

南 華 大 學

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希臘主權債務危機及其影響

A study on the Greek Sovereign Debt Crisis and
its implications

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中文摘要

自金融危機襲擊希臘以來，因其國家財政困難，導致國內高失業問題嚴重。在危機的影響下，評級機構陸續下調希臘貸款的評級。在此之後，為保持希臘國家財政不致惡化，進而影響到歐元區其他國家之穩定，乃由國際貨幣基金、歐洲聯盟執委會、和歐洲中央銀行三個機構對希臘進行紓困，以避免其破產。惟希臘危機仍產生負面影響，從罷工開始、高失業率下的抗議遊行，並影響到幾個歐盟國家，例如：意大利、西班牙和葡萄牙，更在經濟上影響到其他非歐洲國家，例如：美國、中國以及印尼。

希臘原本是一個小型經濟體，國內生產總值只有 3 兆 5 千億美元，世界排名為 27，為了成為歐元區的成員，儘管知道入歐盟有一些要求，像是債務要是 GDP 的 60%，因此讓希臘政府按過去的經濟實施水平上，符合進入歐元區要求。基本上，希臘當局意識到其自身經濟比起歐元區其他國家相對落後，最終導致希臘貸了很多款就只是為了能趕上歐元區的腳步。

Keywords : 希臘金融危機, 歐盟, Troika

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Abstract

Since the financial crisis hit Greece, almost all the countries which are in the European Union and Euro Zone participate to feel economic difficulties so that lead to high level of unemployment. Crisis also cause one by one rating agency lowered its rating Greek loans. Many ways conducted Greek in before you can maintain state finance to avoid bankruptcy among others by asking three institutions TROIKA (IMF, European Union, and Central Bank) to gave loans to Greece. Slowly Greek crisis has a negative impact, began from labor strikes, demonstration also high rates of unemployment, this crisis also attracted several other euro zone state like Italy, Spain, and Portugal. Not only have an impact on euro area this crisis can also affect on economies other countries such as American, China, and Indonesian. Just that not have an impact is directly, because they do not have a relationship economy (exports and imports) are directly with Greece except American. Greece is a country with small economic power with Gross Domestic Product only \$350 billion which is ranked 27 in the world map. Greek wishes to be one from members of Euro Zone although Greece know there are some criteria for members of the euro zone like requirements debt to GDP of 60%, so that make Greek government in the past impose economic level accordance with requirements proposed by Euro Zone area. Basically Greek government realized Greek economy very behind compared other Euro Zone countries, finally Greek doing a lot of loans order to be able to liken other Euro Zone state economy.

Key Words : Sovereign Debt on the Greek, European Union, Troika

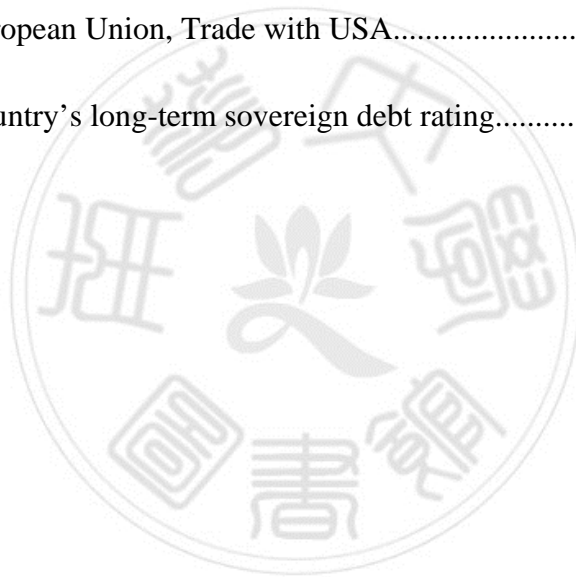
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ESM	European Stability Mechanism
EU	European Union
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
FYROM	Former Yugoslav Republic of Macedonia
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HF	Hedge Fund
IMF	International Monetary Fund
MBS	Motgage Backed Securities
MFA	Macro Financial Assistance
NATO	North Atlantic Treaty Organization
NBG	National Bank of Greece
OECD	Organization for Economic Cooperation and Development
PLL	Precautionary and Liquidity Line
ROA	Return On Asset
ROE	Return On Equity
S&P	Standard & Poor
SBA	Stand By Arrangement

SDB	Sovereign Debt Crisis
SEA	Single European Action
TEU	Twenty Foot Equivalent Unit
U.S.	United States
UK	United Kingdom
UNCLOS	United Nation Convention on the Law Of Sea
WTO	World Trade Organization



GLOSSARY AND ABBREVIATIONS

ASEAN	Association of South East Asia Nations
ASEM	Asia-Europe Meeting
BOP	Balance Of Payments
CAP	Community Acquired Pneumonia
CAR	Capital Adequacy Ratio
CDS	Credit Default Swaps
CEEC	committee for European Economic Cooperation
CEO	Chief Executive Officer
CPO	Crude Palm Oil
EC	European Community
ECB	European Central Bank
ECSC	European Coal and Steel Community
ECU	European Current Unit
EEC	European Economic Community
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilization Mechanism
EMU	Economic and Monetary Union

CHAPTER ONE

INTRODUCTION

1.1 Motivation and Purpose

My research is focus on what are things which can cause one of the Euro Zone country to bankrupt, which also affecting insolvency crisis to the other countries in the region. With use domino effect theory, the author will explain how the crisis has spread out rapidly in the European Union region. Since crisis hit the Greece, countries belonging to the Euro Zone and European Union (EU) began to experience economic difficulties as well as the rising of unemployment. The first analysis in this thesis focus on how the economic crisis could happen in a country that before a rich country with one in the levels of development and productivity based on two factors. Post-World War II, Greece saw the economic and social change so fast to the tourism sector and has contributed greatly to the economy. Greece has territorial disputes against Turkey in Aegean Sean and the division of Cyprus island. Their relationship improved after the earthquake hit Turkey in 1999, when Greece offer the help to the victims.¹ Greece is one of European Union member which originally used drachma as its currency. However, in January 2002 Greece change its currency into euro. Although the Greece understood that one of the important needto accepted as a member of the Euro Zone are not allowed in the budget deficit below 3%. When Greece decided to join the euro currency, Greece admitted that they have not reached the need requirements to entering the Euro Zone. Therefore Greek Government already try hard to cover up their country's economy weakness with borrow from developed countries.

¹ Greece profile, www.bbc.co.uk/news/world-europe-17372520, accessed on August 26th 2013

Based on the history, Greece is a country known as the Hellenic Republic with a capital named Athena.² Greece is also country that known as vacation spot that is quite interesting, there are many history from Greek ruins in around the region and the remains of ancient civilization, various churches and medieval buildings. as for some famous tourist places in Greek that is a santorini, a mykonos, a teather ancient delphi, a mount athos, a lindos, a parthenon temple, a myrthos beach, a meteora, a valley samaritans, and a mystras. Not only in tourism industry, Greek is also the world leader in the shipping sector. During that the time the Greek economy was also enough good, sustainable improvements accordance with the provisions of government fiscal policy tightening. However because of carelessness earlier Greek government, Greek is currently experiencing problems that dragged him into a difficult economic crisis.

Greece is a country with small economic power in southern Europe with gross domestic product only \$350 billion which was rank 27 in the world map. Greek total debt is \$406 billion equal to 115% of gross domestic bruto. When viewed by the level of strongest economy in Europe, first strongest economy held by the German state (USD 4 trillion), followed by the second, britain and French (USD 3 trillion), and the fourth is Italia (USD 2,5 trillion). when compared with German, the size of Greek economy only one tenth. Then for the combined GDP of all countries that use the euro was \$14 trillion, the average size of Greek economy only 2,5% from total GDP of the euro countries.³

Economy is one of the most important factors in the world, therefore if crisis hit the world economy the world will suffer. The economic crisis is a situation in which the economy of a country experiences a sudden downturn caused by the financial crisis. The financial crisis itself can caused by many things

² www.google.co.id/#bav=on.2,or.r-qf&fp=9186aa804a8a1fd4&q=yunani

³ Greek crisis and “century logic”, kompas, Monday, May 17th 2010

from the political impact or various aspects related to finance and economics.⁴ Economic crisis on the countries in the world including the European Union offer massive fiscal stimulus. Budget deficits in European countries had risen sharply since 2008 as well as the Greek budget deficit of gross domestic product such as rise of 3,7% from 2007, rise of 9,3% from 2009, and estimated 7,3% from 2010. Given the size of fiscal stimulus make debt European countries rose sharply.⁵

Debt crisis occurs when a country is unable to pay his debts, but the crisis does not occur quickly because a lot of warning sign. Country becomes a crisis when these state leaders not ignore the warning signs because of political issues. The first sign when the state no longer has the low interest from the borrower due to investors became concerned the state could not pay debts giving rise to a debt default. This case that occurs in Greece, Italian, and Spanish which leading to European debt crisis.⁶ Greek crisis began to be felt in Greek during the Greek fiscal condition started sticking in the fourth quarter of 2009, when the Greek government revised report estimates the country's fiscal deficit to Eurostat.⁷ On January 2010, the world was shocked by the crisis that hit Europe. Which is in the public debt to 16 member states of the European Union as big as 84% from Gross Domestic Product (GDP), it is somewhat distant from the public debt limit by stability and growth pact which is equal to 60% from GDP. This make some richer European Union countries like German will increase public debt as big as 78% from GDP. I will explain the slight details Greek government debt at the time, when viewed in 2009 government foreign loans as big as US\$64,93 billion when compared to 2008 loans this year can be said to be declining due in 2008 government foreign loans as big as US\$66,69 billio.⁸ This makes the region increasingly experiencing difficulties euro zone that's because their debt burden is

⁴ <http://krisisekonomiyunani.tumblr.com/post/14245412137/esai-krisis-ekonomi-yunani>, Dec 14th 2011, accessed on September 02nd 2013

⁵ Questioning the threat of a new crisis of Europe, Kompas, Monday, March 15th 2010

⁶ Useconomy.about.com/od/fiscalpolicy/a/Debt-Crisis.htm, accessed on December 10th 2013

⁷ Remain aware of the Greek crisis, Kompas, Monday, June 14th 2010

⁸ Tap Bond Market, Kompas, Tuesday, February 9th 2010

greater, while the lower tax payments because people depressed global financial crisis that hit Greece since the end of 2008.⁹ In regulations made by the European Union limit on the public debt amounted to 60%,¹⁰ it is causing many countries of the European Union violated the rules.¹¹

Based on analysis of the global economic crisis in Greece can lead to political instability in the country Greece. Greek crisis currently occurring due to negligence of the previous government's policy like welfare of people but did not use the right mindset, because Greek was one part the European Union and can perform low interest loans. In addition, many also advocated Greek investments to continue to borrow even if you need to borrow off balance sheet.¹² Greek government at the time was thought to not negate the tax, then give high salaries to civil servant can make the lives of all the people of Greece feel comfortable in his own country to the Greek seen a country with a fairly stable economy. Although the policy is carried out by way of debt, as for the majority of Greek debt held by foreign institutions especially foreign banks. Such as Greek debt in 2009 reached US\$48 billion but the Greek government claimed only US\$24 billion. As for the Greek budget deficit over the last 30 years at an average of about 6% / GDP, whereas the provisions of the EU maximum of 3%.¹³

European countries are also becoming neighbors with Greek fret saw economic development in the countries that are in debt convulsion. As seen in Greek financial engineering, debt piles reach €340 billion, equivalent to 150% of GDP of a country of 11,3 million people, in other words every soul there debts of €30.000 or equivalent to Rp 366 million.¹⁴

⁹ *ibid*

¹⁰ "The euro-zone debt crisis threatened in 2010", Kompas, Monday, January 04th 2010

¹¹ "confluent euro zone debt crisis", Kompas, Monday, January 04th 2010

¹² Greek debt crisis, bisniskeuangan.kompas.com/read/2010/05/31/02453033/krisis.utang.yunani, May 31st 2010, accessed on August 27th 2013

¹³ Greek crisis shook the global economy, irsyad-knight.blogspot.com/2012/03/krisis-yunani-guncang-ekonomi-global.html, March 02nd 2012, accessed on August 27th 2013

¹⁴ *ibid*

If it is associated with theories of international cases that occurred in the Greek state can be further analyzed using the domino theory. Using this theory we can better know how much further the impact of the crisis that occurred due, whether the Greek crisis is just bankrupt or is also taking part in the European Union region dragged bankruptcy even other countries in the world will come to feel that his name is also the economic crisis.

Author using theory of domino effect because the problems that hit Greece at this time can be influential to the others. Basically of domino theory could be describe like one game, to start playing we would arrange these dominoes into one row and if a first domino was dropped with very fast the next domino would fall join also.¹⁵

This theory explained that when there is small change in a region may occur causing similar changes in other areas. Greece, the crisis that hit the country's economy is very worrying European Union region and even other countries in the world. Because Greece is one of the eurozone members that use the euro currency, then lies adjacent to the Greek other countries outside the euro zone but still joined in one area, namely the European Union. But why other countries are affected by the economic crisis in Greece because European Union as the region has a very important role to other countries in the world like for example the European Union has a very high export in the United States that the Greek crisis is also affected the role of the American economy itself. One of the obstacles that occur in the United States due to the collapse of the Greek crisis and weak stock prices of export goods the European Union.

Based on the background as described above in this paper, the authors formulate some things that will be the subject of this paper, namely :

1. What caused the Greek sovereign debt crisis ?

¹⁵ Winkler. M Allan, *THE COLD WAR*, (Oxford University Press Inc, 2011), p. 69

2. Where is the implication of the effect on the Greece sovereign debt crisis ?

1.2 Research Methodology

In analyzing the case under discussion the researchers used qualitative research. Qualitative research has a number of characteristics that distinguish it from other types of research. According to Bogdan and Biklen proposed five characteristics of qualitative research.¹⁶

1. Natural Background

By Lincoln and Guba, ontology naturally wants the facts as a whole that can not be understood if separated from its context. They say it is based on several assumptions :

a. Act of observation affect what is seen, so the relationship of research must take place on the piece in context for the purpose of understanding

b. Context is crucial in determining whether an invention has another meaning to the context, which means that the phenomenon should be examined in the overall effect of the field.

c. Partly contextual value structure is determinate of what is to be searched.

2. Humans as tools (instruments)

In qualitative research, the researcher himself or with the help of others is the main data collection tool. It was done because if a non-human use of tools and prepare it in advance as commonly used in classical studies, it is not possible to

¹⁶ Moleong.J.Lexy, *Qualitative Research Methodology*, (Bandung: PT Remaja Rosdakarya), 1989, P. 4.

make adjustments to the realities on the ground. So when researchers collect data in the field to participate in community activities.

3. Qualitative Methode

In qualitative research using qualitative methods because of several considerations, first this method is more convenient to deal with the dual reality, second this method present a direct relationship nature of the relationship between researcher and respondent, and third method is more sensitive and better able to adjust to a lot of sharpening effects together and the patterns encountered values.

4. Inductive data analysis

Qualitative research used inductive data analysis due, first more inductive process can find multiple realities as contained in the data, second inductive analysis can be made more explicit relationship researcher respondents, can be known, and akontabel, third such analysis more fully outline the background and can make decisions about whether or not to transfer to the other background, fourth more inductive analysis can find the sharpen effect with relationship, and fifth analysis can thus calculate the values explicitly as a part of the analytic structure.

During the completing this thesis, author obtain data relating to this discussion of mainly from books, journals, and internet.

1.1.1 Theoretical Framework

The world economy back pose denger and uncertainty this is caused by the economic crisis that hit Greece. One of the hazards caused by the Greek crisis are falling share prices hit global stock markets. Panic that occurs due to the Greek economic crisis due to the onset of the Greek debt crisis domino effect that could potentially spread to countries in the euro zone's weakest like Portugal, Ireland,

Spain, and Italy. Crisis also did not rule could spread to the entire economy of the European Union because of close links with banking, currency, trade and hit the world who has not fully recovered from the global crisis in 2008 ago.¹⁷

In analyzing the crisis that has engulfed the Greek, the author used the theory of domino effect. Previous authors will explain a little about the domino theory.

According to Eisenhower (1974) domino effect is a phenomenon of serial changes based on the principle of geopolitical and geostrategic. Therefore the object is the countries that are geographically contiguous or located in an area.¹⁸

Domino effect described a domino earliest pieces drop, it will override the nearest domino pieces, and this process will continue until the last domino pieces. This domino effect is a figurative term used to describe the economic crisis that has engulfed the European Union caused by a member of the European Union who are members of the euro zone is Greek. As Eisenhower said the effects of the Greek economic crisis is causing the countries that are geographically close to the Greek to feel the impact of the economic crisis, even some of the people from those countries also felt the difficulty of their jobs in the country.

Not only Greek who has substantial debt, Hungary is not a member of the euro zone had come to feel the same way, causing Moody's investor service lowered the rating of BAA 3 a bale or from investment grade to junk status. This make European stock markets weakened. When viewed in real Hungarian is not a member of the Euro Zone, only economically closely linked, directly, or indirectly.¹⁹ Then French, French is one of the eurozone also must lose AAA rating. Because the budget exceeded 3 percent of gross domestic product (GDP).

¹⁷ Global impact of European crisis, Kompas, Saturday, May 5th 2010

¹⁸ Domino Effect and Economic Crisis, <http://www.astrianariasiburian.blogspot.com.htm>, accessed on March 25th 2013

¹⁹ Worsening Euro Zone, Kompas, Saturday, November 26th 2011

Not only was the price of French banking stocks slid, like societe generale shares slumped 20 percent, BNP paribas down 12,5 percent, and credit agricole down over 16 percent.²⁰ Global financial markets, too affected by the Greek economic crisis, making the level of sales by investors has decreased at its worst.²¹

More frightening anymore Greek economic crisis could have an impact to countries outside Europe such as the U.S. and Asia. The united states is one superpower now also have to face the economic crisis in the country. The current condition of the United States belonging to the countries that have high debt such as Greece, italy and other countries.²² the effects of the Greek crisis on America is creating significant losses for investors in the United States not only that American citizens pension funds are mostly composed or foreign stocks declined sharply up to 15% or \$5000.²³ How the Greek crisis can not be bad for America, because majority of Greek debt incurred by three French banks, which three banks share the risk to American financial institutions to sell insurance so the banks are now also threatened loss of tens of American dollars. American companies are also worried about the decline in the level of export to Europe, when European citizens reduce spending the economic recovery now underway could slow halt.²⁴

Not just America, asia is also impacted by the Greek economic crisis. It is seen in the decline in Asian stock markets, for the Japanese Nikkei 225 stock average dropped 416,92 points or 4.0% to 10.278.77. South Korean kospic stock

²⁰ France hit turn, Kompas, Thursday, August 11th 2011

²¹ ibid

²² Government wary of hot money due to the United States debt crisis, nasional.kontan.co.id/news/pemerintah-waspadai-hot-money-akibat-krisis-utang-amerika-serikat, accessed on August 26th 2013

²³ The impact of the Greek crisis on the United States economy, www.youtube.com/watch?v=almTC_Z0F04, accessed on August 26th 2013

²⁴ Greek debt crisis impact on the economy of the United States (VOA report of June 20th 2011), www.youtube.com/watch?v=TRMbWBAQOx4, accessed on August 27th 2013

fell 50.05 points or 2,97% to 1,6344.66. Investors dumped shares across the board trade after trade asia dow jones industrial fall 1000 points.²⁵

Greek debt to reduce the deficit, the Greek government held a policy of austerity, namely in the form of reducing the budget deficit from 12,7% in 2009 to 8,7% in 2010. So it can save the state budget reached 6,5 billion USD.²⁶ Despite the austerity package does not have the full support of the people of Greece, this package would be made if not Greece will go bankrupt. The IMF also urged Europe to find the best solution to their banking union, besides zone countries as it faces high borrowing costs should implement fiscal adjustment plans.²⁷

1.1.2 Data Collection

The successful completion of analysis that I researched, the support material can be from a wide range of supporting media such as books, newspapers, journals, and internet.

