The Impact of Greek Debt Crisis on EU Integration and Its Enlightenment

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Abstract: As a very important member of the European Union, Greece has a very significant influence on the development of the European Union. The outbreak of the Greek debt crisis has a far-reaching impact on the process of EU integration. At the same time, the fiscal deficit and other economic and financial problems exposed by the Greek debt crisis have enlightenment for China and other countries. Therefore, it is of great research value to study the problems exposed in the Greek debt crisis and its impact on EU integration, and learn from these problems. This paper will first introduce the development process of the Greek debt crisis, then analyze its impact on EU integration, the way out of the Greek debt crisis, and finally discuss its reference significance to China and other places.

***Keywords*:** Greek debt crisis, euro zone, fiscal fraud, austerity policies, European integration

1. Introduction

The Greek debt crisis arose between the end of the twentieth century and the beginning of the twenty-first century, when Greece had just recently entered the euro zone. According to the 1993 Maastricht Treaty, if Greece wishes to achieve euro zone monetary criteria, it must have a debt ratio of no more than 60% of GDP and a budget deficit of no more than 3% of GDP [1]. But Greece, unable to meet euro zone standards, started to entrust Goldman Sachs to make fake accounts. Goldman Sachs took a series of measures to cover up a debt of up to one billion euros for the Greek government. The specific approach is "currency swap", that is, artificially setting an exchange rate, so that the Greek government can get more euros with the same amount of dollars. At the same time, the Greek government needs to repay after several years, so that the debt will not be included in the fiscal data of the current year, to maintain the data of low borrowing rate. In this way, the Greek government officially joined the euro zone of the European Union. Since then, to maintain Greece's own economic development and stimulate the economy, the Greek government has greatly increased various expenses. Especially in the process of the 2004 Athens Olympic Games, the Greek government has greatly increased expenses and borrowed everywhere, which will increase its debt burden [2].

In fact, the Greek government's massive borrowing and fiscal fraud have laid a huge hidden danger for the country's financial crisis. After the outbreak of the financial crisis in 2008, the interest rate of government bonds rose sharply, and the cost of large-scale borrowing by the Greek government also increased a lot. Greece's fiscal deficit has risen to 12.7 percent of GDP, significantly surpassing the euro zone's 3 percent limit [3]. Affected by the financial crisis, the Greek government was also unable to repay its debt, resulting in a sharp decline in its credit. In 2009, after the new Greek government came to power, it announced the existence of financial fraud. At the same time, Goldman Sachs also officially short Greek bonds, which is another fatal blow to the Greek government. Greece's sovereign rating has been downgraded by Fitch, Standard & Poor's, and Moody's, the world's three major credit rating agencies [4]. This is also a key event in the outbreak of the Greek debt crisis.

Greek debt crisis was raging, which not only had a huge impact on Greece itself, but also on the euro zone and the world economy. In order to curb the spread of the crisis, the European Union and IMF also began to provide assistance measures to cope with the crisis. Greece has received three rounds of assistance from international creditors since 2010, but it has also been required to adopt a series of strict conditions such as austerity policy to ensure that the borrowed funds can be used to increase the domestic output of Greece, and finally Greece can repay the loans on time. In the end, although Greece has passed the present difficulties, its debt pressure still exists, and the Greek economy has not improved significantly [5]. In the future, it is still necessary to take certain measures to cure its problems, so as to completely keep Greece away from the debt quagmire [6].

2. Impact on the Process of EU Integration

The Greek debt crisis has a great impact on the process of European integration. On the one hand, the euro zone has been severely harmed by the Greek debt crisis, and it has also brought many negative effects to the economic recovery in Europe. At the same time, it slowed down the process of EU expansion. On the other hand, the Greek debt crisis has also promoted the reform of Europe's fiscal and financial policies and strengthened the ties between European countries, which to some extent has brought new opportunities for the development of Europe.

2.1 Negative Impacts

2.1.1 The Euro Zone Was Hit Hard

The outbreak of Greek sovereign debt crisis has reduced the market's trust in the euro, which has brought a great impact on the international and market status of the euro and the stability of the European Union [7]. After the European Union rescue plan was thrown out, the euro still didn't get better, and it kept falling, even the depreciation rate reached one fifth, which caused the economic benefits of the European Union to shrink sharply, therefore, the attractiveness of the euro declined [8]. The increasingly serious debt crisis has greatly reduced investors' confidence in the euro, and its status as an international reserve currency has been shaken. The whole international market adhered to a conservative strategy, and began to sell or even short the euro. In addition to Greece, Ireland, Portugal and Spain have also become heavily indebted countries in crisis, and the risk of their bankruptcy is constantly expanding. Even the member countries are caught in the infinite thinking of "whether to leave the euro zone" [9].

