2012), which takes the form of an intergovernmental organisation operating on the basis of international public law but is closely connected with the EU. More in: T. Kubin: *Legitymizacja systemu…*, pp. 394—396.

Table 1.22 continued

Portugal	78	EFSM, EFSF, IMF	2011—2014
Spain	**100**	**bilateral loans**	**2012—2014**
Cyprus	10	ESM, IMF	2013—2016

Source: Author's own elaboration based on EC information (retrieved: 26.12.2015):
http://ec.europa.eu/economy_finance/assistance_eu_ms/hungary/index_en.htm
http://ec.europa.eu/economy_finance/assistance_eu_ms/latvia/index_en.htm
http://ec.europa.eu/economy_finance/assistance_eu_ms/romania/index_en.htm
http://ec.europa.eu/economy_finance/assistance_eu_ms/ireland/index_en.htm
http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm
http://ec.europa.eu/economy_finance/assistance_eu_ms/portugal/index_en.htm
http://ec.europa.eu/economy_finance/assistance_eu_ms/spain/index_en.htm
http://ec.europa.eu/economy_finance/assistance_eu_ms/cyprus/index_en.htm.

In terms of the external assistance granted and the economic reforms pursued, each of the three states in question needs to be treated individually. This is because the granting of the assistance (and payout of the subsequent tranches) depended on the introduction of specific economic reforms. These reforms, their social effects and the defined manifestations of the crisis influenced the functioning of the political systems of the particular states.

Greece found itself in the most difficult situation, as it was virtually bankrupt and unable to pay off its debts without external assistance. The reforms themselves, which were a condition for the subsequent bailouts, dealt a strong blow to Greece's political situation. What impacted it even more were the circumstances accompanying the adoption and delivery of the subsequent bailout programmes, that is, many month-long negotiations between Greece and EU's institutions and the IMF, the regular summits and last-minute negotiations between their representatives, IMF's and EU's constant oversight of the Greek economy, the dynamics of events on the Greek political scene (mainly the elections to the parliament but also a referendum on the acceptance of the bailout by Greece) or threat of Greece's leaving or being thrown out of the euro area. All of this gave the impression that since more or less 2010, Greece was in the centre of attention of EU's institutions, European public opinion and of the media.

The situation in Spain and Italy was different. Spain received assistance as part of one package meant to help financial institutions. Therefore, the reforms recommended by the EU and the conditions for receiving the bailout applied only to the financial sector. Other economic reforms introduced by the Spanish authorities were not a condition for receiving financial aid but resulted from the legal regulations that applied to all states of the euro area and the EU and from legislation introduced by Spain itself. However, Italy did not use any external financial assistance and the anti-crisis reforms were introduced as part of legislation that applied to all states of the euro area and the EU as well as individual legislation introduced by Italy.

Greece. Issues with public debt service in Greece became apparent at the beginning of 2010. As shown in section 1.3, 2009 was the most difficult year for EU states in economic terms throughout the entire crisis. A deterioration of Greece's macroeconomic indicators (mainly a very significant increase of public debt, a permanent deficit of the public finance sector, economic recession), combined with a fall in confidence in financial markets and an increase of borrowing costs, left Greece facing problems with obtaining the funds necessary to pay off its debt. External help was indispensible.

The first assistance programme for Greece (the Greek Loan Facility), was drafted in the form of bilateral loans from the euro area states. At first, their value was not to exceed 80 billion euro, but as Slovakia decided not to participate, and because Ireland and Portugal had to decrease their share of assistance due to their own problems, the final aid package amounted to 77.3 billion euro.[72] Apart from this assistance, the IMF declared an additional 30 billion euro for Greece as part of the so-called stand-by arrangement.[73] The objectives of the necessary reforms of the Greek economy and the challenges and risks related thereto were specified by the EC in a special document.[74] The assistance given to Greece as part of the first programme was associated with the Council's decision of 10 May 2010 concerning Greece and contained provisions aimed at eliminating excessive deficit[75] (the decision was changed several times afterwards).

The second financial assistance programme for Greece covered funds that had remained from the first programme, and an additional 130 billion euro. These funds were intended to cover a period from 2012 until 2014. As part of the programme, the states of the euro area, through the EFSF, earmarked 144.7 billion euro, while the IMF — 19.8 billion.[76] As in the case of the 1st assistance programme, the 2nd one was also appended by a document outlining the objectives of the Greek economic reforms, a list of reforms, the challenges and risks they posed and methods of monitoring their implementation.[77] The granting of

[72] See http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm (retrieved: 27.12.2015).

[73] "IMF Reaches Staff-level Agreement with Greece on €30 Billion Stand-by Arrangement," *IMF Press Release* No. 10/176, http://www.imf.org/external/np/sec/pr/2010/pr10176.htm (retrieved: 27.12.2015).

[74] "The Economic Adjustment Programme for Greece." *European Economy*. Occasional Papers 61/May 2010.

[75] Council Decision of 10 May 2010 addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit (2010/320/UE). *Official Journal of the European Union* L 145, 11.06.2010.

