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The International Political Economy of the EU Sovereign Debt Crisis

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Declaration:

I hereby declare that I am the sole author of the thesis entitled "The International Political Economy of the EU Sovereign Debt Crisis". I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on ....

Signature

Michal Kougl

Acknowledgement

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List of Abbreviations

BIS	Bank for International Settlements
CFSP	Common Foreign and Security Policy
EC	European Community
ECB	European Central Bank
EFSF	European Financial Stability Facility
EMU	European Economic and Monetary Union
ERM II	European Exchange Rate Mechanism II
ESM	European Stability Mechanism
EU	European Union
GDP	Gross Domestic Product
GFC, The Crisis	Global Financial Crisis
IMF	International Monetary Fund
LI	Liberal Intergovernmentalism
OMT	Outright Monetary Transactions
PIIGS	Portugal, Italy, Ireland, Greece, Spain
The Compact	Fiscal Compact
The Treaty	Treaty of Lisbon
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

Introduction

Throughout the 20^{th} century, European integration through the European Union (EU) and its predecessor organizations has brought peace, eliminated barriers, and increased trade volumes and prosperity. The creation of the common currency – the euro – and the Eurozone was a testament to the exuberant optimism and continued faith in the promises of deeper and deeper integration, and in a few years came to be hailed as a symbol of Europe itself. However, the outbreak of the global financial crisis (The Crisis, GFC) in 2008 laid bare both the hidden and up to that point ignored weaknesses and structural faults that were part of the European project. The words of Paul de Grauwe (2013) rang true: the Eurozone was 'a beautiful villa in which Europeans were ready to enter. Yet it was a villa that did not have a roof. As long as the weather was fine, we would like to have settled in the villa. We would regret it when the weather turned ugly' (p.1). In 2008, the weather turned very ugly indeed and resulted in the EU sovereign debt crisis that still reverberates throughout the Union, the Eurozone, and the world.

The purpose of this thesis is to investigate the development of European integration in relation to the European sovereign debt situation in the 21^{st} century. The hypothesis informing this work is that in times of plenty (in a positive economic situation), integration and common goals will be regarded significantly more positively and will thus be smoother to execute. On the other hand, when the going gets tough (in an adverse economic situation and when debt runs out of control), integration and cooperation will be significantly more difficult as individual interests emerge and take center stage. Thus, the central question that the thesis seeks to tackle is the following: to what extent and in which direction has the EU sovereign debt crisis influenced the progression of European integration? This being the case, the thesis recognizes and divides its subject matter into three relevant periods – specifically, the pre-sovereign debt crisis period (2001-2008), the period of the acute sovereign debt crisis (2008-2012), and the current period (2012-present).

The first period is of value because it will allow for the assessment of a relatively favorable economic situation, it will track the growing accumulation of debt within the Eurozone portion of the EU, and, perhaps most importantly, it will allow any and all analysis to be set into an appropriate context. The second period is important for understanding the main issue that is under scrutiny – the EU sovereign debt crisis and its effects. The outbreak, the progression of the crisis, its implications, and the effects on the European political situation will be examined. The survey of this period will culminate with the establishment of the Fiscal Compact. The final period that is recognized and will be covered in the analysis will be the current one, in order to further track the progression of the ongoing sovereign debt crisis and the concurrent political developments, as well as to contribute to current research rather than simply expounding on the acute crisis period as much of the existing literature does. This structure should enable an effective examination of the following: the causes of the sovereign debt crisis, the effects, and the results – from both a financial and political perspective. Such an approach will allow for effective analysis, testing of the stated hypothesis, and the formulation of some predictions or implications for the future.