2.1.2 Dragging Down the European Economy

In addition, the Greek debt crisis has seriously led to slow economic development in Europe. In Europe, economic growth is slow, followed by a sharp rise in unemployment. According to data from the Research Group on the Impact of European Sovereign Debt Crisis on Global Economy and International Financial System [10], global investment and consumption growth rates fell by 1.69 and 0.26 percentage points, respectively, from 2010 to 2012, particularly in Spain, Italy, Ireland, and other countries. In addition, the Greek debt crisis has led to a sharp rise in the unemployment rate in Europe. Take Spain as an example. In 2012, the debt crisis increased the unemployment rate in Spain by 9.27%, and the worldwide unemployment rate also increased by 1.81%. Therefore, the Greek debt crisis has dragged down the European economy to a certain extent, leading to a decline in the growth rate of investment and consumption in Europe and a sharp rise in the unemployment rate.

2.1.3 Slowing Down the Pace of EU Expansion

The outbreak of the Greek debt crisis has caused the EU economy to decline, the financial market to be chaotic, the investment environment to deteriorate, and the pace of EU expansion to slow down [3]. In recent decades, the European Union has been working hard to promote the process of European political and economic integration. In particular, many small countries are still striving for the opportunity to join the European Union. After all, they want to share benefits such as low interest rates by joining the European Union and the euro zone. However, the Greek debt crisis has shaken the determination of some countries to join the euro zone. At the same time, EU authorities will learn from Greece's fraudulent entry into the euro zone and tighten the qualification evaluation of new member nations in the future. The debt crisis also revealed flaws in the euro zone's monetary system and the inefficiencies of the EU's decision-making mechanism [9].

2.2 Positive Impacts

Although the Greek debt crisis has brought many negative effects on the progress of European integration and the euro zone, it still has a certain positive impact on the EU based on the impacts and lessons learned from the Greek debt crisis.

2.2.1 Promoting European Countries to Adjust Fiscal Policies

The Greek debt crisis has prompted European countries to adjust their existing fiscal and financial policies. Prior to this, the European Union and even most European countries adopted the policy of fiscal expansion. With the emergence of the Greek debt crisis and the European debt crisis, member countries gradually began to implement austerity policies and a series of measures to improve the stability of economic development, as well as to increase the credibility and stability of the euro by increasing monetary reserves. This is a good start to the fiscal and financial policy reform in the EU region.

2.2.2 Strengthening Cooperation among European Countries

The Greek debt crisis objectively strengthened the cooperation among European countries. In the context of the Greek debt crisis, Europe's primary goal should be to keep the euro exchange rate stable, and the EU has joint responsibility for the Greek debt issue. Based on this, EU countries have supported Greece, whether voluntarily or under duress. At the same time, in the subsequent European debt crisis, for some countries with serious economic setbacks (taking Spain as an example), the European Stability Mechanism (ESM) recapitalized the Spanish banking industry, which saved the banking mechanism problems in Spain. This series of measures reflects that under the circumstances of Greek debt crisis and Europe's debt crisis, European countries have objectively strengthened their cooperation in the economic, financial and political fields [11].

3. The Way out of Greek Debt Crisis

In the face of the Greek debt crisis, all European countries, including Greece, are facing enormous financial challenges. External assistance has played a vital role in saving Greece on the verge of bankruptcy, but if Greece really wants to get out of the gloom of the debt crisis and get long-term development, it must start with its own internal reform. Greece has taken a series of measures to alleviate the negative impact of the debt crisis, including implementing austerity policies, economic restructuring and changing the existing high welfare model.

3.1 Implementing Austerity Policies

Greece changed its previous fiscal policy after the debt crisis. After Greece joined the euro zone, it has long expanded government expenditure by borrowing everywhere to stimulate economic growth. In May 2010, the Greek government approved the fiscal austerity act to reduce Greece's fiscal expenditure, gradually tighten Greece's fiscal policy, and gradually reduce Greece's fiscal expenditure through a series of measures such as reducing civil servants' salaries and other expenditure, to alleviate the huge financial pressure.

3.2 Carrying out Economic Restructuring

After the debt crisis, Greece took a series of measures to restructure its economy. Only by adjusting its industrial structure can it strengthen the ability to resist risks. For example, it can establish a sustainable economic growth mode and change a single export-oriented economy [9]. In addition, after the debt crisis, Greece is faced with debts of more than 7 billion euros to be repaid, and the Greek government is still coping with the debt crisis by adding new debts to repay the old ones. This "robbing Peter to pay Paul" approach is not a long-term solution for Greece. Based on this, the Greek government adopted the way of debt restructuring. Although it will harm the interests of some debtors in the short term, in the long run, the way of debt restructuring can fundamentally alleviate the crisis faced by Greece at this stage [2].