1.2 Literature Review

Since this thesis focused on the Greek sovereign debt crisis, author mostly will talk about Greece sovereign debt crisis. In this thesis the author intends to explain caused occur debt crisis in Greece, the effect from debt crisis in Greece, and the role of some institution (EU, IMF, ECB) in Greece. The thesis conducted a literature review from wide resources like newspaper, book, and journal, to understand about caused debt crisis, effect from debt crisis, and role of some institution to help Greece exit from crisis.

²⁵ Greek debt drag Asian markets fall, pasarmodal.inilah.com/read/detail/517371/utang-yunani-seret-bursa-asia-rontok#.UhwvXtLOEy9, May 07th 2010, accessed on August 27th 2013

²⁶ Greek government obstinacy in the face of economic crisis, www.indonesianvoices.com, accessed on August 26th 2013

²⁷ Recommendations forex trading the European session, the U.S., fxcl.web.id/search/kebijakan-uni-eropa-menghadapi-krisis-global/, accessed on August 26th 2013

To understand about debt crisis, by Rong Qian, Carmen M. Reinhart, and Kenneth Rogoff (from Journal with title NBER Macroeconomics Annual) crisis divided into three type (1) external debt crisis, (2) inflation crises, and (3) banking crises. Based on opinion from three people in above, legal jurisdiction about debt contract which enforced said debt crisis can occur based on two type are internal and external so country can remember how debt get occur. Then about inflation crises can occur which annual inflation more than 20% and the last banking crises can occur based two types activity : (1) bank which move leads to closing, incorporation, and takeover by public sector from one or more financial institution. And (2) if there are no runs, closing, incorporation, takeover, or large scale government assistance of an important financial institution that marks the start of a string of similar outcomes for other financial institutions.²⁸

For explain about caused from debt crisis in Greece author use two factors, internal and external. Internal factor author will invited reader to know about growth economic system in Greece like tax system in Greece, public debt, and other. For external factor author will explain the influence from crisis economic in other country to Greece economic. To know more about the effect of Greece sovereign debt crisis, author use domino effect theory. This theory help author to analyze how crisis give influence to many country. By Dwight D. Eisenhower (U.S. President), his opinion is the domino theory was a foreign policy theory. The domino effect suggest that some changes, small in itself, will cause a similar change nearby, which then will cause another similar change and so on in linear sequence by analogy to a falling row of dominoes standing on end.²⁹ This theory give easiness for author to explain how Greece sovereign debt crisis invited some country which stand same location with Greece can join into crisis. The real

²⁸Qian, Rong, Reinhart, Carmen M., and Rogoff, Kenneth, "On Graduation from Default, Inflation, and Banking Crises: Elusive or Illusion?", *NBER Macroeconomics Annual*, Vol. 25 No 1, 2010, p.1-36

²⁹www.martinfrost.ws/htmlfiles/april2009/domino-theory.html, accessed on January 6th 2014

Greece sovereign crisis doesn't give big effect for other country, but Greece sovereign debt crisis very dangerous for European Union. Domino effect theory start from Greece sovereign debt crisis have influence for European Union and European Union give influence to other country. Because European Union the second big country beside United States and have a lot of cooperation with some country or continent (Asia).

The last for explain how some institutions help Greece to out from crisis, author take some data from website and newspaper. Based short explanation, IMF will give some fund to help Greece, but Greece must follow some rules which implemented by IMF i.e. tightening belt.

In the end, the literature have function to connect topic which discussed by author with material as support material for completeness this thesis. Author compose the materials which obtained into every chapter which have characteristics of each and inter-related between the chapters.

1.3 Research Framework

For the purposes of this thesis, I will explain based on the subject is divided into several chapters.

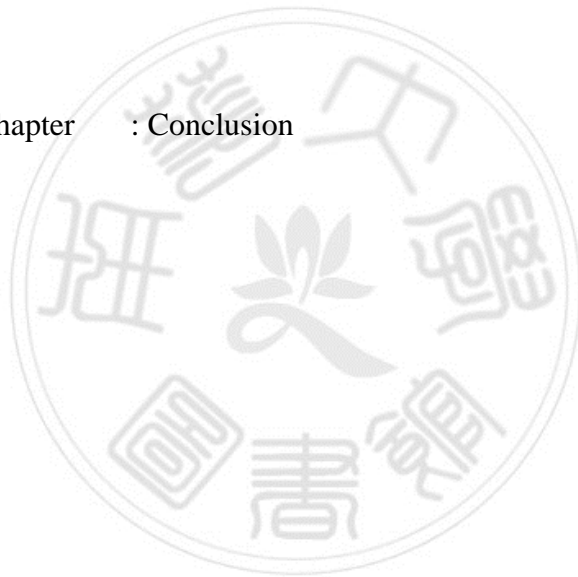
First Chapter : author will give understanding to the reader through the motivation and purpose, then explanation of the research methods which author use in this thesis, research framework and the source of the research that the author can to complete this thesis analyzes.

Second Chapter : an overview of the Greek economy after World War II and before the crisis, based on some of the tables which author put and the reader will more understand about development of Greek economy both the export and import Greek with some countries outside the European Union or how the Greek manufacturing production increased from year to year.

Third Chapter : in chapter third author will answer the question about what caused the Greek sovereign debt crisis, author will explain based on 2 factors are the internal and external.

Fourth Chapter : in chapter fourth, author explain a lot of response which occur because greece sovereign debt crisis, first effect from Greece sovereign debt crisis toward country in Euro Zone area, European Union and other country beside European Union, second the Troika role (EU, ECB, and IMF) for resolve Greece crisis problem and third the German role in respond Greece sovereign debt crisis.

Fifth Chapter : Conclusion



CHAPTER TWO

AN OVERVIEW ABOUT GREEK ECONOMY

With the various problems that occurred in Europe and the western world showed the downward trend in confidence. Various pressure also flows both in government and the business world. While many youth are unemployed.³⁰ Euro is power that has the greatest success in the history of political and economic integration, but it's been nearly 2 years of its existence in the rocking by surging debt member states, one of which is the Greek.³¹ Greek state by the research of archeologists has existed since 30.000 years BC should have a huge debt because it has been so long with stand weight of public spending. When seen in the last 10 years, the Greek debt continuous to rise to 144,9% of gross domestic product last year. But in the third quarter of this year had budget deficit of 10,6% of GDP and economic growth of minus 5,5%.³²

Before a crisis occurs, member countries of the European Union have dominated international trade Greece. The United State is Greece's largest trading partner, with 16% of exports and 11% of imports. other significant partners include the United Kingdom, Central and Eastern European countries, and the former Soviet Union. In the 1990s, the biggest trade increases occurred with South Korea, Bulgaria, Egypt, Japan, and China.

Greece's imports are machinery, transportation equipment, food, chemical products, and petroleum products. Greece's main exports are fruit, vegetables,

³⁰ "Krisis Eropa Bikin Bisnis Lesu", *Republika*, Thursday, November 3rd 2011

³¹ Krisis Eropa: Utang Yunani Gambaran Kemakmuran Semu eropa?, www.bisnis.com/krisis-eropa-utang-gambaran-kemakmuran-semu-eropa, accessed on Oktober 24th, 2013

³² *Ibid*

olive oil, textiles, steel aluminium, cement, and various manufactured items such as clothing, foodstuffs, refined petroleum and petroleum based products.³³

Table 1. Trade (expressed in billion of US\$) : Greece

Years	Exports	Imports
1975	2.294	5.357
1980	5.153	10.548
1985	4.539	10.134
1990	8.105	19.777
1995	10.961	25.944
1998	N/A	N/A

Source : International Monetary Fund, International Financial Statistic Yearbook 1999.

Greece's balance of trade has traditionally been negative (see chart). In 1991-1993 exports of goods fell short of imports by more than US\$ 13 billion. By 1998 that trade imbalance had grown to US\$ 15,3 billion on exports of US\$ 12,4 billion and imports of US\$ 27,7 billion. Greece's trade deficit has usually been covered by loans from the EU, remittance from Greek living abroad, tourism, and shipping.³⁴

The most significant developments occurred in Greece in 1980 ie rising of the country foreign debt, which is experienced an increase of \$5,1 billion in 1997 (13% of GDP) to \$20,6 billion (40% of GDP). In the payment system should be

³³ Greece International Trade, Information about International Trade, <http://www.nationsencyclopedia.com/.../Greece-International-Trade>, accessed on March 20th, 2013

³⁴ibid

done, overseas give a percentage more than three times the fold. While for OECD, in 1980 has entered the decade of disinflation with the average inflation of consumer prices in Greece increased 12,3% in 1970 menjadi 19,6% in 1980. In 1980, Greece experienced a significant increase in the share of public sectors which is accompanied by high budget deficits and the rapid buildup of public debt.³⁵ Regarding the economic performance in Greece, in 1980 looks increasingly worse than the 1970 when viewed based an average rate of GDP growth declined from 54% become 15% and an average of inflation increased 19,5% from 12,3% based on results of this study could be said worsen the current account deficit. As for the most severe damage is experienced Greece for this year is in the externally position of Greece.³⁶

Traditionally, the Greek economy is based on agriculture. The sector represents 3% of the GDP and employs around 12% of the active population. The main crops are tobacco (largest European producer) and cotton (fifth largest exporter in the world). Greece also has a significant ovine livestock. A large fishing industry is found in coastal regions and the merchant navy represent 10% of the GDP. Thanks to the economic diversification led by the country, industry has replaced agriculture as a second source of income, behind services, and accounts for around 20% of GDP. The main sectors are : electronic goods, transport materials, clothing and construction. More especially, Greece is the largest European ship owner.³⁷ Growth in the tertiary sector is booming. It accounts for nearly three for thus of the GDP, tourism provide a vital sources of income and alone contributes 11% of the GDP, and Marine Fishing represents 10% of the GDP.

³⁵ Alogoskoufis George, Papademos Lucas, and Portes Richard, *External constraints on macroeconomic policy: the European experience* Melbourne: Cambridge University Press, 1991. p.265-267

³⁶ Ibid.p. 267

³⁷ International Trade In Greece:Resources for your Trade in Greece, <http://www.globaltrade.net/m/c/Greece.html>-United States, accessed on March 20th, 2013

Greek have a long and succesful history as a country with a strong merchant navy, he also has the largest merchant fleet community. Movement towards a common market and freedom of movement will affect the delivery of Greek.³⁸ Beside that, Greek is also one of the countries with GDP reaching \$343 billion and it reflects the country is the biggest economic power to 27 compared with other European Countries. In 2005 and 2011 Greek also had the highest percentage increase in industrial production which reached 6%, while for the production of Greek marble to rank 3 after Italy and Spain. About investment, Greek including state in pretty good shape cooperation. In 1997 and 2009 Greek became the fourth rank, it can be seen from the foreign direct investment of 12,11% given makedonia for the Greek Republic.

2.1 Greek Economics in twentieth century

Review a little about the development of greek economy before the 21st century, author will review a little about the greek. In the 7th century greek was significantly changed by the time many experiments appeared and this is the greek revival.while about economic a time when trade began to be improved and also the as a initial diversification and specialization in economic activity.³⁹

In the early 1970s Greek trading position ranks first in the world fleets, as for the merchant fleet owned by Greeks based on commercial and maritime networks which were consolidated in the area Mediterranean and Northern Europe. International fleet that is used Greek at the time that is “bum” this fleet was recorded as the largest cross trading, cheap cargo, and can meet the demand for transportation within an increasingly international economic integration.⁴⁰ Greek in the 20th century is weak due to bankruptcy due to Greek-Turkish war in

³⁸ Jacquemin Alexis and Wright David, Shaping factors, shaping actors, The European challenges post, 1992, page 266-287

³⁹ Gotshalk Richard, *The Beginning Of Philosophy In Greece*. New York : Uniersity Press of America, 2000.p. 95

⁴⁰ www.greece.org/poseidon/work/modern-times/business.html, accessed on October 26th, 2013

1897.⁴¹ Until the 1950s, agriculture becomes one of supporting greek economy. Could be said throughout first half of the 20th century, greek attracted most of its revenue from exports of agricultural products.⁴²

2.1.1. The Post-Civil War Period (1950-1966)

Early 1950 was a very bad period for the growth of the Greek economy, core problems in this period namely inflation. Inflation occurs because slow growth of productivity in the U.S. economy, especially in the service sector. Services sector experienced the largest price increase due to the elimination of price controls after world war II.⁴³ From 1951-1960, Greece's economy relies to help of the united states and almost 12% from population in these country has been migrate to Australia, Canada, and Germany.⁴⁴

Reconstruction that occurred in Greece after the war began in 1950. One year after the civil war ended in that country. During the period of 1950-1966, Greek made progress for achieve democracy and stability in politics. If it is seen ten of years back, Greek life enough chaotic and rough so make the country considerable losses both in the form human or material. Talk regarding of financial, monetary, and credit that occurred during system reformation in Greece, Wholly developing due to that country natural resources. Besides that for achieve a balance within balance of payments, enacted tightening within fiscal a policy by decreasing level of public investment. In 1950, enforced of taxes to balance the budget, creating savings by the governments, as well as encouraging investment and private savings. As for some reforms carried out in this year include increase the rating and gathering of taxes, improve the progressiveness of the tax system, and the provide tax incentives for the investment and private savings. Basically enforced of taxes for encourage investment, but ever since middle the 1950s

⁴¹www.greeka.com/greece-twentieth-century.htm, accessed on October 24th, 2013

⁴²www.countriesquest.com/europe/greece/economy.htm, accessed on October 23rd, 2013

⁴³Elcoushistory.tripod.com/economics1950.html, accessed on April 29th, 2013

⁴⁴www.ahistoryofgreece.com/post-war.htm, accessed on October 13th, 2013

values the simplified of income tax as well for a circles on low incomes were also reduced tax imposed. As well taxes waived to them who did also private lending or shares to be issued solely for the purpose of development.⁴⁵

Could be said after World War II industrial sector is one of fastest sector in the development of Greek economic, with an overall average of 8,2% for the year 1950-1975. Talk regarding which are more condusive the economic sector in 1951 namely agriculture which results in more active level of productivity (48,15%) compared to the industrial sector (19,37%).⁴⁶ For the agriculture sector itself was how to increase productivity through changes in the pattern agriculture of production with an emphasis on increasing the farm and reduce the productivity of cereals in agriculture sector. As for the basic policy of Government within this sector was to covers the provision medium and long term loans. Decline in ineterest rates, the establishment of agricultural product processing industry, promotion of sales agricultural products to Greek and international market research departement for the study from for foreign markets. Development of infrastructure for modern and efficient organization is based on two basic policy of direction. of markets.establishment of commercial cooperatives as interference insecurig a certain price level for producers. Whereas for construction of industry sector is based on two basic policy of direction. First, establishment of some basic industries through exploitation of natural resources. Second, application of incentive policies for encourage investment in productive industry by private sector.⁴⁷ As for the some aspects which done after World War II based on economic sector and social advancement, Greek spelled out failed in removing of illiteracy. When compared to Norway, Czechoslovakia, U.S., Japan, and

⁴⁵ Jouganatos A. George, *The Development of The Greek Economy, 1950-1951: Greenwood Press.* London : British Library Cataloguing, 1992. p. 11-17

⁴⁶ Leandros p. Nikos, *The economic development of the greek printing and publishing industry with special, reference to the impact of the new technologies on capital and labour relations, British Thesis Service Part 1, University of Salvord.* United Kingdom : The British Library, 1988. p. 30

⁴⁷Ibid.p. 20

Argentina the high level of illiteracy still dominated by Greek (as can be seen from table 2).⁴⁸

Talk about Greek trade in this period (1950-1966), exports of goods and services increased at an average annual rate of 11,3% and at a 7,3% rate during 1960-1964, a little lower than the projected target of 7,8%. The annual average increase of exports of goods only was 7,6% during 1960-1964, lower than the plan's targeted rate of 8,1%. Imports of goods and services increased at an average annual rate of 7,3% and at 3% rate during 1960-1964. This latter rate was well below the plan's target of 8,3%.⁴⁹ In the field of international trade Greece is a country with relatively open economy and also has a very high value of imports.

2.1.2. The Junta Period (1967-1974)

After world war II, Greece is a major battleground between forces stalin, greek and orthodox tradition. For stalin Greece a main prize because a strategic area and also has a lot of natural resources. At the time within the Greek of political assume that king has full power as army and make him feel that as a forcers the strength was in his hand.⁵⁰ In 1967, event of a political crisis in Greece between king constraintine II and prime minister george papendrou.⁵¹ This two leaders hold a Greek junta which is known as regime the colonels so that makes seven years in a dictatorship. Coup carried out with the arrest of politicians, rival, and ordinary citizens who were suspected of sympathizing with leftist.⁵² Impact from a coup in 1967 that is Greek economy to be trip more slowly especially within field of investment. As investors worried about the future policies and

⁴⁸ Ibid.p.31

⁴⁹ Ibid P.44, accessed on October 08th, 2013

⁵⁰ Thattimehascome.blogspot.tw/2011/05/greek-military-junta-of-1967-1974.html, accessed on October 14th, 2013

⁵¹ Ibid.p. 56

⁵² Greece.greekreporter.com/2013/04/20/for-some-greeces-junta-lives-on, accessed on October 14th, 2013

actions of junta.⁵³ in 1968, there are some steps taken to simplify and consolidate the credit policy as well to stimulate the economy. First, in an effort to use the interest rate as an effective policy instrument, there was a reduction in the number of types of interest charged. Second, there was the removal of certain qualitative credit controls. Third, the ceilings on the allocation of credit to trade were raised. Fourth, regulations on the allocation of credit to housing construction and tourist facilities were either lifted or relaxed. Finally, there was the removal of several species policies of bank credit concerning more than twenty categories of borrowers.⁵⁴

2.1.3. The Karamanlis Period (1975-1981)

Konstantinos Karamanlis was invited back by president Gizkis from his exile in France and form a civil government for national salvation. As for the main purpose from president Gizkis is to return the military to barracks, to restore democracy, and to defuse the crisis which associated with Turkey due to problems of cyprus. In 1980 karamanlis was elected president with position as prime minister.⁵⁵

Karamanlis leader during the period known by the name constantine karamanlis, who has been active in the world of Greek politics for 48 years. With an assortment of effort Karamanlis succeeded in making Greece as one of members the European Union.⁵⁶ After having an assortment of political issues, july 24th, 1974 karamanlis was appointed as the prime minister. Since then she canceled the workings of the military government, and rebuilding civil liberties and lead the restoration of democracy.⁵⁷ Not only it growth of the Greek economy was back clear, because each government which is followed by junta will not able

⁵³ Ibid.p. 61

⁵⁴ Ibid.p. 62

⁵⁵ Bell Imogen, *Central and South Eastern Europe 2004*(London and New York: Europe Publications, 2003), p. 278