In order to achieve the stated purpose, the thesis is structured as follows: firstly, in Section 1., the theories which will later serve as the tools of analysis are introduced individually. The first to be examined are the financial theories (Section 1.1.) – specifically, that of the financial cycle of leveraging and deleveraging in the context of global liquidity (Section 1.1.1.), the concept of debt socialization along the private and public divide (Section 1.1.2.), and the phenomenon of risk-on, risk-off episodes in global financial markets (Section 1.1.3.). These will be conductive for the analysis of the sources of the EU sovereign debt crisis and the period preceding it, the tracking of its development, as well as examining the behavior of relevant actors in dealing with the sovereign debt crisis through the three periods that this work will cover. Afterwards, the political theories will be presented – specifically, the international relations theories of realism (Section 1.2.1.) and liberalism (Section 1.2.2.), followed by integration theories of Liberal Intergovernmentalism (LI) (Section 1.2.3.) and Neofunctionalism (Section 1.2.4.). These theories will be helpful for the analysis of the motives of the individual actors involved – be they supranational entities, states, or statesmen – as well as their behavior. They will also be useful for analyzing the political climate within the EU during the periods of the sovereign debt crisis under scrutiny in this work, including the development of the level of support for further cooperation and integration within the EU. Thanks to this primary treatment of the theoretical framework that will be utilized throughout the later parts of the thesis, the ensuing analysis will be well-set in the context of both the economic and financial theories, as well as the political lenses for a combined approach to the analysis of the EU sovereign debt crisis and its effects on EU integration. The thesis will thus combine multiple approaches from the two fields in order to achieve a deeper understanding than that which would be enabled by utilizing only one or the other. Ideally, this will allow for a higher level of analysis and increase the value of this work and make its findings original, as well as more pertinent.

Secondly, Section 2. will explore the architecture of relevant EU structures, how they contributed to the sovereign debt crisis, as well as the economic and political tensions that they resulted in – to once again reference De Grauwe (2013), the roof-less villa will be scrutinized. The analysis in this section will proceed chronologically, first examining the roots of the European Economic and Monetary Union (EMU) and the way in which it was originally constructed which will be shown to have been structurally deficient. Afterwards, an analytical survey of the development of relevant EU institutions during the three periods as outlined above will be carried out through use of the theoretical perspectives outlined in Section 1.

Thirdly, Section 3. will examine and analyze the issue of excessive leveraging and indebtedness in a selected group of countries (specifically, Portugal, Italy, Ireland, Greece, Spain, Germany, and the Czech Republic, as well as the averages of two groups of states – the EU and the Eurozone) as a major contributor to the outbreak of the ongoing sovereign debt crisis. In this section, Eurostat data regarding the general government gross debt as a percentage of gross domestic product will be presented and analyzed (along with other, supplemental data) throughout the three periods under discussion, in order to add a level of concreteness to the investigation and to complement the qualitative and thus subjective analysis allowed for by the utilized political perspectives.

Fourthly, Section 3.1. will briefly outline and analyze the current challenges that European integration and the EU as a whole now faces in the wake of the acute crisis period and continued indebtedness. Specifically, the concept of a two or multi-speed Europe, Brexit and the rise of anti-European parties across the EU Member States, the increase in separatist, secessionist tendencies and the threat that they hold for a united European Union, as well as external threats in the form of the recent Ukraine and migration crises.

While the hypothesis is principally confirmed by the analysis contained therein, another finding also emerged; that in the most acute period of the EU sovereign debt crisis, integration and institution creation in the Eurozone progressed relatively quickly and deeply – not necessarily from political goodwill amongst members and a longing for deeper relations, but out of sheer necessity and a commitment to the survival of the European project.

The value of this thesis is multiple. Firstly, while there is much literature on both European integration as well as the sovereign debt crisis, the author is not aware of a work that seeks to combine the specific theoretical perspectives chosen for the purposes of this thesis (financial and political) and to apply their mixture to the analysis of the sovereign debt crisis over such an extensive timeframe. Therefore, the thesis can serve as a first effort, or stepping stone to later analysis of the link between European integration and the sovereign debt situation - from this perspective or a similar one. Furthermore, it is a unique contribution to the vast and steadily growing literature regarding the EU sovereign debt crisis.