[76] See http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm (retrieved: 27.12.2015).

[77] "The Second Economic Adjustment Programme for Greece." *European Economy*. Occasional Papers 94/March 2012.

subsequent money tranches depended on whether Greece managed to fulfil the conditions contained in the agreements and the criteria defined in Council decision No 2011/734.[78] The so-called Troika, that is, the EC, ECB, and IMF, monitored the process. Eventually, as part of the second assistance programme (paid out in 5 instalments and 13 payment tranches), Greece received 130.9 billion euro from the EFSF and approx. 12 billion euro from the IMF.[79]

It is worth noting that in order to meet the objectives of the second assistance programme for Greece, a decision was taken to involve private sector institutions in resolving Greece's debt problem. Furthermore, an objective was set to reduce public debt by 2020 to 120% GDP. For this purpose, during the euro area summit on 26 October 2011, its participants "encouraged" private institutions, which were in the possession of Greek bonds, to replace them with new ones while agreeing to a 50% "voluntary" reduction of their nominal value.[80] Eventually, the reduction was 53.5% of the nominal value. In addition, member states agreed to reduce the interest rates of funds lent to Greece down to a value of 1.5% with retrospective effect.[81]

Due to the political turmoil in Greece, namely early parliamentary elections on 25 January 2015 and the inability to elect a president by the parliament, the second assistance programme was extended. First, on 19 December 2014, the EFSF Board of Directors resolved to provide a "technical" extension of the programme until the end of February 2015. Next, on 27 February 2015, the Eurogroup and the EFSF Board of Directors took the decision to extend the duration of the 2nd assistance programme for Greece by another four months (until 30 June 2015).[82] Despite negotiations lasting several weeks, no agreement was reached on the conclusion of the fifth audit to determine whether Greece has met all the requirements required by the second assistance programme, nor was a decision made to extend the programme, which would allow for the payment of another tranche of assistance. On 26 June, the negotiations between Greece,

[78] Council Decision of 12 July 2011 addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit (recast) (2011/734/UE). *Official Journal of the European Union* L 296, 15.11.2011. This decision has been amended a few times.

[79] See http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm (retrieved: 27.12.2015).

[80] "Euro Summit Statement," Brussels, 26 October 2011, p. 4. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/125644.pdf (retrieved: 27.12.2015).

[81] "Eurogroup statement," 21.02.2012, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/128075.pdf (retrieved: 27.12.2015)

[82] Third Amendment Agreement Relating to Master Financial Assistance Facility Agreement between European Financial Stability Facility, the Hellenic Republic, Hellenic financial stability Fund and the Bank of Greece, 27 February 2015. See http://www.efsf.europa.eu/attachments/Third%20Amendment%20to%20Greek%20MFFA.pdf (retrieved: 28.12.2015).

the EC, ECB, and the IMF broke down. According to the EC, fault lay solely with Greece.[83]

In this situation, the Greek Prime Minister Alexis Tsipras announced that Greece would hold a referendum on 5 July 2015 on whether or not the draft agreement presented by the EC, ECB, and IMF on 25 June 2015 should be adopted. The question posed to the Greeks read: "Should the agreement plan submitted by the European Commission, the European Central Bank and the International Monetary Fund to the Eurogroup of 25 June 2015, and comprised of two parts[84] that make up their joint proposal, be accepted?" The turnout in the referendum was 62.5%, of which 61.31% opposed the conditions contained in the draft agreement, while 38.69% voted in favour.[85]

The second financial assistance package for Greece expired on 30 June 2015 and several days following the referendum, the Greek government turned for assistance as part of a new programme.[86] On 17 July 2015, the Council decided to grant Greece a short-term financial assistance package (so-called bridge loan) as part of the EFSM. The maximum disposable loan was 7.16 billion euro, the maximum repayment period — 3 months, while the loan was to be disbursed in two instalments. Its objective was to enable Greece to settle the debts it owed to the ECB and the IMF before being granted assistance as part of a new, long-term financial aid package from the ESM.[87]

An agreement on the third financial assistance programme for Greece was reached on 14 August 2015 and was formally accepted on 19 August 2015.[88] On the same day, Greece also signed an agreement with the EMS defining the financial conditions for receiving the loan.[89] As part of the programme, Greece

[83] "Information from the European Commission on the latest draft proposals in the context of negotiations with Greece." See http://europa.eu/rapid/press-release_IP-15-5270_en.htm (retrieved: 28.12.2015).

[84] "Reforms for the completion of the current programme and beyond." See http://www.referendum2015gov.gr/wp-content/uploads/2015/06/REFORMS-FOR-COMPLETION-OF-CURRENT-PROGRAM-1.pdf (retrieved: 28.12.2015). "Preliminary Debt Sustainability Analysis for Greece." See http://www.referendum2015gov.gr/wp-content/uploads/2015/06/P.S.A.pdf (retrieved: 28.12.2015).

[85] See http://www.referendum2015gov.gr/en/ (retrieved: 28.12.2015).

[86] See http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm (retrieved: 28.12.2015).