⁵⁶ www.yourdictionary.com/constantine-karamanlis, accessed on October 15th, 2013

⁵⁷ www.ahistoryofgreece.com/biography/karamanlis.htm, accessed on October 15th, 2013

to restore economic growth that has been destroyed. In 1981, Greece returned became a member of Economic Community (EC) after long time was interrupted by the dictatorship. Since it Greeks started to gradually the adjustment of law and removal of protectionist policies, so that causing the onset of liberalization for labour, movement of capital, and trade.⁵⁸ Karamanlis believe that fate of Greece is not comparable with the western and Karamanlis hoped Greece must become part of the European. Karamanlis more interested to approached into Europe than membership in North Atlantic Treaty Organization (NATO).⁵⁹

Talk about economic, in this period Greece economic still under consideration because previous had experienced a stagflation. For 1974 to early 1975, reduction in credit conditions in order to improve economy growth through investment and make the highest limit on banking credit expansion uplifted including the allocated credit for mortgage lending. In 1975, drachma was no longer has a relationship with dollar but rather have a connection with the average height of a major foreign currencies. This measures was taken in particular to improve the balance of payment position. From mid 1975 until mid 1977, credit policy very strict for dampen the inflationary pressure. Reserve ratio on demand, savings and time deposits increased including the discount rate but interest rates on deposits is reduced. Not only it other restriction also carried out on an increasing number of commercial banks with way must invest in government securities. Total all the action which limited only 48% in deposits provided to financing expansion commercial bank credit.⁶⁰

In 1978, a number of tax imposed to reduce the public debt and luxury goods, this is done to reduce the tax fraud. From late 1977 to early 1978 loan rates was reduced. End of 1978 interest rates on deposits improved to be able to create at low levels. While also imposed freezing system for a temporary price, while

⁵⁸ www.photius.com/countries/greece/economy/greece_economy_economic_policy_afte~172.html, Greece economic policy after 1974, accessed on October 15th, 2013

⁵⁹ www.gogreece.com/learn/history/Rise_Karamanlis.htm, accessed on October 15th, 2013

⁶⁰ Jougantos. A George, Op.Cit., 101-102

price which referred is costs for professional and craftsmen, cut public investment including investment projects for utility, then enforce energy savings. Slow down items public spending and reduce the agricultural subsidies. Basically growth of Greek economy will increase as long as manufacturing level should more high from GDP and growth of output manufacturing depends on growth of Greek exports.⁶¹

Talk about capital investment for every year should increased with average of 10% so that growth of GDP achieve 6%. Main focus from this investment focused on manufacturing field. For economic target in dedicated within two different scenarios (1) if the growth rate of 5% for average increase within field of consumption, gross fixed investment, and gross expenditure each will be 5,2%, 5,4%, and 5,4%. While for agricultural sector, industry, and service each will be 4%, 5,4%, and 5,1%. (2) if the growth rate of 6% for average increase within field of consumption, gross fixed investment, and gross expenditure every year each will increase 5,3%, 9,3%, and 6,3%. While for agricultural sector, industry, and service each will be 3,5%-4,5%, 7%-7,4%, 5,7%-5,8%.⁶²

2.1.4. The Pasok Period (1982-1988)

Panhellenic Socialist movement (PASOK) was established in 1974 as Marxist party. PASOK and new democracies was one famous part in greece. These movement of illustrates that their group was formed from the collapse of a military dictatorship that occurs because of a power struggle in 1967. PASOK was established by a son from Papandreou (andreas) who once served as a minister in pre coup of his father reign. For the first year PASOK known adhereas to radical, class based, and socialist policies. Strongly opposed to restoration of the monarchy and strict controls which often held by the United States military

⁶¹ Jouganatos. A George, Op.Cit., 103

⁶² Jouganatos. A George, Op.Cit., 108

operation in Greece.⁶³ Because the fundamental purpose was formed this party is withdrawal of NATO, drive out the United States military bases, and refused the European Commission.⁶⁴ PASOK stated that a national independence, sovereignty, and social liberation it was need each other, even national independence for the Greek state in which every decision make be taken by people themselves without existence dependence from foreign nor the influence from investment.⁶⁵ In 1981, socialist party (PASOK) increase the strength with many discussion. PASOK master the political stage in Greece during the 80s and 90s.⁶⁶

PASOK is largest party for the first time after the post war cause an error in the endemic economic crisis in Greece and characteristic of community who are very dependence in the development process. Because it was PASOK consider the system productive be modernization by means though a significant expansion based on the economic role of state in development processes with the aim to transform Greece from an economic system whose dependence based on half a skilled labour to industrial economy an independent based on skilled labour.⁶⁷

Talk about economic strategy in this period, PASOK take the various steps be carefully and responsibly during an emphasis on the structural interventions in order to create an reformation with the ultimate goal of socialism. As for one of the steps are taken that is by expand the scope of economic policy.⁶⁸

In 1982, economic growth of slightly better and inflation strength increased, PASOK also use restrictive policies in order to combat inflation and will have no effect if balance of payments run into decline for a time. tightening

⁶³ www.britannica.com/EBchecked/topic/441273/panhellenic-socialist-movement-PASOK, accessed on October 15th, 2013

⁶⁴ Heaney Dominic, *Central and South Eastern Europe 2008* (London and New York: Routledge 2007),p. 272

⁶⁵ Tsakalotos Euclid, *Alternative Economic Strategies* (Canterbury: University of Kent, 1991), p. 125

⁶⁶ Eprint.Ise.ac.uk/33826/1/GreeSE_No45.pdf, accessed on October 16th, 2013

⁶⁷ www.inclusivedemocracy.org/fotopoulus/english/brvarious/restruct_ira_92_PRINTABLE.htm

⁶⁸ *Ibid*,p. 129

monetary policies and credit which done including with way limit growth of credit expansion well in private and public sector. But for financing within small and medium industry sector, agriculture must improved. Institutional changes in the monetary system occurred due to (1) in order to be able toward effectively implementation within monetary and credit policies, then total control for Greek banks policies. (2) limiting government loans. (3) make rules for allocation of credit and then give punishment to commercial banks if exceeds the credit target. In 1983, main attention focused on high level of inflation in Greece compared with European Economic Community (EEC) thus causing Greek products and service become less competitive.⁶⁹

June 1985, when PASOK was re-elected. PASOK issued a several programs in October 1985, this program was made to improve imbalance of internal and external Greek economic. As for the some step that are executed in this program is (1) improve the competitiveness of Greek products and service with devaluation of 15% from drachma. (2) for deposit in various imported goods enacted interest free. (3) a strict monetary policies for reduce the growth of domestic credit expansion. In 1986, apply the another way for credit limit. (1) commercial banks were allowed to invest their unused funds designated for financing productive investment in treasury bills, (2) housing loan interest rates were increased, and (3) the Bank of Greece increased its discount rate.⁷⁰ Fiscal policy is a reformation which be made for tax to be able to reduce government deficit. (1) besides an additional charge a fee for special tax, also enhanced for corporate tax and property, (2) reduction for personal income tax by improving tax deduction, credit, and tax exemptions for the elderly, (3) tax embezzlement is against the law as defined by legislation 1591/1986 and (4) emergence of new reformation within the law 1642/1986 will apply the value added tax system starting from February 1987. In 1988, austerity measures continue to be

⁶⁹ Jouganatos. A George, Op.Cit., 133-137

⁷⁰ Jouganatos. A George, Op.Cit., 139-140

implemented tight fiscal policy began to subside. Incomes policy was relaxed. Wage indexation has not mandatory paid up to private sector. In 1988, inflation rate was also compensates workers for lose purchasing power, but interest rates remain high, credit system expanded especially for trade, construction, and tourism.⁷¹

2.1.5. The Post-Pasok Period (1989-1991)

After 11 years PASOK was mastered political parties, political influence and popularity back to decreased. Due to worsening of Greek economy, political scandal, fraud, and internal strife that occurred in the party. Some leader and members of PASOK was very disappointed with the decision which taken by PASOK thus causing Socialist Party of rupture, due to political instability during the reign of Zolotas cause economic policy become ineffective to be run. Economic policy at the time of Mitsotakis and Zolotas ended with civil unrest and criticism of parliament, so that causing political uncertainty and instability that hamper economic progress Greek.⁷²

In 1989, fiscal policies tends to be decreased compared in 1986-1987, besides that monetary policies can be said expansionary than the previous 2 years. For 1989 credit expansion was 27%, whereas in 1988 and 1987 ranges 20,3% and 16,3%. End of 1989, Greek banks tighten credit by requiring every bank to put more reserve within accounts without interest, as for the other developments within financial system namely creates an open market for treasury bills and strengthen of the relationship between banks and Greek bank.⁷³

⁷¹ Jouganatos. A George, Op.Cit., 141-142

⁷² Ibid,p. 168

⁷³ Ibid,p. 179

2.2 Greek Economics growth before the crisis

In 1990, the growth of the Greek economy are at the lowest average in OECD, even to the standard of living is still seen very much, all the activity is hampered due to rampant inflation. The largest government deficits in the OECD area and are also serious structural problems in various sectors of the economy.⁷⁴ Further decline in 2001 nominal interest rates first entry into the euro zone area the in amplification by the financial markets. Then there is also the investment boom that led to a large increase in productivity.⁷⁵

In 2000, mixture between fiscal and monetary policy achieve significant success to stabilize an economy. At the time economy grow with an average of 2,8% per year (1994-1999) and GDP reached 4,1% in 2000. Whereas, when viewed based annual rate of 10,9% in 1994 and 2,6% in 1999. Based on the reference from the European Unions 12 month, if you attention from April 1999 to March 2000 rate of Greek inflation reaches 20%. Still in 2000 during the first 3 month short term interest rates be in a position an average of 540 points, the equivalent with euro zone rate, it is because government using the monetary policy tight to be able to keep the inflation. With that average the Greek have the opportunity to join become a member EMU in Januari 1st, 2001. As for relaxation of Greek that is done by proceeding strong economic performance in 2001, for this year GDP increases by 4,1% compared to 2004. While in 2002 GDP increases by 4,0% (US\$ 134,075m) with this market exchange rates per capita in these year that is equal to \$12.650. In 2002, Greece GDP per capita of 69% of the average EU even though was significantly growth of Greek economy on average by 2,1% at this year. However inflation that occurred is higher than European Central Bank (ECB) target level at 2,0%. As for Greek inflation at this year to 3,6% is spelled

⁷⁴ ibid

⁷⁵ ibid

out increased in comparison 2001, which is only 3,4%, rise in inflation in this year due to increased in the oil prices year round 2002.⁷⁶

About the investment that occurred in Greece can be said to be minimal compared to other European countries, a lot of companies are deterred from investment because of the potential problems associated with the operation of this country. Such as corruption that occurred among public officials, then a legal challenge from rival law or local interest groups, and also small scale bomb attacks on offices of foreign companies and allegedly related to left wing terrorist group. If not these problems many companies can operate successfully in Greece with total foreign investment around US\$6.500m.⁷⁷ While about foreign trade, has traditionally Greece including the one of EU state which have large enough trade deficit, because net imports of goods, energy products, especially petroleum, vehicles and manufactured goods. In 2005 Greece recorded a current account deficit of US\$14.600m. According to official statistics imports of goods valued at \$47.400 with the market exchange rate and also import substantial like the following sectors machine and vehicle (25% from total imports), chemical (16%) and petroleum, gas and other energy products (12%). Merchandise exports were valued at \$15.700m.⁷⁸

In 2002, seen in the first half Greece weakened export markets and offset by investment in domestic demand led. In the second half, real output growth is expected to slow to 3,5% and it still looks very far above the average size of the euro. In this year, only the unemployment rate dropped to 10%.⁷⁹ But in 2003 and 2004 went so far as Greek GDP above 4%, not only beat the European Union but also beat the average OECD.⁸⁰

⁷⁶ Bell Imogen, Op.Cit., 283

⁷⁷ Ibid, p. 285

⁷⁸ Heaney, Op.Cit., 277-278

⁷⁹ www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-greece-2005_eco_surveys-grc-2005-en, September 2005, accessed on April 24th, 2013

⁸⁰ Ibid

In 1981 Greeks joined the European Union, it is not enough to make Greek satisfied. In January, 2002 the Greek exchange currency into euro country. Although Greek government was willing to lie for membership⁸¹ and in 1974, the Greek government entered a new phase from military junta to socialist. The new government then takes a lot of debt to finance subsidies, civil servants and others, and eventually the debt keeps piling up in 1993.⁸²

As for being one of the hot issues that plagued the EU rule that the Greek crisis. Potential Greek bankruptcy began to imagine other countries, not only in Europe but also America and Asia.⁸³ Debt crisis of the Greek wrapped around hard today this country is like a severe punishment. The crisis in Greece get people started associating with sisipus story in Greek mythology. Sisipus like a king who is serving god by pushing the boulder up the mountain, so anything that is being felt by the Greeks as gasping breath because they have to bear the debt. As sisipus always just an inch before it lost the ability to reach the top of the rock so that every time i had pushed again from the bottom, Greeks have always failed to resolve the crisis over the last five years. Not as sisipus the gods punished for exercising power cruelly and full of intrigue, the Greek financial crisis due to financial management problems.⁸⁴

Author will explain briefly the chronology of Greek economy, start from :

- January 2002 Greek replacing Drachma currency with Euro currency
- November 15th 2004 Greek government acknowledge that supposed Greek can not join with Euro Zone due to Greek deficit was under 3% since 1999

- October 4th 2009 PASOK won the election and causing George Papandreou served as prime minister, at this point economy is 0,3% and national debt burden rebound untill €262 billion
- December 8th 2009 Greek credit rating trimmed by rating agency fitch due debt burden ballooned from A to BBB
- March 3rd 2010 Greek began struggle muffle shocks in financial market with commitment will erode deficit and pay off debt
- April 23rd 2010 Papandreou turned away to European Union and Internasional Monetary Fund (IMF) to get fresh funds amounting to €45 billion
- May 2nd 2010 Greek Debt Crisis
- May 4th-5th 2010 demonstration for 48 hour fulfill Greek streets
- May 10th 2010 European create policies with build a safety net worth of €1 trillion in before you can strengthen financial system of the Euro area and prevent contagion crisis from Greek
- May 18th 2010 Greek receive €14,5 billion from European Union to repay the debt
- September 29th 2010 emergence of resistance populace against the government programs
- April 17th 2011 Greek bond flower soare
- June 15th 2011 acts of violance return occured when Papandreou's campaign for new cuts €28 billion during the 4 year

- June 19th 2011 Greek need new bailout 110 billion to be able avoid occurrence of default
- June 21st 2011 IMF invite European leaders to jointly address Greek debt debacle
- June 22nd 2011 George Papandreou lucky to still get confidence in parliament
- June 29th 2011 Parliament approve government decision to cut new tax and budget worth €28 billion
- July 22nd 2011 European Union agreed bailout of amounting €109 billion
- September 11th 2011 Greek announcing new tax as a requirement for getting next new tax
- October 13th 2011 Slovakia last country to approve existence plan European Financial Stability Facility (EFSF) valued at €44 billion
- October 27th 2011 European governments approve to cut value of Greek debt and increase the capacity of bailout fund be €1 trillion
- October 31st 2011 attitude of George Papandreou refused trimming reape referendum so that his fate as prime minister threatened
- November 23rd 2011 prime minister canceled plans to hold referendum
- November 6th 2011 George Papandreou resigned from premiership

- November 11th 2011 Lucas Papademos took leadership as messengers from socialist parties
- January-February 2012 occurrence of negotiations between the creditors which led by Josef Ackermann, CEO of Deutsche Bank, and Greek government lasted.⁸⁵

2.2.1 Development Bank in Greece

For this paragraph, author will be invites readers to look how the development of Greek banks on the time crisis has not affecting this country. In 1946, Greek banks joined into a government committee of currency, who did all responsibility for exchange rate, monetary, and credit policies. In 1990, in terms of deficit and inflation Greece is a country that has the worst value in comparison with other European Union member states, in other words Greek including less developed countries in the euro area.⁸⁶

Greek banks perform the traditional functions of central bank with implement monetary policy, supervision and controlling banking sector as well as dealing with issues of paper money. As for the surveillance that has been going up to commercial and investment banks. There are 32 commercial banks have been operating in Greece and the largest is national bank Greece, for the second largest commercial banks held by Greek public banks which is indirectly by the state and handles about a fifth of the commercial banking business. Talk about the role of commercial banks, their duties with perform the various offers banking services. The other hand they take deposits and offer retail and wholesaler banking services including foreign exchange transactions. They also give short and medium terms loans to industry and participated in the financing of private companies or state.⁸⁷

2.2.2 Small Open Economies and Development

Basically a country which has low GDP can be said little difficult to pursue or equalize the level of country's economy with the economy of a country that has a high level, however it is not mean they can not compete with the high economy countries. Therefore they use service or the tourism sector to increase the inflow of foreign investment.⁸⁸ As that Greek, compared to other European countries can be said to that Greek state economy is very far behind. But because Greek have a variety of interesting areas to be used as a tourism, causing a lot of foreign tourist visit this country. This is not only profitable for Greek but also for the European Union. first, Athena is a city that has a fortune since the summer Olympics in 2004. Not to mention the parks and streets were clean, modern subway, new highway, airport which is very easily accessible and notice boards in english. More over athena sites a lot of influence from western history, start from akropolis until kuil zeus in olympia. Second, this area sticking out from a number of cliffs so that visitors can be see the houses which was built for sea captains venesi and also "cave home" that are characteristic of the villagers over there. Third, Mykonos town the beauty of town looks with classic style white building that was formed on the edge a winding road lined up area of mykonos. Does not end there windmills in the 16th century adds to the beauty of this town. Fourth, Rhodes Town the biggest island from 12 island in the Dodecanese northeastern edge aegean. Fifth, Fira is the capital city from the island of thesantorini. This town is famous for its steep cliffs and beautiful white buildings. Neither does the some contemporary churches and religions in this village. Sixth, Chania Town most of the city was developed around the harbor built by nation venetian in 14th century. As for the one of the tourist places are frequented one of them is the archaeological museum of china (one of the places a former monastery French saint who now store your collection of artifacts minoa and romawi). Seventh, Rethymnon one of the old city venetian of the most well preserved in crete island. This building showing ancient architecture, while fortezza

building reflects the influence of Europe and nation moor. Eighth, Naxos City, in Greek this town is considered with variety of mythological stories and ancient history beside that also regarded as the home of the dinosaurs Greek god of wine. Ninth, Chersonisos shaped a roman harbor in crete island with a quiet sandy beaches and ancient ruins. The last talk about Kamari this seafront can be found beaches and typical Greek ruins, as well as places tourism is somewhat unique one of them is cinema open.⁸⁹ Around 11 million tourist visit Greek every year. Since 1960 Greek became popular tourist center. Travels can visited museum, archeological sites monuments, and cultural center throughout Greek throughout the year. Human resources working in the Greek tourism industry is also trained and experienced.⁹⁰ Due the financial crisis hit Greek center of tourism in the country had experienced a setback, Greek state of tourism revenue dropped to 4,6% (€9,89 billion).⁹¹ Even so Greek tourism sector will fixed strong, because conditions in the tourism center of this country relative safe although there was a demonstration in certain areas.⁹² Greek also gave cheaper price for any visitors including hostelry, this makes tourist visiting Greek up 15%.⁹³ For 2011, tourist visiting Greece reached 7.684 million.⁹⁴ In this we can see how the importance of tourism sector in Greece.⁹⁵

