Chronology of the Eurozone Crisis

CONTEXT: THE TREATY ON EUROPEAN UNION ESTABLISHED THE foundations for the eurozone by introducing the Economic and Monetary Union (EMU) as a key pillar of the European Union. All member states of the European Union are automatically members of the EMU, but only those countries that adopt the euro as a common currency belong to the eurozone. Criteria for membership in the eurozone include (1) price stability, measured by an inflation rate not exceeding 1.5 percentage points above the three best performing member states; (2) "soundness and sustainability of public finances," as measured by a government deficit not exceeding 3 percent; and (3) exchange rate stability.[2]

Eleven member states became founding members of the eurozone when the euro was introduced on January 1, 1999: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. Greece joined two years later, followed between 2007 and 2014 by Cyprus, Estonia, Latvia, Malta, Slovakia, and Slovenia. Lithuania is scheduled to become the eighteenth member state on January 1, 2015. The United Kingdom and Denmark are permitted by treaty to remain outside the eurozone; Sweden also does not belong because of choice and technically not meeting all of the convergence criteria.

The eurozone performed reasonably well until the onset of an international financial and economic crisis in 2008 that prompted the collapse of a number of banks on both sides of the Atlantic, a decline in the value of real estate, and a surge in government deficit spending. Member states in the eurozone whose economic performance was most adversely included Greece, Spain, Portugal, and Ireland. The best-performing countries were Germany and Poland.

Table C-1 Eurozone Economic Performance Indicators, 2008–2012

	Annual GDP Growth, 2008–2012					Average
	2008	2009	2010	2011	2012	2008–2012
Austria	1.4	–3.8	2.1	2.7	0.8	.6
France	–0.1	–3.1	1.7	2.0	0.0	–2.0
Germany	1.1	–5.1	4.2	3.0	0.7	3.2
Greece	–0.2	–3.1	–4.9	–7.1	–6.4	–4.3
Italy	–1.2	–5.5	1.7	0.4	–2.4	–5.1
Ireland	–2.1	–5.5	–0.8	1.4	0.9	–6.1
Poland	5.1	1.6	3.9	4.5	1.9	3.4

(Continued)

Table C-1 (Continued)

	Annual GDP Growth, 2008–2012					Average
	2008	2009	2010	2011	2012	2008–2012
Netherlands	1.8	7.0	1.6	1.0	−1.0	1.0
Portugal	0.0	−2.9	1.9	−1.6	−3.2	−1.2
Spain	0.9	−3.1	0.3	0.4	−1.4	−2.5
Sweden	−0.6	−5.0	6.6	3.7	0.7	1.1
United Kingdom	−1.0	−4.0	1.8	1.0	0.3	−0.3
In Comparison						
United States	−0.4	−3.1	2.4	1.8	2.2	0.6
Canada	0.7	−2.8	3.2	2.5	1.7	1.1
Russia	3.2	−7.8	4.5	4.3	3.4	1.5

Source: The World Bank, *The World DataBank* (2013), www.worldbank.org.

The Euro Crisis Unfolds[3]

2008

- In December, EU leaders agree on a 200 billion euro stimulus plan to help boost European growth.

2009

- In April the European Union orders France, Spain, the Irish Republic, and Greece to reduce their budget deficits.
- In October, amid much anger toward the previous government over corruption and spending, George Pandreou's Socialists under Prime Minister George Papandreou win an emphatic snap general election victory in Greece.
- Greece is burdened with debt amounting to 113 percent of gross domestic product (GDP)—nearly double the eurozone limit of 60 percent. Ratings agencies start to downgrade Greek bank and government debt.

2010

- In January the European Union condemns "severe irregularities" in Greek accounting procedures. Greece's budget deficit in 2009 is revised upward to 12 percent, from 3.7 percent, and more than four times the maximum allowed by EU rules.
- The European Central Bank (ECB) dismisses speculation that Greece will have to leave the European Union.
- In February, Greece unveils a series of austerity measures aimed at curbing the deficit.
- On February 11 the European Union tells Greece to make further spending cuts. The austerity plans spark strikes and riots in the streets.

- The eurozone and the International Monetary Fund (IMF) agree to a safety net of 2 billion euros to help Greece—but no loans.
- In April, following worsening financial markets and more protests, eurozone countries agree to provide up to 30 billion euros in emergency loans.
- On May 2 the eurozone members and the IMF agree to a 110 billion euro bailout package to rescue Greece.
- The euro continues to fall and other EU member state debt starts to come under scrutiny, starting with the Republic of Ireland.
- In November the European Union and IMF agree to a bailout package to the Irish Republic totaling 85 billion euros. The Irish Republic soon passes the toughest budget in the country's history.
- Amid growing speculation, the European Union denies that Portugal will be next for a bailout.

2011

- In February eurozone finance ministers establish a permanent bailout fund, called the European Stability Mechanism, worth about 500 billion euros.
- In April, Portugal admits it cannot deal with its finances itself and asks the European Union for help.
- In May the eurozone and the IMF approve a 78 billion euro bailout for Portugal.
- Talk abounds that Greece will be forced to become the first country to leave the eurozone.
- In July the Greek Parliament votes in favor of a fresh round of drastic austerity measures, the European Union approves the latest tranche of the Greek loan, worth 12 billion euros. The eurozone agrees to a comprehensive 109 billion euro package designed to resolve the Greek crisis and prevent contagion among other European economies.
- In August, European Commission President Jose Manuel Barroso warns that the sovereign debt crisis is spreading beyond the periphery of the eurozone.
- The yields on government bonds from Spain and Italy rise sharply—and Germany's falls to record lows—as investors demand huge returns to borrow.
- On August 7 the ECB says it will buy Italian and Spanish government bonds to try to bring down their borrowing costs, as concern grows that the debt crisis may spread to the larger economies of Italy and Spain.
- Italy passes a 50 billion euro austerity budget to balance the budget by 2013 after weeks of haggling in parliament. There is fierce public opposition to the measures—and several key measures were watered down.
- On September 19 Greece holds "productive and substantive" talks with its international supporters, the ECB, European Commission, and IMF.
- The gloomy mood continues on September 22, with data showing that growth in the eurozone's private sector shrank for the first time in two years.
- But when, on September 28, European Union head Jose Manuel Barroso warns that the European Union "faces its greatest challenge," there is a widespread view that the latest efforts to thrash out a deal have failed.