[87] Council of the European Union, Press release 593/15, 17.07.2015. See http://www.consilium.europa.eu/en/press/press-releases/2015/07/17-efsm-bridge-loan-greece/ (retrieved: 28.12.2015).

[88] Memorandum of understanding between the European Commission acting on behalf of the European Stability Mechanism and the Hellenic Republic and the Bank of Greece, Athens-Brussels, 19 August 2015. See http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/pdf/01_mou_20150811_en.pdf (retrieved: 28.12.2015).

[89] Financial Assistance Facility Agreement between European Stability Mechanism and the Hellenic Republic and the Bank of Greece and Hellenic Financial Stability Fund, Athens-Luxem-

may receive up to 86 billion euro in the years 2015—2018. A summary of the most important events of 2010—2015 concerning financial assistance for Greece is contained in Table 1.23.

Table 1.23

Key events between 2010 and 2015
concerning the external financial aid programme for Greece

Date	Event
2010.05.02	Eurogroup's agreement for bilateral assistance for Greece as part of the 1st assistance programme. IMF's decision to grant Greece assistance as part of a stand-by agreement in the amount of 26 billion SDR (ca. 30 billion euro).
2010—2011	Five audits verifying the completion by Greece of the 1st assistance programme conducted by the EC, ECB, and the IMF.
2012.03.14	Eurogroup's agreement for financial assistance for Greece as part of the 2nd assistance programme.
2012—2015	Five audits conducted by the EC, ECB, and the IMF verifying the completion by Greece of the 1st assistance programme.
2014.12.19	EFSF's decision on the "technical" prolongation of the 2nd assistance programme until the end of February 2015.
2015.02.27	Eurogroup's and EFSF's decision on the prolongation of the 2nd assistance programme until the end of June 2015.
2015.06.30	Failure of the Greece-EU negotiations on the fifth audit checking the fulfilment of the 2nd assistance programme by Greece and the end of the 2nd assistance programme for Greece.
2015.07.05	Referendum in Greece on the acceptance of a draft agreement presented by the EC, ECB, and IMF to the Eurogroup on 25.06.2015.
2015.07.08	Official request of the Greek government for financial assistance as part of a new programme.
2015.07.17	Decision of the Council on granting Greece short-term financial assistance.
2015.08.14	Political agreement of the Eurogroup on starting the 3rd assistance programme for Greece.
2015.08.19	Signing by Greece and the EC of an agreement (Memorandum of Understanding) on the 3rd financial assistance programme for Greece.
2015.08.19	Signing by Greece of an agreement with the ESM regulating the conditions of financial assistance (Financial Assistance Facility Agreement).

Source: Author's own elaboration based on: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm (retrieved: 28.12.2015).

bourg, 19 August 2015. See http://www.esm.europa.eu/pdf/2015-08-19%20GR%20-%20ESM%20-%20FFA%20publication%20version.pdf (retrieved: 28.12.2015).

In fulfilling the bailout conditions of the aforementioned programmes (and also the recommendations of EU institutions concerning excessive deficit, procedures for macroeconomic imbalance or the European Semester), Greece implemented a wide range of economic reforms. It is impossible to list all of them or to provide a precise description and analysis of each reform. It is certainly worth mentioning some of them to outline the scale and nature of the introduced changes.

As far as the tax system is concerned, the more essential changes include the following. One of the first decisions taken once Greece's economic issues surfaced was increasing the base VAT rate from 19% to 23% and the reduced VAT rates from 9% to 11% and from 4.5% to 5.5%. Inheritance and gifts taxes were also increased.[90] In 2010, a new system with nine PIT rates was introduced, replacing four, and the highest rate increased to 45% from 40%. Corporate income tax (CIT) was decreased from 25% in 2009 and 24% in 2010 to 20% in 2011. In 2010, excise tax for alcohol and cigarettes was also increased.[91] In 2011, a new solidarity tax was introduced for natural persons for their 2010—2014 incomes (1% for incomes exceeding 12,000 euro to 4% for incomes exceeding 100,000 euro and 5% for high-ranking government officials). The tax-free allowance was reduced in 2011 from 12,000 euro to 5,000 euro. From 2011, the reduced VAT rate was increased: from 11% to 13% and from 5.5% to 6.5%. VAT tax for non-alcoholic beverages and restaurant services increased from 13% to 23%. Excise tax for electricity and natural gas was introduced.[92]

In 2012, the personal income tax underwent reform again. Eight rates (10%—45%), in which all taxpayers (workers, pensioners, self-employed, rentiers) were treated equally, were replaced with three rates (22%—42%) and the taxpayers were differentiated depending on their source of income (e.g. loan institution management members, board members, entrepreneurs, persons providing so-called professional services, rentiers gaining income from real-estate or bonds). The tax-free allowance system was replaced with tax deductions. The government pulled out from previously introduced CIT reductions and the tax was raised to 26% (from 20%); excise tax for alcohol, cigarettes, and petrol was also increased.[93]

In 2013, a new property tax was introduced, which replaced the one in effect at that time. Its amount depended on, for example, the location, age, and purpose of the property. An additional tax was levied on properties worth more than 300,000 euro. VAT for some restaurant and catering services was reduced from

[90] "Monitoring tax revenues and tax reforms in EU Member States 2010." *European Economy* 6/2010, p. 40.