2.2.3 Growth in Greek Economy

Talk about Greek, according to history of the Greek community and the people who use the Greek language not only located at the border of Greek but scattered in across ethnic mix like Ottoman (Osmanli) Empire, the Balkans, Anatolia, and the Black Sea coast, the Middle East and North Africa as well as Western Europe. After going through a nine year war against ottoman power in 1830 was born the modern Greek nation. But independence of Greek followed by civil war was a long and expensive since occurrence of murder the first Greek governor is Ioannis Kapodistrias. Bloodshed was ended

when three great power such France, Russia, United Kingdom impose a prince Othon (Ortho) from bavaria as the first king of Greek start from 1833 until 1862. In 1830 Greek was established is a combination from old Greek regions which consisted from Peloponnese, Rumeli and the Cyclades then continue to grow until the entry of Ionian island (since 1815 still under British dominian) in 1864 after a few years followed thessaly and part of Epirus in 1881, crete part of Macedonia, a further part of Epirus and the island of the north-east Aegean following the Balkan Wars of 1912-13, western thrace following the first world war and the Dodecanese acquired from the Italians in 1947. At that time Greek border only a third from Greek population towards the Ottoman empire. The existence and well being of the majority of Greeks only the Greek irredentist scheme 'Megali Idea' ('Great Idea'), a project that dominated Greek politics for a century and raises Greek territorial expansion gradually but ended tragically in anatolia. Basically Greek irredentism consider merging descendants Greece eastern and middle within the bounds of the Greek empire with its capital in constantinopel which previously a center of eastern roman empire. With existence the gradual disintegration and external support from major powers ottoman empire raises a progressive expansion of the Greek territory during the 19th century and the 20th century. During the first world war had lasted Greek national schism centered around the international alignment, each elite and society divided between venizelist (which supports the power entente) and royalist king konstantinos (which supports German) however in war is recommended of neutrality. In October 1916 relationship between the two parties getting worse when Venizelos established a rival government in the recently acquired territory of thessaloniki (Salonika), June 1917 France and United Kingdom imposed Venizelos as Prime Minister and Greece entered the war as an ally of the Entente Powers. During World War II lasted Greek territory was occupied by German, Italy, and Bulgaria giving rise to death toll, famine, and suffering. But during of war state not only silent, state also take the fight to German however was ideologically divided to be

left and right. The increasing influence of the left within Greece, combined with the emergence of an international division of states into mutually hostile capitalist and communist blocs, led to the Greek civil war that concluded with the final defeat of the communist forces.⁹⁶ For the Greek economic despite being accepted into the European Community, Greek economic performance was poor throughout the 1980s and early 1990s. The average annual rate of price inflation was 17,4% in 1984-93, while the economy recorded little or no growth and the national currency, the drachma underwent a long term decline on the foreign exchange market. This problem occur because of several reasons first, public sector is too large to dominate economy so the question arises about the efficiency of management and labour force from many Greek biggest company and resulted in only a slight possibility of a rival in the European market. Second, Greece has one of the largest informal economies in the developed world, with 50% of economy activity occurred outside official market and was recorded in national income. Third, with weak political leadership contribute to the economic uncertainty and served only to maintain the status quo for much of this period.⁹⁷

After world war II, Greek economy undergoing significant change. Manufacturing and services are key areas in economic activity in 1990 with GDP as big as 85%. For per capita income in 1960 as big as US \$500 then an increase to US \$6500 in 1992. Based on international standards Greek can be said a state intermediate level of development.⁹⁸ Economic development towards modern Greek begun since late 19th century and early 20th century with the application of the social legislation, industry, a protective tariff and the first industrial companies. Greece reach the growth rates high in 1960 and 1970 because foreign investment. The mid 1970s Greek GDP growth rate will decrease, investment ratio to GDP, productivity, labour costs, and oil prices go up. In 1981, when Greek joined with the European community protector barriers was removed, the government pursued expansive policy thus giving

rise to inflation and causing difficulty in the balance of payments. Finally growth Greek public sector deficit wholly financed by borrowing. In October 1985, European governments gave loans amounting to 1,7 billion European Currency Unit (ECU) because spending indefinite in 1995 general government debt exceeding 100% from GDP. Since it Greece continue to rely on debt, the end of 1998 external public sector debt is \$32 billion, general government debt of \$119 billion or 105,5% from GDP and greek foreign debt was \$32 billion.⁹⁹

Greek is one of the southern European Union countries, talk about the growth of Greek economy still relatively low. Compared to the economic the growth of both other European Union countries namely Romania and Bulgaria, Greek is still below their.¹⁰⁰ Basically Greek not fully capitalist region, because the most of Greek industrial sector was still owned by state, this things that cause Greek government want to sell partly from this sector. The main import of Greek that is industry and capital goods, foodstuffs and petroleum, while the main export of Greek that is transport, tourism, communication, trade, banking, public administration, and defense. For fastest growing and largest in the Greek economy held by the services sector to GDP reached 64,4% in 1998, while for Greek industrial sector achieve 27,3% from GDP. In industrial sector which make this sector rapidly growing and profitable namely sectors of the food.¹⁰¹

Let's get toward to employment levels in a Greek country, if it is seen based on percentage of population (labour) in average productivity of capital (capital to labour ratio) has decreased but if be compared with other countries Greek unemployment level remain high. The average unemployment rate for the period of 1999-2007 was 10,13% for Greece, compared to 8,3% for the EU. Based on data from Eurostat, the lowest employment rates in Greece are found among young people under 25 years old (22,9% of unemployed in 2007), women (12,8% of unemployed in 2007) and workers aged 55-64 (all

close to retirement) while the long term unemployment rate (longer than 12 month) reached 4,1% in 2007.¹⁰²

Moreover, Greek financial crisis made the Greek economy declined. In 2012 Greek also was recorded as the largest debt printer with a public debt of €300,8 billion (150,3%) from GDP, while in 2011 as big as €340,9 billion (158,8%).¹⁰³ Although there are some requirements that must be met to be able to join the euro zone that is inflation, debt, budget deficit, unemployment and so on. As for the requirements set for state budget revenue expenditure deficit only was limited to 3% of GDP annually.¹⁰⁴

2.2.4 Greece in Southeastern Europe

Europe Union is one of the region that is appropriate for developing confidence as a safe haven for actors famous war. It's just this region could be more challenging areas. In 1989, European Commission praised the revolution that occurred in the area of central and eastern Europe as events that could be said to be most significantly in the global order during the last 45 years and as a challenge and an opportunity for EC, it can be concluded that this region will later become major objective of the EU's external relations. In 1992, Lisbon European Council developed three criteria for determining the foreign policy priorities of the European Union: (1) geographic strength (2) the great interest by politics and economic stability of a region or country and (3) existence the threat of potential to the security of the union. Europe has a strong position in securing exports to Central and Eastern Europe. Along the cold war occurred ideational impact from democracy namely in the form of cooperative success in acting as a magnet to exciting Soviet Union and Eastern Europe against the values of western politics. After the European Union symbolizes the aspirations of Eastern block to prosperity, liberal democratic values, security and tolerance. Post Westphalian system of government provides a security community of giving rise to great new attraction as homeless strategy where

the variety of diversity and solidarity successfully be combined. European Union is also a model of how history can be overcome through the reconciliation and reconstruction of cooperatives because it has a particular significance given by the central and fragmentation in Eastern Europe, instability, also the history of ethnic rivalry and nationalist. European Commission stressed that the function of European Commission is as model that capitalist role for Committee for European Economic Cooperation (CEECs).¹⁰⁵ In June 1996, not less than 10 CEECs has officially apply for a full membership and this is a problem for European Union because the union has been busy with the process of Maastricht in the planning of next enlargement of wave has been is focused for four rich European countries which could be association for free trade area like Austria, Finland, Sweden, and Norway than that is also a incorporation of relatively backward CEECs which will be raises challenges that unprecedented.¹⁰⁶

European Union had experienced little difficulty in developing security system in CEECs until eventually caused the successive crises in balkan and cause dissolution in the prediction of long in Yugoslavia. This is things of the most dramatic because it is a one threat that occurred after cold war against the European security and also biggest challenge for European security architecture. Yugoslav bordering the with several member countries caused some concern in occurrence of the spread of instability and raises failure which will be endanger its credibility as a security actor, apart from that would damage the preparations an ongoing for Treaty of European Union (TEU), neither does the impotence of uni relative within the Middle East peace especially the performance of bad collective within Gulf War. In 1990, tensions that occurred in Yugoslavia became the more severe, it can be seen with the advent of multi-party elections against the backdrop of the economic crisis.¹⁰⁷ Based on a long history, southeastern European region had long been a strong conflict between the economic and cultural. Every relationship which

developing in southeastern Europe is a source of all economic development. Although it could be said still often seen the emergence of ethnic and cultural tensions, however the area fixed shows the existence of development and diffusion of economic.¹⁰⁸

Now author will tell the reader Greek influence of southeastern Europe, if viewed based on the location of region Greek is located in Southern Europe and edge of northern-eastern of the Mediterranean Sea. To its territory divided from south balkan peninsula, one lane in the form of land narrow in beach of northern sea the Aegean, and comprises more than 1400 island. With the biggest island is the island of crete. Greek bordering the Albanian in northern-west, the former Yugoslav Republic of Macedonia (FYROM) and Bulgaria to the north and Turkish in the north-east.¹⁰⁹ As is the case between Bosnia-Herzegovina and FYROM, recognition of which obtained only to satisfy the guidelines committee badinter despite the in reality is failed. Because recognition to meet the European criteria shall be suspended by the Greek veto power with wore nominal on the basis of the potential territorial claims FYROM in Greek Makedonia. Short stories in a matter of months EC changed support the Yugoslavia within recognizing the independence of a number of parts with the way an ad hoc giving rise to internal divisions and resulted in further humiliation through the disaster committee Badinter. In the statement EC say that they had been violate most countries recognized with recognition of own rules. State master the several territory because case of that dominate at least some area which oppose independence. Recognition of which there is conflict with terms of the agreement Helsinki to sanctify post-war European borders. In February 1994, Greek decided to impose a unilateral trade embargo on FYROM, Greek demanded that this republic change the name, constitution, and national symbol so that they can prove have no ambition of territorial in Greece makedonia. Greek close the northern port in Thessaloniki and effectively shut FYROM from European Union trade.¹¹⁰

Within field of economy, between 2000 and 2008 southeastern Europe economy fairly strong economy with an average of 6% per year. Greek is the investor foreign largest in Albania, Serbia, and FYROM and the second largest foreign investor in Romania with an investment of more than €3 billion. In Albania, Greek companies invested around €30 billion when compared to total Greek foreign investment to neighboring countries these range amount its 27%. Greek creates 9000 type of jobs in Albania by establishing several companies and also business area. Greek is also a country that perform to foreign direct investment in FYROM, with establishing 251 companies and open 20.000 jobs. In Serbia, the amount of capital invested by Greek reached €2,5 billion.

Tabel 2. Claims of Greek financial institutions abroad

Country	Claims of Greek banks abroad (millions of dollars)	Percentage of the total claims of Greek banks abroad (%)
Turkey	20.823	20,58
Romania	18.689	18,47
Bulgaria	10.358	10,24
Cyprus	8.605	8,50
Serbia	4.703	4,65
FYROM	1.834	1,81
Albania	1.737	1,72
Russia	1.041	1,03

Ukraine	999	0,99
Egypt	413	0,41
Total of Southeastern Europe	69,681	68,87
Grand Total	101,177	100

Source: Banks of International (<http://www.bis.org/statistics/consstats.htm#>)

This table describes the presence of Greek economy in the countries of southeastern Europe with characteristic 68,87% of Greek financial institutions are in Southeastern European countries.¹¹¹

If we continue to pay attention to developments in the Greek economy, when compared with Southeast European economic conditions, there is definitely a tension between region and production of wealth.¹¹² To more clearly author will tell how relationship that occur between Greece and Turkey, conflict between Greece and Turkey due to some things like (1) Dispute between Greece and Turkey due to background of psychological that come from conflictual relationship (in this case the two countries felt already struggling against each other to their independence). Greece felt already independent since the 19th century and extending Ottoman Empire, while Turkey prioritizes battling versus partitioning empire, (2) Minorities are left in each region in 1923 after the agreement of Lausanne, and (3) Not comes each other around the area. Greece considers Turkey pose a threat which come from east, the view is reinforced with existence of interventions by Turkey in 1974. As for the other issues which cause disputes between Greece and Turkey is border of the continental shelf. Basically the potential expansion of the territorial waters of to 12 miles (Greece and Turkey make this issue as an excuse to war) the cause is 10 miles from the Greek airspace in the over Aegean Sea and not recognized by

Turkey, later demilitarization status from the island of eastern Aegean. Involvement of Turkey within case of a dispute Aegean island because of two things (1) disputes in the Aegean Sea are interrelated and can be completed with one package and (2) foreign policy toward Greek. In this case, Turkey and Greek threatened would be war, to stop it that is by enlarge the territorial waters up to 12 miles by claiming ownership rights to unite under the countries convention marine law (United Nation Convention on the Law Of Sea (UNCLOS)). But Turkey refuse to be one in that convention with the same reason.¹¹³ Problems of disputes between Greek and Turkey, will make Turkey have difficulty join a union region. Because it was Turkey invite Greek finish case of Aegean through bilateral negotiation, Greek refuse because consider this options from side of strong military by deploying the military power within bilateral negotiations, while Greek thought of himself as the weaker side and more interested bringing this problem to International Court of Justice. Turkey assume there are some issues about Aegean sea which should be resolved immediately, whereas Greek assume there is only one limitations of continental shelf and rest is constitute violation Turkey about Greek Sovereignty. Finally in 2004 based on council decision Europe in Helsinki, Turkey was given the opportunity to advance in the political dialogue with Greek regarding of the issues in the Aegean and suggest to bring the matter to International Court of Justice in end of 2004 if still unsolved. As for the other issues which will be faced Turkey on the basis of conflict with Greek in Aegean sea namely rejection of becoming a party to UNCLOS, to which the EEC is a party.¹¹⁴ Case of Turkey is an illustration because Turkey is the biggest debtor from the Greek financial services system.¹¹⁵

CHAPTER THREE

THE GREEK SOVEREIGN DEBT CRISIS AND ITS CAUSE

3.1 Process Greece Sovereign Debt Crisis

In 1992, when European Union was build for first time many European Citizens have opinion wouldn't to exchange attitudes and habits European citizens including law and restrictive practices then national preferences which overall bound as defense system. In 1957th Roma agreement opens the way for internal market where until 25 years later was still failed to embodied because at that time the use of veto power by individuals often lead paralysis for apparatus at the time of decision making. In 1987th, Single European Action (SEA) namely renew original agreement by accelerating the process through the introduction of majority voting which qualifies, so it is quite difficult for Government to block their proposals who oppose.¹¹⁶ Finally this program will conducted with applying several small steps which would carried through momentum from a documents. SEA success still within the context of member states pursuing their own national interest, it have been ascribed to majority vote which eligible. Documents Identifying there are three parts which have constraint until need attention from EC of competition policy like (1) physical barriers like customs duty and borders control. (2) Technical barriers like product safety rules, public procurement of policies, and limitation types of labor and capital flows. And (3) fiscal barriers like rates and tax laws.¹¹⁷ The 12 representative of member states of European community joined for approve a new action, no one could have imagined that the path to market unification would be anything but tortuous. With main barriers overcome are such as dismantling of internal border control, harmonization of laws and standards which were replaced with more easy to achieve in a initial goal, although at

the time of undergoing often have ups and down.¹¹⁸

Almost a decade of member states debating European Union constitutional reform in the European Union, the question is what the European Union need a constitution. European Union had experienced a great challenges have historically not only confronted with countries that wanted to do access rapidly but internal policy in making the procedures and legitimacy which became seizure, neither does the territorial integrity and the capacity of member states to fight international terrorist either singly or together in the unity of the European Union. Talk about constitution for the European Union has been going since 1950, the original agreement are revised every the European Union enlargement. But in 1980 the most formidable changes occur moreover, this change process has been approved by the government since intermilan europe act. These process is open the door to single market program in 1992 and also agreement in European Union (TEU which is known as Maastricht treaty). TEU discuss the reform within reform treaty making process that dominates the European Union. For more clearly author will add some articles related to the function of TEU like Article 7 (1) TEU, the council acting by a majority of four fifths of its member (excluding the defaulting Member State) on the basis of a reasoned proposal by one third of the member states, article 7 (1) TEU contains an “early warning mechanism” and was introduced by the TON. then in chapter 7 (2) TEU, for suspension of a defaulting Member State’s rights deriving from EU membership will be used. There are two pages in the procedure under Article 7 (2) TEU. The first relates to the determination of the existence of a serious and persistent infringement by a member state of the fundamentals values of the Union. The second relates to a decision either to suspend or not suspend EU membership rights, which may be taken by the European Council once the Council has determined the existence of a serious and persistent breach of Article 2 TEU.¹¹⁹ While ICGs has been performed periodically, in February 2002

changes done to a convention about the future of Europe by way of reviewing the European Union working method within preparation for European Union enlargement by combining the countries of central, eastern, and southeastern Europe on the 1st of May 2004, not long after the European Union enlargement followed by the selection of the first European Council of the European Union to the European Parliament on 25 June 2005.¹²⁰

In the declaration of the European Union heads of state or government explain how importance European identity as principles of representative democracy, rule of law, and social justice as the ultimate goal from economic progress and homage for human rights.¹²¹

European Union is an economic and political partnerships between 28 European countries that are members of a continent, European Union was established after World War II with the aim to encourage economic cooperation so that each country can do trade with each other and finally economically interdependence. In 1958 was established the European Economic Community (EEC) with increased economic cooperation between the six European countries (Belgium, Germany, France, Italy, Luxembourg, and the Netherlands).¹²² This case seen when viewed within economic history of the 1950s, success of Western European countries with lock the virtuous circle export-led growth by responding to strength after the war II and this circle will be considered dangerous if German keep importing United States food and France continued to import machine tools United States, so the United States export surplus will ultimately accordance with import deficit ex colonies and cause there is no export surplus will go to Europe. Would be better if French import machine and equipment machine from Germany and German import their food from France this case done by way of using the customs union. Benefits of using customs union is first, create trade by eliminating the tariff barriers and respect for each other also as trade diversion

from the United States. Second, trade creation and trade diversion work to increase the relative importance from laborers within customs union at the expense of trading partners that were previously are outside customs union.¹²³ The four countries treated here are all on periphery of Europe and all were late coming into the European Community, with an average per capita income is only 70% from entire European and Southern Italy. Possibility to bring them together as the voting bloc within European Union until the enable them to gain an increasing share of the European Union budget in the form of regional development funds and cohesion funds which largely financed by contribution from rich countries European Union. Based on history, their progress at the time of joining the European Union that is by showing that their poverty can largely be attributed to bad economic policies. However, membership in the European Union to help them to re-evaluate their economic strategy.¹²⁴

Before the appearance of significant events in 1989, Mediterranean arena full get attention from ECs, it was a policy of the association in the form of response to worries. Talk about relationship between EC and the Mediterranean region could be said almost as old as society who live in the region, in 1962 and 1963 signed an association agreement for first time between the countries are located around the Mediterranean Sea. Mediterranean partners consisting from the countries in Northern Africa, Middle East, Balkan, and several islands in the middle of the Mediterranean sea. Easy way get to know their group by linking with EU territory although had experienced difficulties in developing different relationship with others. In other words, is the following countries and some groups of countries which can be identified such as three state applicant (Cyprus, Malta, and Turkey), the original Yugoslavia, Israel, the countries of the Maghreb (Algeria, Libya, Mauritania, Morocco, and Tunisia). Greece, Spain and Portugal were also part of EC Mediterranean policy prior to their accession to full membership.¹²⁵

Greece was the first Mediterranean country to join the European Union in 1962 as still associate member and in 1981 Greece gets full membership status. To join as a member of the European Union is not very easy because Greece must meet three requirements among others :¹²⁶

a. Based region, members who wish to join the European Union must include one European region

b. Based politics, countries wishing to join the European Union must have a stable political situation

c. Based economy, a country that wants to join the European Union must have the economic ability to not disturb the stability of the European Union

The early 19th century Western Europe is very attentive to the wants Greece to escape from the power of the ottoman empire and in 1821 assisted with war. Since then it gradually Greek expand his territory by way of conquest but still with the approval of the European great powers at the time. the end of World War II, well English nor Greek forces led by the communist (elas) can take advantage over the departure of the German troops and the troops elas. For Britannia enforced to restore the constitutional monarchy pre-war. In 1947, financing for the Greek defense can continue to be met because the english asking for support American. This led existence Truman doctrine that ultimately initiate a long-term strategy in American military support. If is required so that communist can be ensured will not control the government in Western Europe. In this perspective, assistance to be provided Marshall is in the form of economic support the necessary to enable non-communist government in establishing the legitimacy of post-war. Even in reconstruction efforts of infrastructure the damaged especially corinth canal and port facilities thus causing Greek political system remained in turmoil. In the view of

population the monarch proved increasingly due to the emergence of socialist parties in the legislature and this resulted in the king or military junta with should dissolve the government which has been elected because triggered by opposition which determined of the population.¹²⁷

Not until there alone, after membership received by the European Union time Greece want to join to into euro zone. No matter what a requirements given by euro zone, because greece interested with easiness will be obtainable. One of which such as when Greece wants to borrow money in European banks, ease is obtained by low interest loans.