3.3 Changing the Welfare Model

The Greek government also eased the crisis by changing the existing welfare model. The Greek government's main focus in the process of tightening fiscal policy is to reduce the proportion of social welfare expenditure in fiscal expenditure. In 2009, social welfare accounted for 41.9% and employee expenditure accounted for 26.7%, which reflects the extremely loose fiscal policy of the Greek government [12]. The Greek government has changed the existing pension and welfare model by reforming the employee welfare policy. The Greek Parliament approved the pension reform in July 2010, raising the retirement age for women to 65, which is one of the fundamental conditions of the deal negotiated between the European Union and the International Monetary Fund, as well as a vital move to transform Greece's social welfare model.

4. Lessons for China

As a sovereign state, the outbreak of Greece's government debt crisis has a profound reference significance for the financial governance of the Chinese government. The direct reason for the outbreak of the European debt crisis is the high debt and high fiscal deficit of the government. At present, China's overall debt and fiscal deficit are far below the internationally recognized risk critical point. But the implicit debt of the Chinese government is gradually rising, especially the financial risk of local governments is gradually expanding. Since 2008, to cope with the impact of the financial crisis, China has also issued policies to stimulate the economy on a large scale, and correspondingly relaxed the policies on credit and local financing. The scale and growth rate of local debt are unprecedented, which also contains huge risks. Besides, as a developing country with incomplete financial system, facing the tide of continuous opening of capital account, China's financial security is worrying. Therefore, although China's current system ensures that local finance will not go bankrupt, it should also draw lessons from the sovereign debt problem of euro zone countries and take corresponding measures to control risks [13].

4.1 Reasonably Formulating Social Welfare Policies

One of the primary causes of Greece's debt crisis is the issue of excessive social welfare spending. Greek government welfare expenditure accounts for a large proportion, which leads to an increase in fiscal deficit. At present, China is faced with the problem of "demographic dividend" disappearing gradually, and the problem of population aging will become more and more prominent in the next few years. Coupled with the perfection of various labor laws and regulations, the coverage and level of social security have improved rapidly, and the expenditure on social welfare in China is increasing year by year [13]. Therefore, in the face of the gradual disappearance of "demographic dividend", the Chinese government should promote the healthy development of the economy as much as possible while maintaining the stability of social welfare, and control the social welfare expenditure within a reasonable range. At the same time, China should rely more on domestic demand in the process of formulating social welfare policies.

4.2 Strengthening the Construction of Domestic Credit System

China should fully absorb the lessons of the Greek debt crisis at the credit level, strengthen the construction of domestic credit system, and form a good credit atmosphere. From the perspective of the financial industry itself, taking the banking industry as an example, the banking industry should establish a good credit rating for lenders and impose a series of restrictions on those with poor credit. For China, it is possible to improve the rating technology, transparency and professional skills and ethics of employees [3]. In addition, China should formulate corresponding laws and regulations and establish corresponding credit rating agencies and regulatory agencies to ensure the normal operation of China's credit system.

4.3 Strengthening Debt Management

Judging from the development process of the Greek debt crisis, one of the problems of the Greek government is that it has not controlled the fiscal deficit and debt within a reasonable range and proportion. The Chinese government's financial situation is generally good, the scale of sovereign debt is relatively small, far below the internationally recognized safety standard of 60%. However, it is alarming that China's local debt problem is much more serious. The pressure of local government's fiscal deficit continues to increase, and its high leverage ratio and opaque operational risks should be highly valued. Therefore, China should not only examine its debt problem from the aspects of foreign exchange reserves, trade structure and other overall debt situation, but also strengthen local government debt management [14]. The central government should appropriately delegate financial power to local governments to guide the healthy development of local investment and financing business, so as to realize more flexible financial planning of local governments and effectively prevent debt risks [2].

5. Conclusion

Greece experienced more than ten years of development before and after the debt crisis. The Greek debt crisis may continue to have a far-reaching impact on the process of European integration and even the global economy, whether positive or negative. Greece and the EU countries have paid a lot to get out of the debt quagmire. This is worth learning from and reflecting on by China and other countries in the world. Therefore, according to their national conditions, all countries in the world should fully learn from the lessons of the Greek debt crisis, and carry out linkage management on domestic debt and other economic and financial issues, so as to promote the orderly flow of capital and the stable development of the global economy.

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