[91] "Tax Reforms in EU Member States 2011." *European Economy* 5/2011, p. 41.

[92] "Tax Reforms in EU Member States 2012." *European Economy* 6/2012, p. 39.

[93] "Tax Reforms In EU Member States 2013." *European Economy* 5/2013, p. 31.

23% to 13%.[94] Apart from changes in the tax system introduced in 2009—2011, some other changes included[95]:

- a new wage matrix was introduced in the public sector, which was supposed to, at least in the short-run, help significantly reduce the global wage-related expenses and made the compensation system in public services more transparent;
- the highest pensions were reduced, pension taxes were reformed as were the retiring allowances;
- actions were taken to curb abuse of disability pensions (in order to reduce the share of disability pensions in relation to retirement pensions) and retirement pensions that were paid to certain professional groups on different conditions than to others;
- excessive employment in the public sector was reduced;
- income taxation was extended (e.g. by reducing the tax-free allowance);
- a social fund was established (the Hellenic Republic Asset Development Fund), which was responsible for the privatisation of state property. Its main purpose was the reduction of government expenses, improvement of the performance of companies and attraction of foreign capital. According to plans, property worth 50 billion euro was to be privatised;
- a series of health-care reforms were introduced to improve its performance and reduce expenses earmarked for this sector;
- a central institution was created (Single Public Procurement Authority) responsible for public tenders in order to limit violations of EU law in this respect and decrease expensive delays;
- labour market reforms were introduced to increase its flexibility, improve the competitiveness of the particular sectors of the economy and reduce unemployment. These included the abolishment of restrictions and barriers to regulated professions;
- changes were introduced in transportation to reduce obstacles to its functioning and development, as well as to reduce costs;
- reforms in the functioning of the judicial system were introduced in order to reduce the backlog of court cases and improve court proceedings;
- reforms of the higher education system were introduced.

The reforms listed above proved to be highly insufficient in contributing to any substantial improvement to Greece's economic conditions, that is, allow for a reduction of the deficit of public finances, stop the growth of public debt, get out of recession or reduce unemployment. They shared one common feature, namely that any positive and substantial results of the reforms would only

[94] "Tax Reforms in EU Member States. 2014." *European Economy* 6/2014, p. 33.

[95] "The Economic Adjustment Programme for Greece. Fifth Review — October 2011." *European Economy.* Occasional Papers 87/2011, pp. 23—24, 32, 34—39.

be visible at least several years after their introduction. Proof that the Greek economic reforms of 2009—2011 were insufficient are presented in section 1.2 — statistical data, and that in 2012 Greece had to utilize the second assistance programme, whose maximum value was higher than that of the first one (Table 1.22).

As a result, in the years 2012—2015, economic reforms were continued. As mentioned before, an agreement could not be reached between Greece and the Troika as to the conclusion of the fourth audit on the fulfilment of the second financial assistance for Greece. According to the report prepared by the EC, the ECB, and the IMF of 2014 concerning the fourth audit[96]:

- Greece continued privatisation of its state property and companies (sports betting and lottery operator, gas supply companies, railway service companies, regional airports) and prepared to carry out more privatisation (e.g. airports in the Piraeus and Thessaloniki, in Athens and such companies as Hellenic Petroleum and Hellenic Post). At the same time, the amount of proceeds expected by 2010 from the privatisation process was reduced to 22.3 billion euro;
- as mentioned earlier, tax system reforms, which for instance simplified and increased tax proceeds, were continued. One of the reforms included the introduction of the income tax code, the tax procedures code and a unified property tax;
- legal regulations on accounting were reformed;
- the fight with corruption was continued;
- public finance and tender reforms were continued;
- public sector employment reductions were carried on — in 2009, the headcount was 907 thousand, while in 2014 — 651 thousand;[97]
- reforms were still being carried out of the systems of healthcare, health insurance, pensions and education (elementary, high school, and university level);
- in 2013, a stress-test of the Greek banking system was completed to check how banks would handle different economic and financial fluctuations;
- reforms of the labour market were still underway (wage setting, employment protection, working time) — increasing their flexibility helped reduce labour costs;
- restrictions hampering competition in construction materials production, food processing, retail, and tourism sectors were reduced or eliminated;
- reforms aiming to simplify conducting business were continued;

[96] "The Second Economic Adjustment Programme for Greece. Fifth Review — April 2014." *European Economy.* Occasional Papers 192, April 2014, pp. 26—63.

[97] Ibidem, p. 38.

- actions were taken to liberalise access to regulated professions such as lawyers, engineers, architects, geologists, land surveyors, electricians, TV technicians;
- justice system reforms to improve Greek economic competitiveness were continued;
- reforms in the energy and transportation markets (privatisation, liberalisation) were continued.