Began in 1974 when the Greek government entered a new phase of socialist military junta. The new government took a lot of debt to finance subsidies, pensions, and salaries of civil servants.¹²⁸ Greek economic crisis occurred due to fiscal policy of expansif such as the fiscal deficit has already reached very high levels in previous years. This situation led to a decrease in domestic demand, threaten of banking sector, and public finances deteriorate. Like for example excessive growth investment in property addition to consistent with the international economy, but also due to of the government policies. In making a purchase residential properties there is known as “stormed” it was done in the interest of the buyer to VAT which will be charged at the time of the transaction. The excessive demand for real estate this is also due the low interest rate that is applied by the bank until 2007.¹²⁹

In 2008, government revenue is running slower than public spending and is directly led to a dramatic increase within cass deficit of the general government. In 2008 was significantly cash deficit of increased to €18,25 bn (represneting 7,5% of GDP), relatively higher than the deficit of €16 bn in 2004. If be discussed in detail Greek government debt occurred since 2001-2004 with total €183,157 billion, after some period 2005-2008 increased to €262,071 billion and in 2009 has reached €292.000 billion.¹³⁰

Greece is country where the tax system is not effectively and efficiently. As a percentage of the level of 2009-2010, in which the state tax ratio fell by 2,8%, it is because tax evasion is a custom in the country gods.¹³¹ Not only that tax officials in the country were not serious in collecting tax, in fact they often accept bribes from taxpayers so that they can avoid the obligation.¹³² Such as a small businessman who reported lower sales than the actual price so when paying value added tax may be lower than it should be. Then also the entrepreneurs such as plumbers and electricians who prefer to be paid in cash with no receipt.¹³³ Greek tax until 2012 it is still listed 400 check tax evasion, as for the value of the delay of tax collected by the Greeks reached 1,1 billion euros (Rp 13,992 trillion).¹³⁴

Greek crisis occurs also due to free trade, given to the Greek debt used to purchase consumer goods such as cars and purchase household needs so it looks unproductive.¹³⁵ Moreover the crisis in Greece is also due Greek budget deficit ballooning one of which is used to project organizers Olympics in 2004 furthermore disbursement of cheap credit and the failure of financial reform implementation.¹³⁶ One of free trade that happened in Greece is by way of sale and purchase of small islands, because many countries that are bidding the small island and turn it into a tourist resort which has a high economic value.¹³⁷

Then the state government expenditures are entirely financed by debt used sparingly but is also one of the causes of the debt crisis in Greece.¹³⁸ So the debt continues to accumulate even expected to reach 120% of GDP. Even up to the 2000s no one had noticed that the Greek debt pile is too big.¹³⁹ It can be done because the Greek can borrow at low interest due to the relatively good credit rating because of the support by the German and French economic power.¹⁴⁰ Situation worsened when the Greek pay goldman sachs and several other investment banks, payment was made to cover up the true numbers of

the amount of government debt.¹⁴¹

Basically the European crisis is not an issue that comes by chance. This crisis caused government debt pile that has been done for many years, because it is based on data from stability and growth pact (SGP) European Union required to keep the debt to not more than 60% from Gross Domestic Product (GDP). But the debt that occurred in both the European Union and the Euro Zone is caused by a variety of fields such as central government, region government, local government, and social security. While in most countries of sub-sector has the most debt is central government, whereas region and local government do not have a lot of debt. Holders of government bonds among other non-financial companies, financial firms, household, and non-profit institution supporting household as well as others around in the world. Mostly government bonds issued by the currency of each country, while the EU members state issued bonds using foreign currency or currencies of countries that are not members of the euro zone. Then maturity debt securities, should the government issued short-term debt maturities, which means a period of less than one year but unlike the case with this case here on the contrary the government issued debt in the long run which means more than one years.¹⁴²

Greek crisis occurred because many Greek loans to investors and foreign banks. Even Greek instruments exchange reserves or currency swap assistant by major banks due to U.S. (Goldman Sachs).¹⁴³ This currency swap is a contract which is borrowers be used for convert the foreign currency debt to be obligations domestic currency that use exchange rate of market. Like in 2003, goldman sachs using historical rates to be able to eliminate 2% Greek debt from national account. Example for payment €2800000000 Greece were borrowed from bank, Greece do a signature separately related with a change in interest rates.¹⁴⁴

International economic crisis divided into three stages, (1) start from

2007-September 2008. This period begins with cycle of mild recession in 2007 and lasted until the collapse of Lehman. (2) start from September 2008-November 2009 concurrently with debt crisis in Dubai, in this period main point of occurred the crisis because the effect which came from sector financial south Euro Zone countries. (3) November 2009-May 2010, crisis turned into a finance crisis which very important.¹⁴⁵

Greece is a country which scored biggest debt in history.¹⁴⁶ Debt downgrades which undertaken by three agencies like Fitch Ratings, S&P, and Moody's first time occurred after held negotiations debt restructuring in this country.¹⁴⁷ Author will explain with a completely stages of which occur in Greek economy, includes pruning Greek debt rating.

- On December 8th 2009, fitch ratings agency downgraded the Greek rating from A- become BBB, 8 days later standard & poor downgraded the ratings of Greece to the same level.
- On December 22nd 2009, Moody is also a third major ratings agency lower Greece ratings although only one level from A1 to A2.
- On January 14th 2010, finance minister give stability and growth for council of minister was approved by European Commission.
- On January 27th 2010, foreign press report Greek has been sold debt to China amounted €25 billion moreover German and France began to work together to salvage Greece.
- On January 28th 2010 on his way back from davos summit, Prime Minister George Papandreou inaugurate austerity period.
- On February 3rd 2010, European Commission approved the Greek SGP including fiscal policy and structural reformation aims as

reduction of drastic and direct from fiscal deficit.

- On February 10th 2010, the ministers of Euro Zone area economic and financial (Ecofin) held a teleconference to discuss a rescue plan.
- On February 23rd 2010, the fitch credit rating agency downgraded the ratings for four main Greek banks like Alpha bank and Piraeus bank EFG from BBB+ to BBB with negative prospects. Two days later S&P did the decline on growth which could dangerous and do the deployment Greek bonds.
- On March 3rd 2010 Government announced emergency measures the second in improving reduction of deficit at €4,8 billion (2% from PDB). On March 22nd rumor say Greek would ask for help from the IMF but market shown that this solution was rejected.
- On March 29th the Greek government raised €5 billion from the auction of 7 year bonds at an interest rate of 6%. On April 6th 2010, rumours spread that Greece was renegotiating the rescue mechanism.
- On April 12th 2010, after announcing the details of the stability mechanism, it became clear that at least for the next 12 months there was no bankruptcy risk for Greece.
- On April 14th 2010 the Greek government began to feel pressure from the markets to proceed with the activation of the economic assistance mechanism.
- On April 23rd 2010 as the markets continued to exert pressure on Greece and following the deficit's revision to 13,7% of GDP, the Greek Prime Minister submitted a request to activate the stability mechanism for the Greek economy to the EU and the IMF.

- On May 9th 2010 in an emergency meeting in Brussels, the EU 27 Finance Ministers agreed to create a European stability mechanism with the participation of the IMF.¹⁴⁸

The author will analyze the causes of the Greek economic crisis by 2 factors that is internal and external.

3.2. Internal Factors

In order to more clearly internal crisis condition can be distinguished based some parts (1) *the public debt and its maturity*, (2) *Spread*, (3) *Credit Default Swaps*, (4) *The Three Credit Rating Agencies*, (5) *The Problem of the Financial System*, and (6) *Public Lending*.

3.2.1 The public debt and its maturity

Greek debt began uncovered when Greek fail to pay foreign debt which is due in May 2010 so the causing the euro exchange rate with US\$ and ¥ continued to decline.¹⁴⁹ Greek total debt is \$406 billion equivalent to 115% of gross domestic bruto.

Greek not lied about bailout fund from IMF, European Union, and Central Bank amounting €130 billion or equivalent to US\$160,4 billion, but mentioned fund new will disbursed in September 2012. While Greece must pay off shortage of the debt by €3,2 billion which is due in August 20th.¹⁵⁰

3.2.2 Spreads

Tabel 3. Evolution of public debt (billion euros) and similar indicators

	Public Debt	Public Debt	change	Change per year	Average Balance	Service Estimation With 5%	Participation of annual services in

							the annual debt increase (%)
2001- 2004	140,971 ^b	183,157 ^c	2,182	0,545	162,064	8,103	76,9
2005- 2008	183,157	262,071 ^d	8,914	9,729	222,614	11,131	56,2
2009	262,071	292,000 ^e	9,929	9,929	277,035	13,851	46,3

^awritten in September 2009 and was included in the trial edition of this book in November 2009

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^bstatistical Bulletin of Conjunctural Indicators, Bank of Greece, December 2006,p.122

^cstatistical Bulletin of Cunjunctural Indicators, Bank of Greece, December 2008,p.128

^dCommunication of the Minister of Finance G.Papathanasioun,9/16/2009

^e,"vima" newspaper and other sources 9/17/2009

The table above describes a very significant events because it refers to some economic indices with capture the evolution of Greek bond spreads during 10 years compared with German bonds and euro exchange rate.¹⁵¹

As described in the table 3, spread evolution (the difference between 10-year Greek bond and 10-year German bond) is of the most sensitive index associated with the development of period. There are some negative developments which occurred in the fall of 2009 and the spring of 2010 so that causing a massive liquidation Greek bonds and resulted a significant increase until need a international investors in a these securities undergo and procedure significant results. Greek credit downgrades and which lasts negative context

raises concerns of investors and continues to produce high bond. Because it was evolution of interest rate Greek bond causing investors which were initially interested but because it is not convinced by potential of Greek SGP hand them over to European regulatory authorities or stability mechanism which replaced by European Union and IMF.¹⁵²

3.2.3 Credit Default Swaps

Credit Default Swaps are derivative contract which used by investors as guarantor order to be able give profit on a failure. This contract in the form of mortgage securities which provide support when circumstances appropriate located at the heart of crisis thus causing global financial system to its knees.¹⁵³ Credit Default Swap always be used by state when they fail to pay bond like in 2001 Argentina failed to pay bonds so that should enable the swap, in 2008 occurred in Ecuador. In other word, Credit Default Swap are the thermometer to market perceptions towards feasibility of a person's credit. In Greece Credit Default Swap become expensive, the seller of swaps demanded buyer to pay \$6 million to protect \$10 million accordance with price of Greek bonds.¹⁵⁴ when investors began to doubt the solvency of Greek, swap offer his insurance at cheap rates. In 2008 investors buy protection to Greek debt with pay \$22.000 per year order to be able guarantee the failure which range up to \$10 million from the bond of Greek for 5 years. That is why Greek government decided to ask for payment on Credit Default Swap.¹⁵⁵ The end of 2009 and beginning of 2010 the developments in the CDS market have a negative impact on market to finance instrument state. Existence of speculative game has link with possibility of suspension of payments to debt restructuring thus increasing demand on credit derivative marketable securities Greek. This developments lead to a decrease in the value of Greek bonds in the secondary market, rendering the required yields prohibitively high even for newly issued securities. Basically international markets were closed to Greek

loan program, only the EU stability mechanism and the IMF is the only one option. Total of amount transactions that occur in the market manifests the interest of CDSs in Greek state securities. In February 2010, in amounted to €80 bn with net value is estimated at €10 bn whereas the appropriate amount at the beginning of 2009 was approximately €7 bn.¹⁵⁶

3.2.4 The Three Credit Rating Agencies

There are several credit rating agencies which charge of collecting and analyze information from investors, individuals, and institutions in assessing maturity date of debt obligations or their marketable securities. There are three major credit rating organizations in the United States, among others Standard & poor's (S&p), Moody's, and Fitch Group. From the three institutions not all have the same scoring system. Now we can start from Fitch, in 1942 introduced from AAA until D as credit rating system, then Standard&Poor using the same system the grade AAA is highest credit score then followed by AA, A until D. Whereas Moody's using different systems start from Aaa as highest ranking then the Aa1, Aa2, and Aa3, A1, A2, A3 was the value of which given to companies with low credit risk in the near future, but susceptible in a long term risk. The Baa1, Baa2, and Baa3 are institutions that considered relatively risky, all category under Moody system are considered as the value of investments, C rating are given to institutions that has been default.¹⁵⁷ In December 24 1913, fitch ratings was established by John Knowles. Fitch is one of the rating agencies which have contributed the smallest market compared to the S&P and Moody's. In 1941, formed S&P after merger between the statistics and the poor standard publishing. Currently S&P be an affiliate Mac Grawhill a media giant whose pursue the financial information services but not involved in a financial business. And in 2000 Moody's acquired by Dun and Bradstreet, this company is supported by a company that became major player in research services business and financial

information. The rating started to develop since the early 20th century with the founding of Moody's in United State 1909.¹⁵⁸ Despite the financial crisis that occurred in 2008 could provide a blow serious to this three rating agencies however, this three institutions remained including the necessary procedurs the necessary for the smooth running of modern financial system. Given the financial instruments currently so complicated so that ratings by analysts become indispensable.¹⁵⁹ After a brief discussion of any credit rating agencies, author would invite the reader will see the role of three institutions in response to the case of Greek economy. S&P downgraded the debt of Greek two ranks from the position B to BB-, S&P stated long term debt downgrade Greek into junk bonds due to prospect of this country in a restructure its debts. S&P estimates that 50% Greek bonds would default.¹⁶⁰ At this time position Greek lower than Pakistan and Ecuador, which already closed off from international markets since the default in 2009.¹⁶¹ not long after S&P announced credit rating downgrade Greek, Moody's rating agency lowered its rating on Greek to the lowest level. Moody's lowered the ratings Greek from CA to be C and it could led to bankruptcy.¹⁶² Moody's assume the debt exchange plan amounted to €206 billion that involve private investor at this time in their hands, but Moody's believes if this would lead to pressure and failed to pay.¹⁶³ Fitch ratings cut Greek credit ratings into CCC because fitch assume Greek vulnerable fail to pay not to mention the risk of Greek leaving the Euro Zone.¹⁶⁴

3.2.5 The Problem of the Financial System

When the collapse of Lehman brothers in 2008, shrink economy and shake the global financial system, including credit distribution for Greek business and consumers dries. At the time, TROIKAN which combination from several international bodies help Greek financial with approving to give bailout loans amounted €240 billion (\$319 billion) in 2010.¹⁶⁵

Greek financial system, including financial systems with a small standard because it is largely dominated by European Union and banks. In 2004 amount of assets from the financial system in the estimate reaches 170%, compared with France in 2003 as big as 250%, Spain in 2004 as big as 320%, and German in 2002 as big as 380%. In 2004, There are five major banks (Natioanal Bank of Greece (NBG), Alpha, EFG Eurobank, Emporiki, and Piraeus) give endowment for Greek like 65% form of assets, 67% form of loan, and 65% form of deposit. In 2000-2002, Capital Adequacy Ratio Banking (CAR) ever experienced a decline, this describe shift existence in the composition of government assets until it reaches zero bonds to commercial credit and is inversely proportional when compared to the last 2 years in response to supervision requirements to raise capital. In 2004, CAR agregate of 12,8% from assets in accordance with level of Euro area. This constitute existence from a bank bailout for rapid growth in credit distribution with Return On Asset (ROA) and Return On Equity (ROE), in 2004 each reach 0,5% and 7,5% compared on area of liquidity only 0,3% and 7,9%.¹⁶⁶

Tabel 4. Greece: Commercial Bank Credit to Nonfinancial firms and Household, 2004¹⁶⁷

	Total	House Holds			
		Enterprises Total	Housing	Consumer Credit	
Credit outstanding, billions euros	117,4	76,1	1,2	25,4	15,8
share in total lending, percent	00,0	64,9	5,1	1,7	13,5

Percent of GDP	71,0	46,1	4,9	5,4	9,6
Percent change					
2000	27,8	25,0	9,2	4,2	49,5
2001	17,8	11,5	1,5	0,8	42,6
2002	16,4	8,7	8,9	3,7	30,1
2003	15,5	13,0	1,2	5,9	32,0
2004	17,8	12,2	9,9	5,3	38,1
Average (2000-04)	19,1	14,1	4,1	2,0	38,5

Source : Bank of Greece

The above table explains since 2000 Greek banking credit can be said growing quite rapidly, although still in a low base. During 2000-2004, for growth in the number of credit on rate of annual average reached 19% with loans for household with an average of 34%.

Tabel 5. The state support package to the Greek banks (in million euros) as of March 2009¹⁶⁸

Financial institution	Preferential shares	Government guarantees	Special instruments
Piraeus bank	-	-	865

Attica bank	100	-	200
Agricultural bank	675	-	807
Alpha Bank	940	2.000	1.138
Proton bank	80	-	78
Post bank	225	-	-
EFG Eurobank	950	500	1.025
National bank	350	500	-
Millenium bank	-	-	98
General bank	-	-	158
FBB	50	-	60
Panellinia bank	28	-	41
Aspis bank	-	-	86
Achaiki cooper. Bank	-	-	11
Pankritia Cooper. Bank	-	-	50
Total	3.768	3.000	4.617

Source: "Ta Nea" 15/03/2010

The above table explains the offers in the form of guarantees until €15 billion (have been filed on March 2010 as big as €3 billion), Special bond (structured financial instruments, International bond, and FTF) as big as €8

billion (have been filed as big as €4,67 billion) and endorsement as big as €5 billion through the issuance of preference shares by banks that have been bought Greek Government as big as €3,75 billion.