Secondly, there is value for business. One cannot honestly divorce the economic from the political, hence the combined approach to studying the effects of the EU sovereign debt crisis on European integration. Both issues – the sovereign debt crisis and integration – are relevant to business actors. Understanding the political and economic environments in which business operates is a critical aspect of business success. European integration in the form of the single market has been a substantial improvement for the ease of doing business and trading in Europe, and threats to further integration, or the effects of further integration should be studied by the business sphere to inform their strategies and prepare themselves for possible changes. Similarly, the sovereign debt crisis has had a significant impact on business – other than the general contraction of the EU economy and the slowing of growth that resulted from it, the situation in the countries heavily afflicted by the sovereign debt crisis is relevant to business. For example, if businesses are aware that the government of one of their important markets may soon default, or will be forced to adopt severe austerity measures, which will likely lead to depressed demand among other things, they can take precautions and perhaps look into shifting their market presence – but in order to do so, they must be first be aware of these links and understand them.

1. Theoretical Spotlight: The Tools of Analysis

1.1. Financial Toolbox

1.1.1. The Financial Cycle – Leveraging and Deleveraging in the Context of Global Liquidity

This section will examine the concept of the financial cycle of leveraging and deleveraging in the context of global liquidity. Firstly, the financial cycle will be defined and set apart from the related but separate concept of the business cycle. Its fundamental features will then be explored, specifically length and duration, its association with financial crises, its detectability, and the idea that financial cycles often synchronize internationally. Financial cycles will then be set into the context of global liquidity and analyzed for responsiveness to policy frameworks and changes therein.

Since the occurrence of the latest financial crisis, the concept of financial cycles is currently enjoying a period of great interest in both academic and policy circles. Borio (2012) points out that while the concept of the financial cycle 'actually predates the much more common and influential one of the business cycle', the latter has for a long time overshadowed the former which was confined to the fringes – just outside mainstream thought (p.1). Despite this, researchers are now aware that 'gyrations in financial markets have greatly influenced real activity around the world over the past two decades' (Claessens, Kose & Terrones, 2011:p.5) and appreciate the crucial role of the financial cycle for a deep understanding of recent economic developments, oscillations, and associated policy implications (Borio, 2012:p.1).

As is typical for theoretical concepts, there is a lack of a general agreement on how to define the financial cycle, regardless of its perceived importance. This can partially be attributed to the self-professed limited understanding of financial cycles despite the existence of a 'rich literature' regarding 'various aspects of financial market developments' (Claessens, Kose & Terrones, 2011:p.5). In a bid for relevancy to both macroeconomics and policymaking, Borio (2012) provides the following definition of financial cycles as:

> Self-reinforcing interactions between perceptions of value and risk, attitudes towards risk and financing constraints, which translate into booms followed by busts. These interactions can amplify economic fluctuations and possibly lead to serious financial distress and economic dislocations. (p.2)

In their comparative study of business and financial cycles, Drehmann, Borio & Tsatsaronis (2012) take GDP as embodiment of the business cycle, and focus in on credit and asset prices when identifying financial cycles (p.3) due to their close co-variance at the lower frequencies that financial cycles exhibit (Borio, 2012:p.2). The fundamental features of financial cycles thus defined will now be explored.

Firstly, financial cycles can be said to occur less frequently and to have a longer duration than business cycles (Drehmann, Borio & Tsatsaronis, 2012:pp.18-19) – while business cycles usually span a range of one to eight years, the aforementioned research has shown that 'the average length of the financial cycle in a sample of seven industrialised countries since the 1960s has been around 16 years' (Borio, 2012:p.3). Thus, it is evident that several business cycles can be completed in the duration of a single financial cycle. This suggests that the effects of financial cycles are more protracted, giving policymakers more time and space to identify them, as well as act in a way so as to manage them (Borio, 2012:p.14). Furthermore, if policymakers fail to distinguish between the shorter business cycle and the generally longer financial cycle in responding to economic developments, they are susceptible to remedying symptoms, but '[storing] up bigger trouble down the road' as the root causes remain unaddressed and 'serious financial disruptions [drag] down the economy with them' (Drehmann, Borio & Tsatsaronis, 2012:p.21).

This leads to the observation that the 'peaks in the financial cycle are closely associated with systemic banking crises' (Borio, 2012:p.4). As per the definition presented at the beginning of this section, financial cycles, like business cycles, display both booms and busts. According to the Bank for International Settlements (BIS) 84th Annual Report (2014), financial booms can be identified as conditions when 'surging asset prices and rapid credit growth reinforce each other [and] tend to be driven by prolonged accommodative monetary and financial conditions' (p.66). These financial conditions affect the economy, as participants enjoy greater and greater levels of leverage for their investment activities. Then, when a 'shock hits the economy' (p.66), these overleveraged participants (individuals, households, firms, etc.) are suddenly rendered incapable of servicing the accumulated debt, which leads to the bust-heralding downturn.