As the data in section 1.3 shows, the assistance programmes delivered by Greece in cooperation with the EU and the IMF, as well as the reforms the country introduced have so far only produced limited results. From 2013, Greece was able to reduce the public finances sector deficit, however, the country is still subject to the excessive deficit procedure. It was also possible to limit the growth of public debt, but it is still very high despite the mentioned 50% write-off of debt owed to private institutions. The interest rate of bonds issued by the Greek government is currently lower than in 2011—2012, but still clearly higher compared to other EU states. Greece managed to return to the financial markets — in April 2014, for the first time since 2010, Greece sold its 5-year bonds (value of 3 billion euro) with an annual rate of return of 4.75.[98] In 2014, for the first time in many years, a positive economic growth rate was noted in Greece (though still very low — 0.7%), the unemployment rate fell, albeit very little, by 1% compared to 2013, and there was a clear decrease of the current account deficit. The competitiveness of the Greek economy is much worse than before the crisis, though in some terms, there has been some improvement in recent years. Greek long-term ratings are still very low.

According to, for example, Hans-Werner Sinn, the financial assistance Greece received "did not solve anything. On the contrary, it slowed Greece down in regaining its economic competitiveness. […] The money Greece received was not used to reform its economy but to maintain status quo." According to the economist, a discussion will be started in several years on the need to prepare another assistance programme for Greece.[99]

It is noted that the IMF itself has expressed doubts as to the assumptions of the financial assistance programmes for Greece. In 2013, in an internal document marked as strictly confidential, the IMF was to admit that it took for granted the negative effects the austerity schemes would have on Greece, which eventually drew the state into recession. The document also mentions that the IMF bent its rules so that it would be possible to grant Greece assistance and concluded that the assumptions on the political possibilities of introducing the reforms and of Greece's return to the financial markets were too optimistic.

[98] M. Kaczmarczyk: "Grecja wychodzi na prostą." *Gazeta Wyborcza* of 11.04.2014, p. 16.

[99] "Źle się dzieje w państwie europejskim." Interview with Hans-Werner Sinn. *Gazeta Wyborcza* of 2—3.01.2016, p. 22.

At the same time, the document also claims that the IMF did not have any other choice at that time (i.e. when it was being decided to grant Greece assistance as part of the first programme).[100]

Spain. The assistance programme for Spain was used to recapitalise financial institutions (mostly banks) operating in the country. Out of the 100 billion euro bailout, Spain only used 41.4 billion, of which 38.9 went to recapitalise banks, while ca. 2.5 billion went to finance a special company, which took over the so-called problematic assets of the assisted banks, namely the Management Company for Asset Arising from the Banking Sector Reorganisation (Sareb).[101]

As the programme was intended to help financial institutions, the conditions it imposed were mainly designed for reforming this sector. According to the document that accompanied the agreement on granting Spain assistance, its main objectives were as follows: identification of banks requiring assistance, their recapitalisation and restructuring, transfer of a selected portion of assets of the assisted banks to the newly formed company (Sareb).[102] The cited document also contained a detailed action plan (with deadlines) to achieve the listed objectives and providing for EU institutional oversight over their realisation. EC's 2014 evaluation on the Spain's use of the assistance programme was positive and the objectives contained in the Memorandum of Understanding were deemed to have been achieved. Spain managed o stabilise its banking sector, restore confidence in it (deposits increased, stock exchange share prices rose, foreign capital began pouring in again, interest rates fell). The liquidity of banks was evaluated as "comfortable" thanks to their recapitalisation, transfer of assets to Sareb and the profits achieved in 2013.[103] The reforms introduced mainly served the purpose of recapitalising and restructuring of banks, strengthening their transparency as well as providing for better regulation and oversight of the financial sector.[104] As part of the programme, changes were also made to the financial assets tax law.[105]

The latest macroeconomic data was, according to the EC, encouraging and gave hope for Spain's return to economic stability. On the other hand, the EC

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[100] M. Stevis, I. Talley: "IMF Concedes It Made Mistakes on Greece." *The Wall Street Journal* of 5.06.2013. See http://www.wsj.com/articles/SB10001424127887324299104578527202781667088 (retrieved: 2.01.2016).

[101] See http://ec.europa.eu/economy_finance/assistance_eu_ms/spain/index_en.htm (retrieved: 26.12.2015).

[102] "Memorandum of Understanding on Financial-Sector Policy Conditionality," 20 July 2012, p. 3. See http://ec.europa.eu/economy_finance/eu_borrower/mou/2012-07-20-spain-mou_en.pdf

[103] "Financial Assistance Programme for Recapitalisation of Financial Institutions in Spain, Fifth Review — Winter 2014," *European Economy.* Occasional Papers 170, January 2014, pp. 6—8.

[104] Ibidem, pp. 21—24.

[105] Ibidem, p. 16.

pointed out that the financial sector reforms should be continued also after the assistance programme ceases. Spain was also told to continue its "fiscal consolidation" and structural reforms in order to reduce the public sector debt and the public debt.[106]

In accordance with article 14 of the resolution on the economic and budgetary supervision over EU states,[107] once the assistance programme ends, the beneficiary state remains under supervision until it repays at least 75% of the money it received (this period may be extended by the Council at the Commission's request). The key facts on Spain's assistance programme are presented in Table 1.24.