3.2.6 Public Lending

When PASOK ruled the Greek in October 2009, interest rate can cover the needs of Greek monetary up to ranged 1,4% above German bonds, in that moment Greek had almost no problem with debt and deficits on interest still in a reasonable point. Not long from those conditions one by one the problems began to arrive until finally Greek bond spreads increased to 200, 300, even 350 (could then reach 400-450). This is of course make matters worse and require that Greek asking for help on European Union and IMF with low cost. But, when bond spreads spread out rise into 1000 and Greek bonds downgraded to junk status becomes very clear with loans amounting to 45 billion would not be enough for Greek that is why loan was raised to 110 billion.¹⁶⁹ Greek financial situation is one of the biggest economic problems in the Euro Zone, because it European Central Bank should cut interest rates on loans up to level of lowest that is one-fourth to three-fourths from previous 1%.¹⁷⁰

Loans given by European banks for Greek either in the form of emergency loans from European Union and International Monetary Fund decreased by 15% to \$36,6 billion. So that total of debt Greek amounted €345 billion (\$476 billion).¹⁷¹

3.3 External Factors

Based on external factors, author will analyze occurrence of financial problems of Greece due to three things are *(1) American Crisis, (2) Shift of centers global production, and (3) Scarcity of raw materials.*

3.3.1. American economic crisis

After World War II, the United States has economic and political interests which strong in Europe. Under the auspices of GATT through the encouragement Europe, United states have economic interests namely the international free trade. Existence of encouragement of Western Europe, European market can be developed into a large and successful so it can be a strong trading partners for business track in United States. In 1952, concurrently with the establishment of ECSC also intertwined of economic relationship was formally between European Union and United States and intensified with introduction of the CAP in 1962 then continued with the creation of EEC customs union general in 1968. In 1970, event of a transfer of responsibility for trade policies to the level of EC. With the establishment of CCP, marks the existence shift was significantly which occur in the public relations of any member states order to be able be trading partners and as a trade negotiators tongue with United States. In 1995, WTO was established, this suggest a possible link further in the field of trade between EC/EU-AS which eventually every exchange trading they do accordance with rules from 'authority' which 'higher' and put every disputes that occur to the court with completion through law of WTO.¹⁷²

In 2002, America is the EU largest trading partner with provides nearly 18% from all over the EU imports and accounting almost 24% from all over the EU goods exports. On 2002 form of American market enough varied, European Union is second most important export market America with purchase almost 22% of American external goods but European Union is main source United States in a imported goods with a market share of 21%. Importance of the economic relationship between the EU with U.S. seen with the existence trading service in 2001 namely in the form donations around 36% from the result of EU and U.S. trade. As for the relationship a more accurate between

EU and U.S. can be seen from flows capital, especially foreign direct investment (FDI). In 2001 49% from all FDI went to leave European Union to the U.S. and 69% from all over FDI in EU comes from the U.S. These close relationships also supported by stock of FDI which is the investor from EU and U.S. have accumulated in each entity. 2001, 62% from all over FDI investment in EU comes from the U.S. while 50% of all EU FDI has so far been made in U.S. in other words 61% from all FDI which is owned American have the origin from European Union while 46% from all FDI which leaving the American move to European Union.¹⁷³

After author explains briefly how the American and European Union relations, author will go into main discussion American crisis and look the impact on European Union especially Greece.

The crisis that occurred in the U.S. very surprised many people how can crisis occur in a country that is quite large. The mid 1990s American citizens urged the government to provides home ownership of such powerful outreaches. To purchase a new home citizens using mortgage facilities is a facility money lending the long term to purchase home. Mortgages issued by banks then provide loans to home buyers to pay it off home buyers can pay by installments with a period of 10, 20, or 30 years. Then bank sells mortgages for Fannie mae and Freddie mac with guarantee the American government and combine these mortgages into a motgage backed securities (MBS) then sell them to wall street so that Fannie Mae and Freddie Mac can provides sufficient funds for banks that will give mortgages to American people. The holders of mortgages are indirectly pay of installement to investor not to the bank. In 1995, American government allow Fannie Mae to guarantee the credit for subprime mortgages so that people can not afford can get a credit.¹⁷⁴ In 2001 when the housing business was booming many American citizens who are poor to buy cheap houses through subprime mortgage scheme and in 2006,

2,5 million citizens of American who bought houses through the scheme not able to pay installment because the price of house that they credit to soar high almost 100%. At this time the only one guarantee for the MBS is the house itself but the supply of housing exceeds the demand along bubble housing industry on 2001-2005 and cause housing value be decreased no longer compatible with the guarantees given by MBS. While the investment banks and hedge fund (HF) must fixed provide revenue the form of interest to investors.¹⁷⁵

American and European crisis has a condition which almost the same, can be said these crisis have long occurred good in the U.S. and Europe which could explode at any time. however, because the U.S. is the largest export of the European Union with the total value of exports in 2008 amounted to 250,124 (growth amounted -3,5%) So the possibility of American crisis will have an impact on the European Union will not last long only temporary. In 2009, EU export value fell -18,7% but back rise amounted 19,2% in 2010. Initial data of 2011 showed the value of exports had returned to normal.¹⁷⁶

Tabel 6. European Union, Trade with USA¹⁷⁷

Total goods: EU Trade flows and balance, annual data

	Imports	Exports	Balance Value (Mio €)	Total Trade Value (Mio €)

Period	Value (Mio €)	Growth* (%)	Share in Extra- UE (%)	Value (Mio €)	Growth* (%)	Share in Extra- Eu (%)		
2002	182,585		19,5	247,956		27,8	65,371	430,542
2003	158,125	-13,4%	16,9	227,281	-8,3	26,1	69,157	385,406
2004	159,360	0,8%	15,5	235,449	3,6	24,7	76,139	394,858
2005	163,802	2,8%	13,9	252,852	7,4	24,0	89,050	416,654
2006	175,547	7,2%	13,0	269,144	6,4	23,2	93,598	444,691
2007	174,114	-0,8%	12,1	259,178	-3,7	20,9	85,064	433,291
2008	186,777	7,3%	11,9	250,124	-3,5	19,1	63,347	436,901
2009	151,885	-18,7%	12,6	203,368	-18,7	18,5	51,483	355,253
2010	173,022	13,9%	11,3	242,322	19,2	17,9	69,300	415,345
2011	191,516	10,7%	11,1	263,744	8,8	16,9	72,228	455,261
2012	205,170	7,1%	11,5	292,193	10,8	17,3	87,024	497,363

Source Eurostat Comext-Statistical regime 4

In this table became clear that American crisis does not affect trade between the European Union and America. American crisis exploded in 2007, in 2008 year value of EU exports amounted 250,124 true if it is said has decreased compared with 2007 with value 259,178. But from years 2010-2012 based on the table EU exports back in a normal phase.

Greece is a member of the European Union and Eurozone, Americans declared the strong support for sustainable efforts of Greece for restoring fiscal

stability, implements structural reforms, restoring competitiveness and restart growth. There are no non-tariff barriers for U.S. exports,¹⁷⁸ Greek exports for U.S. start from pipe, olive oil, last from razor to vermiculite minerals everything is a major supplier. So does the with fish and seafood products major suppliers with a value market share almost 80%, olive oil with market share around 72%. But main export product Greece are oil pipeline and natural gas with a value exceeding €15.000.000.¹⁷⁹ in 2007, American crisis occurred but has little impact on the relation trade between America and Greece. 2007, total trade between these two countries in a export field around 2,110.2 while in 2008 total trade between these two countries in a export field around 1,931.6. has decreased but not much just around 178,6. In 2009 back experienced an increase with total exports as big as 2,4871.1¹⁸⁰

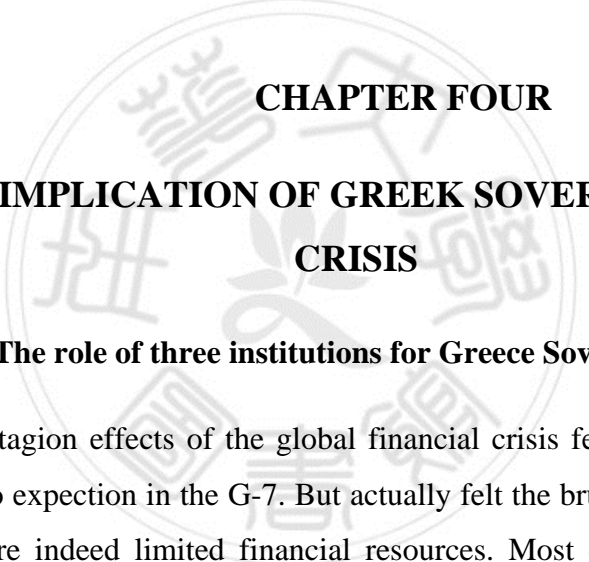
3.3.2. Shift of centers global production

Economic crisis in America and Europe is quite raising fears would the potential global recession. Financial crisis that occurs due to the global economic imbalances give rise to abnormalities in the banking system primarily related to loan part so the real sector affected. Trade sector were the engines of the global economy with growth exceeding the growth of output also decreased global demand. The countries whose economies are more dominated by the rate of export strength feel disappointed because the main destination countries of export having contractions, decrease in the level of output, trade balance deficit, current account, and rising unemployment. Besides a decrease in demand for export destination countries also have a protectionist tendencies with manner shut access to the market or distortion of competition.¹⁸¹ One of which like Japanese car manufacturers “Mitsubishi Motors” which plan will stop the car production in region Western Europe, It was done because the difficult economic conditions. Based on recent data car production at the factory bomb in Dutch region only around 50.000 because

the occurrence of particularly sharp drop. While the company have employees around 1500 employees to make the car kind colt and outlander models have a plan to switch supply of car from Japanese and Thailand.¹⁸²

3.3.3. Scarcity of raw materials

As for the impact from shift of centers global production is scarcity of raw materials giving rise to price increase. European industry can be said to be active in a field of telecommunications, aerospace, and other hi-tech sectors face competition for natural resources from developing countries. like China and India which using raw materials from Africa and latin America are home to some of the earth largest reserves of mineral and metal. According the European Parliament, between 2002 and 2008 non commodity prices for fuel increased by 159%, metal and mineral prices with 285% and agricultural raw materials prices with 133%.¹⁸³ Scarcity of raw materials make the European Commission and the European Parliament prepared a strategy with manner the waste sector as an important supplier for raw materials and energy.¹⁸⁴ Concern about scarcity and supply of raw materials arises as the global population and led to the evolution of poverty in the world. Development of industrialization from developing countries like Brazil, China, and India give rise to increase of raw materials and pushing commodity prices in the world market.¹⁸⁵



CHAPTER FOUR

IMPLICATION OF GREEK SOVEREIGN DEBT CRISIS

4.1 The role of three institutions for Greece Sovereign Debt Crisis

Contagion effects of the global financial crisis felt everywhere in the world, is no exception in the G-7. But actually felt the brunt of the developing countries are indeed limited financial resources. Most developing countries feel the global financial crisis as a double blow.¹⁸⁶

European debt crisis came sooner than expected ranging from Greece, Portugal, until Italy. Not to mention the crisis can get to the eastern Europe and United States.¹⁸⁷ Economic crisis that occurred in Greece at this time a very bad impact not only for the the Euro Zone or the European Union but also for the region outside the European Union. Greek financial crisis is also making the European single currency (euro) declined against the US\$ and yen. It is due to lack of clarity on how European leaders will resolve the debt crisis in Greece.¹⁸⁸

European debt crisis led to decline in Greek debt ranking to B+, giving rise to fear for investors which finally took off euro and moved to US\$. This occurrence makes euro weakened, has not again considering Greek would not be able to pay its debts not only euro will fall but the majority of regional currencies will also weakened including rupiah.¹⁸⁹ Greek economic crisis also an impact on development of the exchange rate of the rupiah which based on inter bank transactions rupiah value weakened eight points to Rp 8.985 compared to previous Rp 8.975 per US\$.¹⁹⁰ However, this decrease was not too make the markets worried because the rupiah still could survive caused the benchmark interest rate promising and still be able attract investors.¹⁹¹

In this discussion, author will explain briefly what it the ESM and for what the ESM was formed. The brief said, European Stability Mechanism (ESM) is a very important component for European Union strategy which is designed to safeguard financial stability in the Euro area. But if Euro zone member states not require financial assistance, ESM will have capacity and resources to act as financial fence and applying loan instruments that would be useful to stabilize the financing needs of country.¹⁹²

Through talks between German Chancellor (Angela Merkel), USA President (OBAMA), and the Greek Prime Minister (G.Papandreou) in United States (March 2010) agreed to establish a three-party (European Union, IMF, and ECB), scheme of the European financial stability facility and European financial stability mechanism. These mechanism was formed as a rescue package for Greek economy. Resulting from this consultation namely existence the increase funds amounting €20 billion, in which divided into 23,3% represent the contribution of German, 17,7% derived from French, and 27,5% from IMF.¹⁹³

Greek crisis started to have an impact on the 16 countries in the euro zone, pressure in the market is also getting stronger as a negative reaction on

the deficit of the Greek debt. Thus forcing the state government to overcome financial problems. One of the key deficit reduction and debt control but to do this is not very easy because they have to require extra effort to increase state revenues.¹⁹⁴ Therefore Greek government awaits European Union support, although it had launched a more drastic austerity budget to save around 4,8 billion euro (by way of a pension freeze, prune holiday allowance, and raising the sales tax and luxury tax).¹⁹⁵ Greece hopes Germany as the largest contributor to the European Union, EU urges immediate aid that was issued prior to the maturity of Greek loans.¹⁹⁶

Leaders finally reached a deal to help Greece out of its debt crisis, because of the financial crisis that has engulfed Greece could endanger other countries in the euro zone.¹⁹⁷ Debt crisis that hit Greece is now the number is more than 120% of GDP has spawned a wave of the crisis in the euro zone.¹⁹⁸ So that the crisis does not get spread to other regions, some institutions in the know called trioka which consists of the international monetary fund (IMF), central bank Europe (ECB), and European Union agreed to provide assistance to Greece,¹⁹⁹ Aid package is expected to be provided for \$26,8 billion.²⁰⁰

In order to more clearly author will explain with separate about role of each institution. now we can start from :

1. European Union

Crisis engulfing the European Union, this is why the European Union should enforce saving package. European Union also worry because crisis began attacking some eurozone member countries like Greece, Ireland, Portugal and Cyprus.²⁰¹

European Union is run based on the EU treaty in adopting the loan program in before you can mobilize the necessary financial resources. In this case the European Commission only provides the opportunity for three

programs in operating loan and financing by issuing a debt instrument in the capital markets. First, European Financial Stabilization Mechanism (EFSM), this program plays a role in providing support to all member countries of the European Union especially for Euro Zone member with funds amounting to €60 billion, then Irish as big as €22,5 billion, and Portugal as big as €26 billion. Second, balance of payments (BOP) this assistance form of funding that will be given to member states which have not been using the euro, with total funds given amounting €50 billion. Third, macro-financial assistance (MFA), this form of financial assistance to be granted to non member countries (funds that have been used amounting €92 million). In overcoming the ongoing crisis in Greece, European Union and several other eurozone member states form a stabilization mechanism which consist of (1) the European financial stabilization mechanism (EFSM) and (2) the European financial stability facility. European Financial Stability Facility (EFSF) was first formed only as a temporary rescue mechanism while waiting for the decision of the Ecofin council in creating a permanent rescue mechanism “European Stability Mechanism (ESM)”. This program was formed under the laws of luxembourg in June 07th 2010, this program issuing bonds or debt instruments in the financial market with a guarantor of the member countries of shareholders. EFSF has the powers to running the 4 instruments because the ranking position of the EFSF is ranked pari passu with the other creditors. In October 26th 2010, euro area government agreed to maximize the EFSF by providing two additional mechanism first, sovereign partial risk protection charged with providing partial protection certificate to a newly issued bond of a member countries. from these certificates holders will receive a credit protection as big as 20%-30% from principal value of bonds. Second, co-investment fund with this fund will allow the combination of public and private funding which will later be used to buy bonds in both market (primary and secondary) on behalf of the recipient member countries.²⁰² ESM established in October 08th 2012, this is a period of long term funding program

with a fund of €7.000.000.000 for 5 years benchmark bond with coupon 1,25% out which matures in October 15th 2018. When ESM established 17 members of the euro zone agree in the capital stock to be deposited for ESM in 5 tranches. The capital which earned only to be invested in high quality liquid assets and will not be disbursed within finance assistance. The funds that have been transferred by the 17 euro zone member states have been achieve the fourth stage, where in fourth stage the amount of funds transferred amounted €15.700.000.000 so the overall total fund that have been transferred to ESM increased from €48.600.000.000 into €64.300.000.000. Authorized capital stock the formation of ESM program divided into 2 types (1) paid-up shares and callable shares. For paid-up shares capital which it is paid amounted to €80.000 million.²⁰³

In order to more clearly the author will include tables which will explain in detail about the fund issued by 17 members of the euro zone for ESM.

ESM Member	ESM Key (%)	No of shares	Capital Subscription (€)	Paid-in capital (€)
Kingdom of Belgium	3.4771	243.397	24.339.700.000	781.680.000
Federal Republic of Germany	27.164	1.900.248	190.024.800.000	21.717.120.000
Republic of				

Estonia	0.186	13.020	1.302.000.000	148.800.000
Ireland	1.5922	111.454	111.454.00000	127.376.0 000
Hellenic Republic	2.8167	197.169	1.971.690.0000	2.253.360.000
Kingdom of Spain	11.9037	833 259	83.325.900.000	9.522.960000
French Republic	20.3859	1.427.013	142.701.300 000	16.308.720 000
Italian Republic	17.9137	1.253.959	125.395.900 000	14.330.960.000
Republic of cyprus	0.1962	13. 734	1.373.400. 000	156.960.000
Grand Duchy of Luxembourg	0.2504	17. 528	1.752.800.000	200.320.000
Malta	0.0731	5.117	511.700.000	58.480.000
Kingdom of Netherlands	5.7170	400.190	40.019.000.000	4.573.600.000
Republic of Austria	2.7834	194.838	19.483.800 000	2.226.720 000
Portuguese Republic	2.5092	175.644	17.564.400.000	2.007.360.000
Republic of	0.4276	29. 932	2.993.200.000	342.080.000

Slovenia				
Slovak Republic	0.824	57.680	5.768.000.000	659.200.000
Reoublic of finland	1.7974	125.818	12.581.800 000	1.437.920 000
Total	100	7.000.000	700.000.000 000	80.000.000 000

Source: European Stability Mechanism 2013

Payment of paid-in capital by ESM Members

Date	Amount (€)	Cumulative Amount (€)
12/10/2012	32 863 000 000	32 863 000 000
30/04/2013	15 712 416 000	48 575 416 000
31/10/2013	15 712 416 000	64 287 584 000

2. IMF

International Monetary Fund (IMF) was established more than 60 years before World War II (this organization that was initiated in 1944 at the bretton woods conference and formally created in 1945 by 29 member countries). with the initial goal to build a framework of economic cooperation that can avoid rehash of disastrous economic policies that have contributed to the great depression in the 1930's and global conflict. IMF an organization that works to foster global growth and economic stability, one of their task that is to provide financing and advice for members that was having a economic difficulties and

work with developing countries to help them achieve macroeconomic stability and reduce poverty. Other than that the IMF is also on duty within research, statistical, forecasts, and analysis based on tracking the economy and global markets, regional, and individual. Then provide loans to help countries overcome difficulties including soft loans also to help fight the poorness in developing countries. the last in the form assistance and training for help states in improving their economic technical management.²⁰⁴