- On October 4 eurozone finance ministers delay a decision on giving Greece its next installment of bailout cash, sending European shares down sharply.
- Speculation intensifies that European leaders are working on plans to recapitalize the banking system.
- On October 14, Group of 20 (G20) finance ministers meet in Paris to continue efforts to find a solution to the debt crisis in the eurozone.
- On October 21 eurozone finance ministers approve the next, 8 billion euro ($11 billion; £7 billion), tranche of Greek bailout loans, potentially saving the country from default.
- On October 26 European leaders reach a "three-pronged" agreement described as vital to solve the region's huge debt crisis.
- After marathon talks in Brussels, the leaders say some private banks holding Greek debt have accepted a loss of 50 percent. Banks must also raise more capital to protect them against losses resulting from any future government defaults.
- On December 9, after another round of talks in Brussels going through much of the night, French President Nicolas Sarkozy announces that eurozone countries and others will press ahead with an intergovernmental treaty enshrining new budgetary rules to tackle the crisis.

2012

- On January 13 credit rating agency Standard & Poor's downgrades France and eight other eurozone countries, blaming the failure of eurozone leaders to deal with the debt crisis. Also on January 13, talks between Greece and its private creditors over a debt write-off deal stall. The deal is necessary if Greece is to receive the bailout funds it needs to repay billions of euros of debt in March. The talks resume on January 18.
- The "fiscal pact" agreed by the European Union in December is signed at the end of January. The United Kingdom abstains, as does the Czech Republic, but the other 25 members sign up to new rules that make it harder to break budget deficits.
- Weeks of negotiations ensue between Greece, private lenders, and the "troika" of the European Commission, the ECB, and the IMF, as Greece tries to get a debt write-off and make even more spending cuts to get its second bailout.
- On February 10 Greece's coalition government finally agrees to pass the demands made of it by international lenders. This leads to a new round of protests.
- But the eurozone effectively casts doubt on the Greek figures, saying Athens must find a further 325 million euros in budget cuts to get the aid.
- On February 12 Greece passes the unpopular austerity bill in parliament two months before a general election.
- March begins with the news that the eurozone jobless rate has hit a new high.
- However, the economic news takes a turn for the better just days later with official figures showing that the eurozone's retail sales increased unexpectedly in January by 0.3 percent, and the Organization for Economic Cooperation and Development (OECD) reports its view that the region is showing tentative signs of recovery.
- The month ends with a call from the OECD for the eurozone rescue fund to be doubled to 1 trillion euros. The German chancellor Angela Merkel says she would favor only a temporary boost to its firepower.

- On April 12 Italian borrowing costs increase in a sign of fresh concerns among investors about the country's ability to reduce its high levels of debt.
- Attention shifted to Spain the next day, with shares hit by worries over the country's economy and the Spanish government's 10-year cost of borrowing rose back toward 6 percent—a sign of fear over the country's creditworthiness.
- On April 18 the Italian government cut its growth forecast for the economy in 2012. It was previously predicting that the economy would shrink by 0.4 percent but is now forecasting a 1.2 percent contraction.
- On May 6 a majority of Greeks vote in a general election for parties that reject the country's bailout agreement with the European Union and IMF.
- On May 16 Greece announces new elections for June 17 after attempts to form a coalition government fail.
- On June 9, after emergency talks, Spain's economy minister Luis de Guindos says that the country will shortly make a formal request for up to 100 billion euros ($125 billion; £80 billion) in loans from eurozone funds to try to help shore up its banks.
- On June 12 optimism over the bank bailout evaporates as Spain's borrowing costs rise to the highest rate since the launch of the euro in 1999.
- On June 17 Greeks went to the polls, with the pro-austerity party New Democracy receiving most votes, allaying fears the country was about to leave the eurozone.

2013

- The euro crisis eased as the Irish prime minister predicted that Ireland would pull out of an international bailout program by the end of the year, Spain emerged in October from a two-year recession, and the Greek government presented a draft budget that forecasts a tenuous return to economic growth.
- In light of these positive trends, the chief economist at Berenberg Bank in London declared the following: "Most of the euro zone periphery is out of recession by now. That is absolutely good news. The rebound in the economy is ultimately the solution to almost everything."[4]
- A persisting problem remains tension between the wealthier core Eurozone member states and the austerity-weary peripheral members. See Mouriel Roubini's op-ed article, "Euro Marriage in Peril," *The New York Times*, November 28, 2013 [5]

NOTES

2. European Union, Economic and Social Affairs, "Who Can Join and When?" http://ec.europa.eu/economy_finance/euro/adoption/who_can_join/index_en.htm/.
3. Adapted from "BBC News Business, "Timeline: The Unfolding Eurozone Crisis," www.bbc.co.uk/news/business-1386580.
4. *The New York Times*, "Signs of Life in the Euro Zone Could Point to Recovery," October 23, 2013.
5. www.nytimes.com/2013/11.28/opinion/euro-marriage-in-peril.html?ref=turningpoints2014&_pagewanted