The following feature of financial cycles has already been touched upon while discussing the first and second features – that is, that the financial cycle can '[help] detect financial distress risks with a good lead in real time' (Borio, 2012:p.5). Since financial cycles are relative long lasting in comparison to business cycles, and the peaks in the former have been found to be closely related to financial crises, policymakers are able to measure and identify factors that suggest the presence of a financial cycle boom, and therefore a 'build-up of risk of financial [crisis]' – specifically, the credit gap ('a rough measure of leverage in the economy'), and the price gap ('a rough measure of the likelihood and size of the subsequent price reversal, which tests… absorption capacity') (Borio, 2012:p.5). When both variables start to veer above historical norms, we enter the danger zone. Another important variable identified is the ratio of foreign to domestic credit – the former often starts to overtake and outdistance the other in the boom period of the financial cycle, 'especially those that precede serious financial strains' (Borio, 2012:p.6).

Relatedly, it has been observed that financial cycles appear to be synchronized, and often progress at a similar pace in different economies concurrently. This can be ascribed to the global component of the driving factors of the financial cycles (BIS, 2014:p.66) – this is why the context of global liquidity matters. The International Monetary Fund (IMF) (2014:p.4) notes that liquidity is used in a number of ways in economic and financial theory, from the micro level to the macro level. For the purposes of this thesis, the following working definition is pertinent:

> In a macroeconomic framework, the concept of liquidity encompasses various definitions of money aggregates, the availability of credit and funding within the overall economy, the capacity of a country or its residents to access international funding, and their holdings of internationally liquid assets (e.g., official foreign exchange reserves, and foreign currency liquidity, taking into account predetermined and contingent drains on reserves). (p.4)

From this definition it follows that global liquidity refers to the ease of access to funding in the global financial markets of today, where capital and funds flow relatively freely and at large quantities between states. Global liquidity thus 'lies at the intersection of microeconomic, financial, regulatory and macroeconomic factors' (IMF, 2014:p.4) – the ease of global funding is determined by the current conditions in the global financial markets, it is spread across the international domain by the actions of individuals and financial actors in these global financial markets, and then, along with the domestic conditions and active factors in each country lead to local outcomes (IMF, 2014:p.5). Thus, due to global liquidity, financial outcomes and effects – both positive and negative – in the national and international levels are closely related. To tie the concept of global liquidity back to the financial cycle, it appears evident that these global liquidity flows – this outside capital and funding – plays a role in the phases of financial cycles in individual countries.

The final feature of financial cycles is that their duration and severity are not fixed and invariable, but are rather responsive to the policy frameworks that are set by policymakers – in other words, financial cycles and their progression is the product of the context and circumstances that it unfolds in. Borio (2012) refers specifically to the 'financial regime' among others (p.6). A loose financial regime increases the ease of financing which can lead to 'self-reinforcing interplay between perceptions of value and risk, risk attitudes and funding conditions' (p.6). In other words, without appropriate intervention, there is excessive leverage during financial boom phases, and not enough leverage during downturns when it is needed the most. Thus, 'in boom times asset prices are too high, and in crisis times they are too low' (Geanakoplos, 2009:p.2). After a boom period, leverage levels are high. Once the accumulated debt is no longer serviceable, deleveraging begins as lenders become nervous and more cautious about lending – 'when there is high leverage, economic activity is stimulated; when there is low leverage, the economy is stagnant' (Geanakoplos, 2009:p.9).

Effectively, deleveraging means that saving increases at the expense of lending. This generally leads to a decrease in consumption and investment in the real economy. Assets are sold for profit or liquidity, depressing their market prices. Firms and companies find themselves in need of liquid cash and thus lower or eliminate dividend payments, decreasing the market price of stocks. Deflationary pressures and pressures on the lowering of costs increase, bringing along with them greater demands on productivity of labor, decreased wages, and likely unemployment as well. Therefore, people's income is not growing, if it is not outrightly diminishing, leading to further drops in consumption and demand and thus further limiting economic growth.