Before we associate role of the IMF with the financial crisis in Greece, it helps us see first how the relationship between the IMF and the European Union. IMF be actively engage with the European Union as a provider of policy advice, funding, and technical assistance. As for the role of the IMF for euro zone area namely providing policy advice and economy analysis which is the standard regulatory process for individual economic out which the culmination of these activities by holding a routine consultation between individual member states. Besides the IMF staff also hold consultations per year for the whole euro zone region. Because the IMF is one of the consultation for the euro zone area, IMF staff to invite colleagues from the European Central Bank (ECB) and the European Commission (EC) as well as the other European institutions which have the responsibility for monetary policy, the exchange rate and general policies in other fields such as the monitoring of fiscal policies, financial sector regulation and supervision, trade and rivalry policies, as well as the other structural policies to exchange ideas with each other. In March 2013, for the first time finance sector assessment program (FSAP) concluded today not only need rapid progress in addressing the European financial crisis but rather must also highlight remaining challenges in repairing bank balance sheets, other than that needed anyway how argues which rapid and sustained for progress towards the mechanism monitoring single. Since the global crisis engulfing the European, a number of developing countries from European Union ask help of IMF to address the

fiscal and external imbalances. Commencing from 2010-13, four member of the euro area Greece, Portugal, Ireland, and Cyprus access the resources from the IMF made available through stand-by arrangement (SBA), Flexible credit line (FCL), precautionary and liquidity line (PLL), and extended fund facility (EFF). In September 12th 2013, IMF has some regulations with 7 EU countries among others (1) in 2009, IMF signed a number of new loan and agreement in improving its capacity in before you can support the member countries during the lasts global economic crisis. (2) in 2011, change and expand the new arrangement to borrow in order to become (NAB) more effective and active. (3) April 2013, entire agreement in 2009 was discontinued and (4) Desember 2011, euro area countries agreed to provide additional resources to the IMF until €150 billion (around US\$200 billion).²⁰⁵

But German as one of the richer European Union state will not provide assistance to Greece, if we view relief that come only from Imf very unlikely Greece's economy can come out from crisis. IMF provide a quota of for Greece ranged €900 million while it Greece requires of fund more than €10-12 billion. Another program is applied by IMF is withdraw the funds is gradually linked to criteria of economic. In other words, IMF will dilute the funds for more than 6 months in a separate and for the first phase in number would reduced half of the total. It means Greece only receive funding of about €-5 million during the next few months, this amount is relatively a smaller from fund that must be paid Greek in the same period (€20 billion) also a smaller from the Greece need to period this year (€50 billion). IMF also insists that every country in this region had to top-up their own program. If it is implemented within Greek case would definitely be difficult. In this case it is clearly visible IMF can not help Greek to come out from crisis which was sweeping country's economic unless other eurozone countries to participate was substantially could be by way bilateral lending or with lend their quota to Greece.²⁰⁶

The institutions will not give aid granted to Greece, Greece should follow some requirements was presented by three institutions. As for the proposed requirements are cut the minimum wage by 22 percent from €751 to €600 per month, liberalization of employment law, pension cuts, and reduce the number of civil servants by 15 thousand people.²⁰⁷ Budget cuts such as an effort austerity amounting to €3,3 billion or US \$4,35 billion.²⁰⁸ not only that, pension bonus is also limited to € 800 but bonuses will be eliminated for employees who have a salary of €2.500, as well as with cigarette and alcohol taxes would be raised more higher which ranged from 21%-23%.²⁰⁹

So that state Greece will not bankrupt, even this step will ensure Greece remains in the euro zone. If bankruptcy occurred in Greece can make the people of the state lost deposits because the state can not pay salaries and pensions and there will be a shortage of imported goods such as medicines, fuel, and machinery.²¹⁰ Strong disapproval from the requirements of which created IMF come from Greece community, they assume IMF will not make state of for the better with the requirements addressed to country that was in crisis. Since May until July on 2011, Greece citizens make a protest, they were talk about their disappointment toward Greek economic system and other European country because was already bring them into debt. They didn't want to pay mismanagement which caused by Greek and foreign politicians, bankers, speculators, multinational banks, and corrupted civil servants.²¹¹ Related to issues the Greece, Greece previously predicts if Greece can cut spending government then the to quickly growth of Greece economy will regain its footing and the employment rates will increase, but in fact the Greek economy still shrank after 2 years have passed even unemployment reaches 25%. Therefore Greece accused IMF funds deliberately downplayed the effect of saving in Greece by making a few program which should be run, although it should give rise to a series of protests, strikes and riots which eventually led to George Papandreou (socialist leader of PASOK) should resign from his

post.²¹²

Because it was until present Greece is still very difficult to get support from the people that would otherwise require trimming package by the IMF and other institutions. Because in addition received bailouts from the European Union and the IMF, Greece has also made a deal with private creditors on the approval of the Greek bond write off €100 billion.²¹³

After several meetings ultimately taken various measures to reduce the fiscal deficit to swell immediately taken to smooth disbursement of bailout funds, one of which is a mandatory requirement that must be obeyed by all prospective patients IMF. With this bailout state of the market will be better.²¹⁴

International Monetary Fund and European Union finally took the decision to provide aid to Greece in order to avoid Greece default on debt of €9 billion. As for the total amount spent by €110 billion, but all it is not a free assistance. Greece must save budget by cutting public employee benefits, expenditures that can save around €30 billion in three years.²¹⁵ After giving bailouts to Greece, European Union prepares €1 trillion fund in order to prevent the spread of the debt crisis and prevent disturbance to euro exchange rate. Even the European Commission prepared a fund of €60 billion which will be given to countries around the euro zone. Moreover, European Commission also pledged funds totaling 440 billion euro support. Assistance will come from the IMF, which these funds are half of the total European Union contribution to the IMF about €250 billion.²¹⁶

3. European Central Bank

European Central Bank (ECB) is an institution that was established to replace European Monetary Institution that has stood since 1994, ECB was established on January 1st 1998. In ECB whose a role to take decisions is board

of government who consists from the executive board of ECB and central bank governors from all state who participate in a EMU, and formulate monetary policy.²¹⁷ ECB was given complete freedom in a carrying out its duties one of which is together with 12 Central Banks from countries that joined in a European Union, ECB adopts the euro as the single currency Euro Zone which known as the Euro system. ECB located exactly on the heart the Euro system with main task to ensure price stability in the Euro Zone. In achieving this should through strategy which known as the second pillar, (1) setting targets for growth of money supply and (2) assess the trend of future price including risk to price stability with examining the trend of wage, exchange rate, Long-term interest rate, various steps of economic and other. not only it ECB also has responsibility for collect all of information statistic the required good from national authorities and economic actors, financial institutions, then followed the developments in the banking sector and finance as well as promoting the exchange of information between ESCB and banking authorities.²¹⁸

In a financial problems of Greece, ECB could be said important player in providing program assistance to Greece.²¹⁹ There are two ways that is done ECB in decision making so that may impact on the Greek crisis.²²⁰ *First*, on May 3rd 2010, ECB decided to suspend the application of threshold minimum credit rating in a collateral requirements as purposes of Eurosystem credit operations in a case of debt instruments valuable which was published or secured by the Greek government, and this has government been approved by the Greek through negotiation who lasted between European Commission, ECB, and IMF.²²¹ *Second*, on May 10th 2010, ECB announced a series of steps so it can handle the tension severe at segmen of market certain who can inhibit the transmission mechanism of monetary policy. one of which is announcement “public intervention in the euro area and debentures the private markets to determine the depth and liquidity in segment of market which

dysfunctional”.²²²

On November 14th-23rd 2010, team from EC, ECB and IMF visiting Athena in the framework of review the Greek government’s economic program with provide a loan of €80 billion (came from donations countries of euro area) and €30 billion (according to the agreement). the main purpose is done these visits is restoring fiscal sustainability, keep the stability of financial sector for improving the competitiveness in order to create the conditions for growth which sustainable and employment opportunities.²²³

ECB continue to fight in limiting the impact of the Greek debt crisis toward European financial institution. There are some banks that provide collateral in the form of loans to ECB so it can help Greece to give billions of euros in form Greece Government bonds and marketable securities. These banks like French banks which has almost \$80 billion exposure to Greece, German which has almost \$45 billion moreover German hypo real estate have the greatest exposure with funds amounting €9,1 billion. Commerz bank hold €4,6 billion on Greece bonds.while for banks and other public sector like Landesbanken hold billions of euros in Greek bonds. Based on the rules of ECB, if the guarantee from various banks has decreased value of loan then the lending institution required to post more guarantee.²²⁴

4.2.German attitude

In April 1941,German defeat the Greek during the line north of the country. For 3-years occupation of German in Greek proves the existence of hell on earth, it was seen from the fact the famine that cause victims more than 300.000 people not only it there is other crimes committed German during the war such as rapes and looting villages, systematic execution able-bodied men, and some cases women and children. In 1944, when the shaft power only lagged slightly Greece as soon fragmented into civil war for 3 years due to the

power vacuum. More than 70 years since the beginning of occupation, Greece stated apart from the statement on reparations of that are still not paid German still has two other debts against the Greece (1) in the form of forced loans which conducted German against the Greece. (2) reversion ancient artifacts which stolen at the time of occupation.²²⁵

Based on history, in 1947-1952 German granted a waiver on foreign debt including suspension interest payment. Which at that time forgiveness of total debt of west German more than 280% these things mean comes from 1950 gross domestic this country. Greece also has a role in give debt to German when the post-World War II. Within a London Treaty, Greece agreed to postpone the damages when the war that arise since 1933 until conference the German reunification was held. In 1960, German had pay compensation but only the individual. In 1950, German tax system at the time could be said to be not perfect so that cause shortfalls in of income at the time of war. In 1953, German pay off its foreign debt by 50% with make payments during three decades thus allowing German to return to international capital market and join with International Monetary Fund, World Bank, and World trade organization.²²⁶

German is the largest country in Euro Zone with has a population of 82 million and GDP of \$36 trillion (€2,5 trillion), in 2011 German make about one forth population the Euro Zone with give contribution an overall almost 30% the Euro Zone of GDP. Therefore German realize the impact which would appear have on balance the Euro Zone and financial stability of the Euro as a currency. Besides it German was also an export of country third largest after China and the USA with total export 41% from GDP, approximately 63% from German export flowed to other European Union countries. Power of German export comes from company and consumers around the world so it can create the contribution of trade surplus which significant. With import

about €64,6 billion German is also one of state the third largest importing and to drive growth of economic in within and outer the Euro Zone. This is interests of German in strengthening the framework of institutional the Euro Zone, ensure financial stability, sound fiscal policy, and competitiveness.²²⁷

Euro Zone establish a rescue fund which known as the European Financial Stability Facility (EFSF), this institution was formed order to be able stabilize the Euro. In future this institution would providing €440 billion as collateral for loans Euro Zone countries, compared with the current total is only around €250 billion. Then state guarantee the would increase longer be a €780 billion compared with the previous total only about €440 billion. German stocks increased from €123 billion to €111 billion.²²⁸

Accordance with agreemnet reached by the heads of state and Government on July 21st 2011, instrument of ESFS would applied to the ESM and these would were amended on February 2nd 2012. With be equipped a set of flexible of instruments including financial aid programs, tools to interven both primary and secondary markets, preventive measures help, and loans for the recapitalization of financial institutions. Agreement will be interconnected with fiscal, in which both of this agreement will complement each other in fostering fiscal responsibility and solidarity in bringing together the European economic and monetary. The next only countries that have commitment to abide by the rules of a new fiscal pact with reducing and avoiding debt can get financial assistance from ESM.²²⁹

German is one of the rich countries in the EU who oppose expansion of the European Stability Mechanism (ESM), the Euro Zone permanent bailout mechanism, and to increase purchases of European government bonds.²³⁰ Because German has set aside rest of fund from EFSF, besides it German also would ask for help from member states of G20.²³¹ It's why the ESM a little slow implementing policies to states the affected crisis, because in a running it

need a ratification of countries which represents 90% of the authorized capital one of them is German.²³² Actually rejection which conducted by German very influential on bankruptcy of Greek economy and transmission of Greek problem to the financial system Europe. In the same time the value of euro to the dollar continues to decline, although last year euro already exists in the lowest position compared to dollar. In May 11th 2010, German central bank announced about German current account balance which showed a surplus amounting €18 billion whereas an initial estimate of €12 billion.²³³ Finally, on September 12th 2012 German refused efforts to blocking of ESM after German parliament approved the ESM and the fiscal pact.²³⁴

German is the European Union's role as the motor refused to give bailouts to Greece.²³⁵ German believes the creation of a boost bailout funds are not economically viable, because it's not like asking other European central banks continue to print money. Germany only wants discipline eurozone countries because it is much more important than just a bailout fund disbursement.²³⁶ Because of the continuous pressure from the countries that are members of the G-20, finally German reconsider about the bailouts.²³⁷

With the signing of a document that provides a European stability mechanism (ESM), part of the largest German contribution to euro zone countries in the amount of €190 billion.²³⁸

Some people asked why German have an important role of in the membership of the euro zone, especially the completion of Greek economic crisis, it was German monetary interest that have a considerable influence in shaping the EMS operations, EMU, and the institutional structure so does the role of and powers of ECB.²³⁹

Germany wants the 16-nation euro zone member to show the draft state budget to the European central bank or other independent institutions. This is

done so that governments in the euro zone budget discipline matter of state. Germany also proposed postponing the voting rights of countries that violate budget rules. Program stability for the euro zone will be asked to conduct an independent test by the ECB or the independent research group.²⁴⁰

German finance ministry has set aside € 20 billion to 25 billion obtained from the 16 countries that use the euro single currency to help Greece. The German portion of the package €4-5 billion which the transaction will be handled by the German government bank (KfW).²⁴¹

4.3. The Impact on the Euro Zone, Europe, and other countries

Euro, first launched on January 1st, 1999 for the first time these currencies is used as a commercial and financial transactions. At the time only 12 countries which agreed use the euro currency, while Greek following the in 2001.²⁴² Purpose of using the euro is a continuation of establishment the market along in EU which negates the trade barriers and services or labor mobility well as other factors of production between countries. the market along and the euro users can strengthen European economic linkages.²⁴³ Eurozone previously included in one of the regions that have a strong currency, but now the euro zone is not different from an area that is fairly unremarkable look at high unemployment in the region. Based on recent data from the European Union's statistic agency approximately 17,1 million men and women out of work in February 2012, in other words the unemployment rate that occurred in the eurozone increased by approximately 10,2% compared to the year in January 2012 that only about 10,1%.²⁴⁴ This increase occurred because of the strict austerity measures undertaken in government spending to fight the crisis.²⁴⁵ One of the Greek economic crisis of the euro is decline in the euro exchange rate to the lowest point. The euro was trading 0,3% lower at

1.2320 US\$, euro exchange rate may have declined by 10% in just one week alone.²⁴⁶


Author will use the domino effect theory in analyzing the impact of the Greek debt crisis. Like those expressed by Eisenhower, domino effect is a term used to describe a phenomenon changes with consecutively based on the principle of geopolitical and geostrategic. Because this theory focus on the geographical, the object which intended fall on regions that have a same geographical location to each other.²⁴⁷ Now, I am going to invite the reader to see some euro zone countries in the region affected by the negative impact of the Greek economic crisis, first from Spain. Spanish economy fell by 0,3%. The main factor due to lower private consumption in January and February which fell to it lowest level since 2010.²⁴⁸ Spanish prime minister declared Spain can not support themselves in the long run by using a high-cost bonds, this is due to interest expense incurred Spanish government bonds reached 6,8% per year. So the Spanish have difficulty to enter the market and sell the bonds at a decent price.²⁴⁹ Hence the Spanish unemployment rate is highest in the Euro Zone with a percentage of 2,3%,²⁵⁰ and resulted in the Spanish credit rating drops over 2 levels and then followed the Spanish stock price declines 3%.²⁵¹

The following table describes the long term debt ratings of the countries of the Euro Zone;²⁵²

Tabel 7. Country's long-term sovereign debt rating

State Agency	Moody's	S&P	Fitch	
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Belgium 	Aa3	AA	AA
Cyprus 	Ba1	BB+	BBB-
Estonia 	A1	AA-	A+
Finland 	Aaa	AAA	AAA
France 	Aaa	AA+	AAA
German 	Aaa	AAA	AAA
Greece 	C	SD	B-
Ireland 	Ba1	BBB+	BBB+
Italy 	A3	BBB+	A-
Luxembourg 	Aaa	AAA	AAA
Malta 	A3	A-	A+
Netherlands 	Aaa	AAA	AAA
Portugal 	Ba3	BB	BB+
Slovakia 	A2	A	A+
Slovenia 	A2	A+	A

Spain 	A3	BBB+	A	
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Source: Moody's, Standard & Poor's, Fitch

For ranking the value based on investment, **Aaa / AAA** (Minimal

Risk), **Aa / AA** (Very Low), **A / A** (Low Risk), **Baa / BBB** (Intermediate Risk), **Ba / BB** (Substantial Risk), **B / B** (High Risk), **Caa / CCC** (Very High Risk), **SD / RD** (Selective Default failure to pay is limite).

This table describes the Spanish debt rating by Moody's and Fitch are at levels low risk, while in the view of standard & poor's that are in a position Intermediate Risk. World leaders increasingly concerned over the deteriorating economic situation in some European countries such as Greece, Portugal, and Spain. As well as spanish, rating agencies had downgraded Spanish government debt due to the increased risk.²⁵³

After the Spanish, let's look at dutch. Dutch is one of the most criticized Greeks because they think the country is very sloppy. Dutch announce their debt has now reached 4,5% of gross domestic product.²⁵⁴ Besides the Dutch government also failed to get parliamentary approval of the budget cuts, this could lead to a budget deficit target of 3% will not be reached in 2013 and can also result in downgrading the country's debt levels.²⁵⁵

French one next Eurozone member must willingly accept the debt ratings slashed, although the decline was slightly raises fears of increased risks to the financial ability of Europe (EFSF), it is because the French including the second largest guarantor of bailouts institutions rated AAA.²⁵⁶

Economic crisis that hit the EU members more widespread, after several European member states bankrupt due to the crisis. Now economic crisis spreading to Italy country which previously been a strength of the third economic giants of Europe. At the time it the level of Greece debt reach €1800 trillion.²⁵⁷ Since the occur of the global financial crisis in 2009, the Italian economy has decreased. In the third quarter of the Italian economy shrank 0,2%, in the fourth quarter of the Italian economy shrank 0,7%.²⁵⁸ European major banks also posted big losses. I am going to invite to view French bank which decreased net income by 42%. The decline was caused by the write off

and investment in TCW and its subsidiaries in Russia, Rosbank. The the largest German bank “deutsch” said it would cut 1900 employees, as Deutsche bank profits slashed by half in the period April-June. In Swiss, UBS fell by 5% due to lower trade and services revenue depleting but otherwise operating costs jumped sharply. Then, no 2 biggest in Spain (BBVA) net income decreased by 57,5% to make BBVA must prepare a reserve fund which asked the government to cover bad loans related to the property sector. As well as net income on bank Austria (erste bank) fell by 46% due to problems of Hungary and Romania.²⁵⁹

Euro zone, most likely the region will sink very large, look at the condition of 17 countries that joined in this area deteriorate very quickly. As well as the increase in unemployment in Germany, Europe’s biggest economy, and a slowdown in the region’s industrial product.²⁶⁰

Effect from crisis in Greece was strongly felt by employees and workers as assistant chief. Like in 2008 and 2009, paid employment has decreased since 1991 in the amount of 1,8% atau 52.281 people and this period for assistants work within family business decreased 1,9% or 5200 people.²⁶¹ Talking about unemployment in the Euro Zone reached 12% as a whole with a count of more than 19 million people unemployed, increased by 113 thousand people. Greece and Spanish are the countries that have the worst unemployment, when viewed as a percentage of each mesing in both countries reaches 26% with the level of unemployment among younger by 57%.²⁶²