Table 1.24

Spain's financial assistance programme, 2012—2015 key events

Date	Event
2012.06.25	Spain officially requests assistance for the financial institutions operating in the country.
2012.07.10	The Eurogroup consents to qualify Spain for a financial assistance programme
2012.07.20	Agreement on financial assistance for Spain to recapitalise its financial institutions up to a maximum amount of 100 billion euro.
2012.11.28	The European Commission accepts public assistance for Spain for the following banks: BFA/Bankia, NCG Banco, Catalunya Banc, and Banco de Valencia
2012.12.20	The European Commission accepts public assistance for Spain for the following banks: Liberbank, Caja3, Banco Mare Nostrum, and Banco CEISS.
2012—2013	Five audits conducted by the EC and the ECB checking performance of the financial assistance programme for financial institutions.
2014—2015	Four EC and ECB missions to Spain as part of an assistance programme review.

Source: Author's own elaboration based on: http://ec.europa.eu/economy_finance/assistance_eu_ms/spain/index_en.htm (retrieved: 26.12.2015).

Apart from the reforms resulting from the fulfilment of obligations relating to the receipt and realisation of the assistance programme for the financial sector, Spain has introduced reforms in many other areas of the economy and social life since 2010. These reforms have been imposed by EU law (in particular: the stability and growth pact, macroeconomic imbalance procedure, the European Semester) and binding recommendations of EU institutions (mainly of the EC) as well as the decisions and actions of Spain's government, which has been attempting to overcome the effects of the crisis and the clear deterioration of the

[106] Ibidem, pp. 6—8.

[107] Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability. *Official Journal of the European Union* L 140, 27.05.2013.

state's economic situation as indicated in section 1.3. Generally speaking, these reforms have three main goals: improvement of the situation of Spain's central budget, fiscal consolidation, improvement of Spain's economic competitiveness, financial stability, and bank recapitalisation.[108] They focus on six main areas: growth of the economy and of competitiveness, regulation (state's interference in the economy) and competition, the labour market, financial system, fiscal policy, public administration, and social security.[109]

A far as the tax system is concerned, two additional income tax thresholds were introduced in 2011 for people with incomes over 120,000 euro (44%) and 175,000 euro (45%). Starting in 2012, the base VAT rate increased from 18% to 21%, the reduced VAT rate increased from 8% to 10%, while some goods and services, which had been covered by the reduced rate, were charged with the base tax rate. That same year, different detailed changes concerning the corporate tax were introduced to increase its effectiveness. Excise tax for tobacco and diesel used for commercial purposes was increased. In the years 2012 and 2013, capital income was taxed using three rates: from 21% to 27% (in 2011, there were two rates — 19% and 21%).[110] In 2013, a 20% tax was introduced for lottery wins (from 2,500 euro upwards).[111] Excise tax was also increased for alcohol (except for wine and beer) and tobacco products.[112]

Apart from changes in the tax system, according to data provided by the Spanish government,[113] the following reforms were introduced in the years 2011—2015:

- legal regulations implemented on the constitutional level establishing a mechanism providing for control over the budgetary deficit and establishment of a competent institution (the Independent Fiscal Responsibility Authority);
- legal changes to limit tax and employment-related fraud;
- the financial relations between the central government and local authorities were reformed and the transparency between them was improved;
- public administration was reformed (payment system in the public sector, reduction of public institutions — national, regional, and local, promotion of

[108] R. Xifré: "Four years of economic policy reforms in Spain: An analysis of results from an EU perspective." *Spanish Economic and Financial Outlook*, vol. 3, no. 5, September 2014, p. 5.

[109] V. Burguete: "Spain's response to EC and OECD economic policy recommendations." *Spanish Reform Policy Brief*, no. 1, November 2014. See http://www.spanishreforms.com/documents/10180/73362/Policy+Brief+N.1+November+2014.+Burguete%2C%20V./602901e8-827d-4c5b-bf54-5d1478344c81 (retrieved: 28.12.2015).

[110] "Tax Reforms in EU Member States 2012." *European Economy* 6/2012, p. 43.

[111] "Tax Reforms In EU Member States 2013." *European Economy* 5/2013, p. 37.

[112] "Tax Reforms In EU Member States 2014." *European Economy* 6/2014, p. 41.