Economic slowdown in the Euro zone has spread from the periphery to the center, for now only German and Dutch are still visible in a safe position. However given the worsening conditions of countries and export markets declined, most likely the major countries will experience a contraction. For example, Italian GDP fell 0,7 percent in April-June and Spanish contracted 0,4%. As did the Greek economy also continued to declined by 6,2% in the

first quarter continued contraction of 6,5%.²⁶³ According to the initial index level of consumer inflation in the 17 nation euro zone is seen to rise in March this can be said to be a very slow rise if saw an increase in August 2010 amounted to 1,6% and February reached 1,8%.²⁶⁴

Greek crisis also had an impact on the euro exchange rate of the euro and the currencies also cause weak trade, it happens as investors avoid risk of trading amid widespread fears that debt problems in the euro zone's happening. Euro declined 0,3% from 1.3636 euro/U.S. dollar was the lowest in 15 month.²⁶⁵

Economic crisis that hit Greece eventually also impact on Italy, Spain and Portugal. Investors sell government debt papers published by these countries, this is done because of concerns investors who think that the crisis has hit the three countries. not only that the rise of interest rates on Spanish government bonds to 5,7% be one reason why investors doing so.²⁶⁶ Portugal one EU country is experiencing a deficit of 9,3% of GDP. The situation in Portugal and the euro affect the stock market and bonds. Portugal index fell to 5% as well as the euro exchange rate also fell to 1,37 per US\$.²⁶⁷

Worst effects occurred in Greece, due to the economic crisis that hit most of the country's many Greek citizens leave their children at the shelter this is done because they are not able to meet all the needs for their children.²⁶⁸ Greek crisis also to reduced supply of drugs from pharmaceutical companies internationally, it is because the company prefers cash payment system than a credit card.²⁶⁹

Even some financial market participants take part concerned because some Southern European countries become involved in the budget deficit problems similar to Greece. As for the three things that contribute to a sense of worry for investors is *first*, southern European government austerity will affect

the growth of the European economy and the world economic recovery, if the world economic recovery is hampered profit growth in the corporate and banking world will automatically hampered consequently the global market will drop. *Second*, if the risk of arrears by the government of southern Europe enlarge and the result makes investors sell government bonds (SUN) in developing countries like Indonesian and buy up the US\$ as the safest currency. This situation weakens the Asia currencies including rupiah. *Third*, if the European Union, the IMF, and the European central bank bails will result in a negative impact for the euro. If German and France as the backbone of the European economy should publish government securities it means the European government debt will grow besides the European Central Bank to buy government securities southern Europe despite euro by printing money to buy it.²⁷⁰

In this case Greece require running as fast as possible to gain access to the financial markets had closed the door asked by investors that interest rates are so high that Greece sell debt securities. Financial crisis experienced by Greece have caused large protests including three major strikes of civil servants accompanied protests in the streets of the Greece. This happens because the citizens have to face some surprises among others trimming retiree money, higher contributions to pension funds, and tighter rules on retired.²⁷¹

Contagion effects of the financial crisis Greek made several European countries with the anticipated tightening belts. As practiced by developed countries in the second part of the European Union, these two countries to cut government spending in order not to fall in the budget deficit which is usually covered with debt. This step is done first of all to strengthen its financial position so as not to slam the financial storm is blowing from Greece. In this case Hungary must slash government spending 1-1,5% of Gross Domestic

Product in order to meet budget targets as set international monetary fund and the European Union. While Germany, despite the country's budget deficit was the smallest compared with the other EU countries. however, the German government still anticipated not only by government budget cuts but also tightening the belt in other areas. As for the other austerity measures namely cuts in social security and an increase in tax collection especially from the rich and money market.²⁷²

In addition to areas in the European Union banks in the euro zone have also begun to be avoided by the international financiers. European banks are now staying expects liquidity funding from the European Central Bank. Because the crisis that continue to prolonged, finally two Greek banks (National Bank of Greek and Eurobank Ergasias) decided to join. This is done to be able facilitate completion of the financial crisis in Greece.²⁷³

Because the economic crisis that hit Greece particularly alarming, both rich countries in the European Union region (German and French) confirmed to portugal for a bailout soon file in order to prevent market panic portugal who think portugal will have failed to pay debts, other than if portugal does not immediately apply the bailouts did not rule out debt crisis also spread quickly to Spain and Belgium which today are being exposed to debt problems.²⁷⁴ Financial crisis also makes the EU landscape turns into an unpleasant. Demonstration of the movement comes from the 20 members states of the European Union massive protest because it does not agree with the belt tightening that has cut salaries and pensions among workers. They regretted why UE leaders to concentrate maintain economic harmonization including the establishment of joint labor standards by ignoring the spirit of competition.²⁷⁵ Massive strike that occured in Greece could affect the course of import and export activities includes the entry of fuel supplies to the Greek²⁷⁶, besides the demonstrations that occured in Greece also led all fight

and ground transportation is not running stop. As well as government hospitals almost empty only emergency officials are remaining. All broadcast both radio and television dismissed the 24 hour.²⁷⁷

Demonstration occurred at the time of the audit team from the European Union, the International Monetary Fund (IMF), and the European Central Bank is conducting the financial audit and reform measures in Greece in order to determine whether the Greek bailout is still worth getting for the umpteenth time.²⁷⁸

For the umpteenth time the crisis in Greece caused huge losses for the company that stands in the country, this time the Greek edition of Mickey Mouse magazine that has been around for 47 years.²⁷⁹

The longer impact from Greek economic crisis increasingly worrying the EU region. Unemployment rate across the euro zone is increasing, Spanish continues to face increasing capital flight flows after a scene because the banks will bankrupt. Amount of capital came out from Spanish as big as €163,2 billion during first five months of 2012., for 2011 was only €14,6 billion.²⁸⁰

Economic crisis also caused the high rate of crime in Napoli. During the year 2011 just been rate of crime in this city has reached 641 cases of crime, whereas in Italy amounted to 2.710. crimes which often occur in city Napoli such as pickpocketing, robbery, and auto theft.²⁸¹

Greek economic crisis is not only haunted the European Union but also for the region of Asia and America.²⁸²

1. American

The EU's relationship with the United States is key for both partners

for three main reasons. *First*, have similarities in character, both countries are democratic country and both have a economic system “free market” so that both countries establish a fort which is known “free world”. *Second*, Europe and United States are main trading partner and also world leading traders. On 2005, US provides 13,9% from value of EU imports in the form of manufactured products and 23,7% from the value of EU exports manufactured. In the same year, US and UE is country that has the top ranking in the list of the world’s major trading partners in trade of goods. *Third*, US and UE are two key architect and enforcer world trading system (now called WTO previously called GATT).²⁸³

After look how US and EU relations, let us look discussion about the financial crisis which was hit one member of European Union are Greece. Impact of Greek finance crisis to US would feels if euro has decreased giving rise to difficulties for American companies to sell goods to foreign countries. like bank, American banks very worry if market speculation will fall into the economy much larger than Spain and Italy. Because these two countries highly dependent on credit markets to stay afloat but their debt is held by large European banks. The United States of banks have around \$700 billion loans given to England, around \$300 billion in French and German and the leaders of Euro Zone and around \$50 billion in Italy and Spain. American largest financial houses also have billions of dollars to the credit risk on 5 state the endangered like Greece, Portugal, Ireland, Italy, and Spain.²⁸⁴ Greece is not a country which has enough influence to American but if financial problems that struck Greece spread to Spain and Italy euro can explode. Exports are supporter important for American economy and Europe play an important role in it. More than half American foreign investment and one-fifth American exports to Europe. American manufacturers have added as many as 167.000 jobs for 5 months past but the collapse of the European economy can inhibit the American growth with 2 ways decline of Europe demand for American

goods and the value of euro will sink so that American products become more expensive.²⁸⁵

More than 20% American exports exist in Europe and 14% in 17 countries euro zone. During first eight months of 2011, total exports to EU amounted to \$177 billion then briefly rose 15% in 2010. Even so American was suffered a trade deficit of \$65 billion with EU. German and England are the largest trading partner of American with exposure exporters not so large in the Southern Europe countries. Italian import goods and services from American only \$14 billion on last year, Spain \$10 billion and Greece only \$1 billion. As for the American industry which very dependent on Europe trade like chemicals, transport, computers and electronics.²⁸⁶ Not only exports and banks, American also have investments in several companies exist in Europe like General and Ford also some other. Crisis had a negative impact for American cars, one of which Ford who suffered a loss of \$306 billion in the third quarter in Europe.²⁸⁷

2. China

Greek crisis also made some asian countries in the region concerned, it is seen from one of the countries that are the mainstay for global economic growth is now no longer want to lend their funds to European banks and do not want anymore into derrivative transactions.²⁸⁸

One of the things that makes the Greek economic crisis began to be felt in the Asian region namely because of the condition of the euro is in a weakened state, make the investor to run some of their funds into a new place that can provide benefits and this resulted in some developing countries in Asia like South Korea and China the flow of hot money flows a very swift. So if left alone, it will create new problems and creating instability in the region asia.²⁸⁹ Besides the problems slowly appearing in asia region can cause asia

trade plummeted giving rise to not pleasant effects such capital will evaporate and economy in that region will heat up.²⁹⁰

Such as the American and Indonesian, Greek financial crisis had no direct effect on China. But, because Greek is one of the EU member is indirectly china feel the effects of the crisis. Europe is the major export destination china number two after American, because it does little china company lid due to the crisis in both continents, chinese export value to Europe also dropped dramatically.²⁹¹ European crisis quite affecting economy of china especially in financial sector and trade markets. For the financial sector, European crisis effect on the stock market and bond prices which occurs through contagion effects as the impact of capital outflow and deleveraging by european banks whereas in international trade sector china of economic slowdown due to declining exports to Europe due to fiscal consolidation and depreciation of the euro.²⁹² European Union is also a substantial export market for china, with china export to Europe could reach US\$293,1 billion in 2008 and US\$251,8 billion in 2009. But if the European market crash china export level will be impaired. This can cause china products for new markets like ASEAN region.²⁹³

The country's financial crisis and an aging population makes a number of EU member states increasingly miserable. However, not only the EU region are experiencing a crisis, as well as English. Decline in tax revenue, decline in productivity, and intense competition in the world market make english should lose state revenue. Therefore English should be the country tighten spending and resulted in hundreds of arts organizations in the UK have to lose donations due to the reduction of state expenditures.²⁹⁴

Economy of crisis also impacted in New York, it could be seen with rise in crude oil prices. For month of july prices crude oil into US\$84,03 per barrel, whereas the prices Brent crude oil per month of August dropped 29

cents or 0,3% become US\$ 93,76 per barrel.²⁹⁵

3. Indonesia

Whether the Greek financial crisis will have an impact on Indonesia, author would invite the reader to see how EU and Indonesian relationship. Indonesia is a country that has had extensive colonial relationship with several Europe countries like United Kingdom, Portugal, and Netherlands. Indonesia including developing countries and has a special relationship with EU. Asia-Europe Meeting (ASEM) who was established in Bangkok on 1996 ago provide a forum of cooperation additional between Asia and Europe region with the aim to strengthen the cooperation in three pillars (1) politics and security, (2) economics, trade, and investment, and (3) cultural and social sector. Trade relations between Indonesia and Europe is quite important for both sides, the end of 1970 EU policy to help Indonesia in a field of economy and trade is largely focused on the forestry sector. In 1998 focus turned into rice then trade and investment in new millenium.²⁹⁶

Talk about the financial crisis who was sweeping Greek not have a major influence on Indonesia but Indonesia still have to be careful in running economy system, because Indonesia relied on American and European if dollar and euro has decreased rupiah²⁹⁷ will experience a decline. Greek crisis has not affected to Indonesia when Greek civil servant have anxiety due to threat of layoffs, but Indonesia will really feel the significant impact from Greek crisis if Greek is the main purpose to export and import of Indonesian. But Indonesia must still wary because Greek is one of the EU member and has a debt with EU can not even pay so that other Europe countries will experience an economic downturn and this likely to impact on the Indonesian economy.²⁹⁸ In 2008, trade relations between Indonesia and Greece have decreased until 267 million, 2009 become 228 million and 2010 down drastically to 164 million. As for the Indonesian goods which are exported to

Greece, among others plants oils, paper products, shoes, car tires, batteries, and textiles. While the Indonesian imports from Greece, among others powder paper and olive oil.²⁹⁹ While Indonesia trade relations with the EU region also had decreased on 2009 Indonesian exports decline reaching 14,76%, as for the value of total EU trade with Indonesia reaching US\$22,11 billion. Some types of Indonesian exports to European Union like coal, crude palm oil (CPO), footwear, rubber, copra, textile and garments as well as components of electronic devices. While Indonesia imports from Greek is helicopters, satellites, milk, and dairy products well as machinery and electronics.³⁰⁰

CHAPTER FIVE

CONCLUSION

Sovereign debt crisis is defined as financial and economic condition in a country which has not the ability to pay its public debt, and the leader from this country ignore the problem due to its political conditions. This cases occurs in one of the Southern European member states “Greece”, to analyze this case author has two main questions purpose of this thesis:

1. What caused the Greece sovereign debt crisis ?
2. Where is the implication of the effect on the sovereign debt crisis ?

The conclusion which author gets from her thesis is Greece sovereign debt crisis occurs because Greece is a country which already blinded by power, money, and the quality of greed which is too high, high of tax evasion, and the high-level of corruption in this country. Greece debt crisis does not influence every country, only some country in Euro Zone or European Union because the same location and currency. While other country beside Europe regions like China, United States, and Indonesia do not have direct influence from Greece financial crisis because Greece is not the main export country for

United States, China, and Indonesia. For helping Greece to out from crisis, IMF give fund with some requirements which is known “tightening belt” to Greece. In the end situation Germany also give support to Greece although on previously time Germany refused help Greece. German was thinking still have rest of funds from EFSF and can use this funds to help Greece, then Germany got pressure from G-20, and finally Germany is also afraid of Greek debt crisis could lead for European Union into crisis.

Greece is a country famous with several kinds history in ancient time, famous with several kinds tourism beautiful places. But why today Greece faces serious financial problems that make other countries worrying ? From economic point of view, Greek economy is relative smaller than other Euro Zone countries. Greece depends on tourism sector as an investment center for European Union. When Greece was choosing to join as a member of the Euro Zone, Greece understood the requirement which proposed on that time is one of its value from the debt not more than 60% of GDP. Greece understood too its economic situation not good to join in Euro Zone. So Greek government was implementing wrong policies with giving high salary to government employment, giving high allowance to retired government pension, and tax fraud. The fund using to welfare for the people of Greece is loans which obtained from European Union loans banks or foreign banks. Greece intention is to become a member of Euro Zone in order to get a low interest payment from European Union banks. Many countries unaware of the real condition of Greek economy until the time when Greece debts are arising and Greece cannot pay off all the debts. One by one credit rating agency lowered the Greece credit debt level started from S&P, Moody’s, and Fitch. Greece faces a bankruptcy. From this situation Greece has taking steps for out of crisis, Greece tried applying help from three institutions which known with TROIKA (European Union, IMF, and Central Bank). The three institutions agreed to help Greece but in certain condition, which are: Greece must comply several

requirements that is given from IMF such as: (1) cut salary pensions, (2) liberalization of employment law, and (3) reduction the number of civil servants to 15 thousand people.

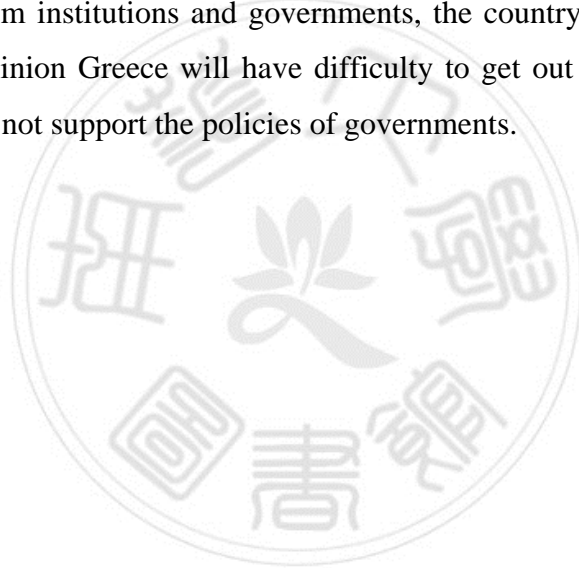
Since the Government agreed to impose tightening belt in Greece, many problems occur in its country. Greek citizens have been refusing all requirements which submitted by IMF because they are feeling the requirements making situation worse than before. Greek citizens have not used the state money, these are wrong assumptions. As a response to refuse tightening belt Greece citizens are doing demonstrations which occur through Athena road. Germany is very supportive towards tightening belt policies which were created by IMF for Greece. Germany has not helped Greece to solve its financial problems. Germany only want sixteenth members of Euro Zone country can show every draft budget from Europe central bank or other institution independents until government from every country in Euro Zone region can discipline sovereign financial problems. Greek financial crisis in caused unemployment level more high. One of author question focuses on the effect which occur in Euro Zone to answer this question author uses domino effect theory, because this theory is the idea that some change, small in itself, will cause a similar change nearby, which then will cause another similar change, and so on in linear sequence. Same with Greece conditions right now, financial crisis which occurs in Greece can make big influences to other countries not direct but slowly. Some countries in Euro Zone at previously time already have had bad economic situation like Ireland, Portugal, Italy and Spain, including England and France. These countries worry that Greek debt crisis may have bad influence and make their economy more bad. Since economic crisis occurs in Greece, from April until June, GDP of Italy has decreased around 7% and Spain 0,4%. European Union was in worry, that Greece can not solve its problems and cause Euro currency decreasing. Looking at situation some countries have imagine if at previously time they

have had known country from Euro Zone got a crisis with domino effect they would not have chosen to join in Euro Zone and better stay to use own currency.

How are the countries outside of European Union ? The author only analyzes for three countries like (1) United States (2) China and (3) Indonesia (economic system more orientate to United States and Europe). Greek sovereign debt crisis makes these countries worrying. The largest American financial bank has credit billion dollar in five risk states like Greece, Portugal, Italy, and Spain. Actually effect from crisis would not feel directly by United States. Effect from crisis has directly influence to United States, if crisis decreases Euro currency which can cause United States company difficult to sell its stuff in foreign country. China and Indonesia also have the same condition with United States. If crisis has not influence to Euro currency, it would not have direct influence on both of these countries. The difference is European crisis can give a profit for China. If China exports have not progress in European Union, China can move its market share to developing country like Indonesia. Because in developing country china can sell its stuff and win the market in Indonesia so China can get a lot of profit. While Indonesia, think that Greece debt crisis has not directly influence, but Indonesia still must be careful. The reason Indonesia not really worry toward Greece debt crisis because Greece is not main market for Indonesia. So Greece debt crisis would not have direct influence of the Indonesia. But if Greek crisis has influence to Dollar and Euro and it automatically decreased Rupiah (Indonesia currency).

Actually at that time Greek government should not have hurrying to join in Euro Zone members, only to got low interest applying loans to every European banks. More better first Greece fixed its economic situation and still to use Drachma as its currency. After its economic situation more stable, Greece can apply to join as a member in Euro Zone region.

To help Greece out of crisis, my opinion is Greece citizens must know more clearly about states budget in Greece until citizens understand why crisis occurs in Greece. For what, government use the funds which lead to such crisis. And the Greek citizens have to support tightening belt which implemented by IMF until Greece economic situation to be stable again. In a country some institutions, governments, and citizens should cooperate together. If institutions and governments work alone without support from citizens, a country will not work perfectly. If citizens work alone without support from institutions and governments, the country will not the stability. My last opinion Greece will have difficulty to get out from crisis, if Greece citizens do not support the policies of governments.



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