[113] "Balance of government. The legislature of recovery. Reforms and results 2011—2015." See http://www.thespanisheconomy.com/stfls/tse/ficheros/2014/201115_Balance2011_2015.pdf (retrieved: 28.12.2015).

e-administration, new legal framework for the functioning of public administration) to achieve savings;
- tax regulations were modified (changes in personal income taxes and taxes paid by corporations);
- amendment of the legal regulations on the bankruptcy of individuals and companies and protection of persons with mortgage loans;
- introduction of reforms to increase access to financing for small and medium enterprises, self-employed and Spanish start-ups;
- introduction of labour market and employment reforms to increase its flexibility and worker mobility. Introduction of programmes promoting employment, professional activation, and acquisition of professional qualifications, support for people seeking jobs, people who have been unemployed for extended periods of time, support in finding employment for various social groups, implementation of regulations helping to fight illegal employment, etc.;
- introduction of financial incentives (e.g. tax and social insurance allowance) for employers in order to increase employment;
- introduction of reforms to facilitate conducting business activity;
- introduction of reforms concerning persons performing regulated professions (legal professions or pharmacists) involving, for example, elimination of compensation limits (except for notary publics) and rendering the regulations on the advertisement of these services more flexible[114];
- as part of structural reforms introduced to improve the competitiveness of Spain's economy, reforms were implemented that encompassed the sectors of energy, environmental protection, the property market, infrastructure and transportation (e.g. investments developing the transportation infrastructure), telecommunications, reforms increasing support for science and research and development, agriculture, industry, services, tourism and education;
- introduction of reforms in retail (concerning e.g. opening hours, minimum number of days off, permits required to open a shop)[115];
- reform of regulations on the company bankruptcy procedure (shortening of procedure duration, reduced procedural costs)[116];
- reform of the social security system (healthcare, disability and retirement pensions, counteracting social exclusion);
- reform of the financing system of political parties and strengthening of political party financing oversight;
- reform of the penal code to facilitate the battle with fraud and corruption.

[114] "Market Reforms at Work: in Italy, Spain, Portugal and Greece." *European Economy* 5/2014, pp. 29—30.

[115] Ibidem.

[116] Ibidem.

Italy. As shown by the data contained in section 1.3, the economic crisis in Italy was much less severe than in Spain, not to mention Greece. Italy did not have to ask for external financial assistance. The reforms introduced to mitigate the consequences of the crisis were the result of regulations adopted on the EU level (SGP, macroeconomic imbalance procedure, European Semester) and Italy's understanding of the need to implement reforms. The reforms introduced had a much broader reach than in Greece and Spain. Their aim was to create better conditions for economic development, new jobs, and improve the competitiveness of Italy's economy.

Concerning the tax system, in 2012 Italy increased its excise tax for fuel used in transportation and introduced a tax for selected financial transactions (sales of shares and derivatives) in the amount of 0.12 and 0.22 depending on their type.[117] In 2013, the income tax for low-income persons and for start-up investors or tourism operators investing in the modernisation of their business was decreased, measures were introduced allowing for the lowering of CIT for companies operating in selected sectors and which are in a defined financial situation (e.g. arts, cinemas, modernisation of tourism, investments in machines and equipment) and the basic VAT rate was increased to 22%, while the tax for some products was decreased.[118]

Other key reforms introduced in Italy after 2012 included[119]:

- within the scope of the labour market: in order to encourage employment, for instance, establishment of the National Employment Agency managing the employment policy, strengthening of the public-private partnership, introduction of a division of powers between institutions at the state and local level concerning the labour market, consolidation of the unemployment benefits system in order to increase employment;
- introduction of regulations making the labour market more flexible, for example, in fixed-term employment contracts, employers had to justify a termination if it was made 3 years after the worker was hired, previously it was after 1 year. Liberalisation of regulations on the maximum number of people who can be employed on limited-time contracts in companies hiring a specified number of people; reduction of redundancy protection;
- actions were taken to increase competitiveness on the market of services provided by persons performing regulated professions (e.g. legal professions, pharmacists) involving the abolition of minimum rates, introducing more flex-

[117] "Tax Reforms in EU Member States 2013." *European Economy* 5/2013, p. 33.

[118] "Tax Reforms in EU Member States 2014." *European Economy* 6/2014, p. 35.

[119] "Italy. Structural Reforms: Impact on Growth and Employment." OECD. February 2015, pp. 8—10. See http://www.oecd.org/italy/structural-reforms-in-italy-impact-on-growth-and-employment.pdf; "Market Reforms at Work: in Italy, Spain, Portugal and Greece," *European Economy* 5/2014, pp. 22—26.

ible regulations on teaching candidates for these professions, on establishing businesses, and on the advertising of services;
- introduction of reforms of the particular markets and sectors of the economy improving their effectiveness by strengthening anti-trust agency competencies, creation of a new institution responsible for regulating the transportation infrastructure, introduction of regulations permitting non-discriminatory access to the telecommunications infrastructure by all operators, continued liberalisation of the natural gas supply market, reduced limitations on access to selected types of services, reduced restrictions on retail (e.g. shop opening hours, the minimum distances between shops) deregulation of the retail fuel sales market;
- introduction of reforms of the company bankruptcy procedure law;
- introduction of administrative reforms (e.g. to accelerate payment of dues owed to companies by administrative institutions to improve their fluidity) and of the justice system to decrease their operating costs and improve their efficiency, shorten the length of court proceedings (reorganisation of judicial areas to reduce workload and accelerate proceedings, reform of the mediation procedure).

The reforms were thought to increase economic growth by 3.4% after 5 years and 6.3% after 10 years. They were also supposed to help reduce public debt in relation to the GDP.[120]

1.5 Conclusions

The presented data and indicators prove that the crisis had a significant impact on economies and societies. The effects were most pronounced in Greece and Spain, slightly less in Italy. This becomes apparent when considering isolated information on each of the particular states and when we compare them to other countries, not only those belonging to the EU. For example, a comparison of 42 states of the world against a synthetic indicator[121] shows us that in 2007—2012, these states showed the highest scale of economic change.[122]

[120] "Italy. Structural Reforms…," pp. 3—7.

[121] This indicator was created by compiling five different types of data: GDP per capita in USD at basic prices from 2005, the unemployment rate, capitalisation of listed companies expressed in US dollars at current prices, the value of exports of goods and services in US dollars at basic prices from 2005, and value of net foreign direct investment inflow expressed in USD at basic prices. M. Dzikowska, M. Gorynia, B. Jankowska: "Globalny kryzys gospodarczy — próba pomiaru efektów dla poszczególnych krajów." *Ekonomista* 2015, no. 6, pp. 744—748.

[122] Ibidem, pp. 752, 755.

The statistical data collected in this part of the work correlates with the results of this research.

The causes of the economic downturn in Greece, Spain, and Italy vary. The economic problems that occurred around these states, that is, the crisis in the USA, its transfer to Europe and the specifics of a state's functioning in a monetary union, were all conducive to the emergence and consolidation of a series of tensions, imbalances and irregularities within these states. The specifics of the Greek political system, for example, "democratic populism" and clientelism in the functioning of political parties and the political culture in the state[123] combined with unfavourable external circumstances, pushed Greece into a very difficult economic and political situation. This was made worse by the weakness of public administration, difficulties in controlling public expenditure and poor tax collection.[124] As a result, the public debt that had accumulated over the years had *de facto* led to Greece's bankruptcy, which the state had *de jure* been saved from announcing thanks to external assistance, and a reduction of part of its debt. As shown by the previously mentioned case of the IMF, the activity and influence of international organisations on the development of events in Greece was far from perfect. In turn, the main reason behind Spain's problems was excessive development of the construction and property sectors, severe imbalance and burst of the speculative bubble on these markets. This is directly evidenced by changes in the supply, demand, and prices in the construction and real-estate market, and indirectly by changes, for example, to the net credit demand in the private sector, private debt, domestic debt, and the current account balance over a period of several years before and after the crisis. In Italy, the crisis was markedly less severe, however, it revealed a series of weaknesses in the Italian economy.

The consequences of the crisis in all the three states were similar, although they all demonstrated various degrees of severity. All three states experienced recession, increased public and private debt, public finances sector deficit, government debt security yields, unemployment, decreased ratings, domestic income levels and a decline of wealth compared to other EU states. The actions taken (both individually by the state governments and those "imposed" by the EU and the IMF) to battle the crisis produced varying results. Despite three external assistance programmes, partial debt reduction and several years of reforms, Greece's situation is still very difficult. It was not until 2014 that Greece was able to achieve minimal economic growth, however, in 2015, it was in the red again; in 2014, the public finance sector deficit clearly fell, only to increase

[123] S. Vasilopoulou, D. Halikiopoulou, T. Exadaktylos: "Greece in Crisis: Austerity, Populism, and the Politics of Blame." *Journal of Common Market Studies* 2014, vol. 52, no. 2, pp. 389—391.

[124] K. Featherstone: "The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime." *Journal of Common Market Studies* 2011, vol. 49, no. 2, p. 195.

again significantly in 2015. The profitability of Greek debt securities decreased substantially and the country managed to return to the financial markets. Nevertheless, the situation deteriorated again in 2015 when the country noted an increase in borrowing costs. At the same time, the Greek public debt issue is rather "frozen" than solved, with unemployment at high, albeit stable, levels, while the reforms being implemented by Greece as a condition for receiving external assistance, are encountering very strong political resistance.

Spain utilised one external assistance programme, and of the 100 billion euro allocated, it used only 41.4 billion. To receive the loan Spain had to commit to a reform of the banking sector and, as it appears, this assistance was effective, that is, it helped rectify the banking sector in Spain. Apart from banking sector reforms, the Spanish government also undertook a series of reforms in other areas of the economy, the results of which are already visible. In 2014—2015, it was possible to achieve economic growth and a surplus in the current account balance. The public finance sector deficit fell and so did private debt. The profitability of long-term state debt securities is lower than a few years ago, while rating agencies have increased their credibility ratings for Spain. There is a certain improvement visible in Spain's economic competitiveness assessments, which may be attributed to the introduced reforms. At the same time, Spain is still subject to the excessive deficit procedure, while the unemployment rate is still at a very high rate of over 20%.

In Italy, the scale of the problems is much less pronounced than in Greece or even in Spain, and the country did not have to request any external assistance. The economic collapse in Italy was not as violent as in the other two states. Its unemployment rate is half of theirs, whereas in 2013, the EU Council stated that Italy is no longer in a state of excessive public sector deficit. On the other hand, Italy has struggled with economic recession for several years, its public debt increased to over 130% GDP and the competitiveness of its economy is rather low.

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