Therefore, the concept of the financial cycle emerges as indispensable for a deep understanding of financial crises and will be useful for the analytical part of this thesis. To summarize its fundamental characteristics: financial cycles recur less frequently than business cycles and generally last longer; the peaks of financial booms tend to coincide with financial crises due to excessive leveraging; this implies that the study of financial cycles can be used to detect and deter episodes of financial distress; financial cycles often synchronize internationally and are best examined in the context of global liquidity; and finally, financial cycles can be managed and are dependent on and responsive to the policy regimes that are in place.

1.1.2. Debt Socialization Along the Private and Public Divide

In this section, the concept of debt socialization along the private and public divide will be examined. The process of debt socialization will be outlined from its start with the accumulation of debt and increasing leverage in the private sector, followed by the appropriation of or, socialization of the private debt by the state. Finally, the implications of debt socialization will be explored, along with their possible effects on states and the global economy.

The process of debt socialization begins with the accumulation of private debt. In his model, Geanakoplos (2009) shows how the leverage cycle contributes to excessive accumulation of private debt which eventually becomes unserviceable. Optimistic actors (including households, firms, and banks) expect the currently positive economic environment to continue, or perhaps to get even better still, and thus operate on higher and higher levels of leverage, which continuously drives asset prices to new highs (pp.12-13). Then, when there is a shock that hits the economy, or 'scary bad news' enter the scene (pp.10-11), expectations are lowered and volatility is increased. This affects lenders who fueled the leveraging rush – 'the more nervous the lenders become, or the higher volatility becomes, the higher the collateral they demand' (p.1). The music stops, the inflated asset values plummet, and access to liquidity and thus the ability to leverage is cut. The wealth of leveraged actors diminishes, and they are forced to sell, driving already diminished asset prices lower still. The increasing uncertainty from plummeting asset prices leads to a vicious cycle of forced sales and losses. Spillovers can occur, as the news and developments in one asset class influence the perceptions and developments in other asset classes, or the economy as a whole (pp.11-12). The previously enjoyed liquidity and leverage are effectively gone, leaving the economy depressed and 'stagnant' (p.9).

At this point, private debt is unserviceable – the assets, at their newly diminished prices can no longer be used to cover the accumulated debt. Neither can additional debt, as the previously plentiful liquidity has dried up – no or very few resources are available for this purpose. If the government decides to step in (as it has during the latest financial crisis) and decides to "bail out" the private sector (Karamessini, 2012:p.111) including both banks and large private companies – private debt is socialized. Banks that are "too big to fail" because of their importance for the economy, the household savings that they held, and the government debt that they are responsible for (the government bonds they hold), households who were motivated to take on debt as a means of acquiring a home while stimulating the economy despite the significant improbability of repayment, and others are given a pass as governments take on greater debt in order to finance the private debt.

However, in combination with years of deficit spending, this may lead to an even larger accumulation of sovereign debt. In this case, states now have to spend even larger amounts on servicing existing as well as newly added debt, thus decreasing the amount that they can spend on or invest into services such as education, healthcare, and infrastructure which stimulate the economy. Either they must take on even *more* debt in order to both service existing debt as well as continue deficit spending, or adopt austerity measures, 'reduction of the public sector, [likely higher] unemployment and less growth' (Unger, 2012:p.49) as means of reining in runaway sovereign debt. If states choose the former route, or the latter one is implemented in a manner sufficient for stabilizing the situation, sovereign debt may now be unserviceable. Thus, the government has bailed out the private sector and socialized private debt – but who will bail out the government? The answer is possibly other states with the help of international financial institutions, as exemplified by the European bailout of Greece (Frangakis, 2012:p.77), which will be explored in more detail at a later point (Section 3.).

If more and more states find themselves at high levels of indebtedness, and become either unable to service their debt, or are themselves attempting to prevent this stage by applying the austerity measures which limit their economic capacity, this option may be off the table. It appears pertinent that financial cycles are observed and managed, and that sovereign debt is brought under control during the good times, in order to prevent further disintegration or possibly total collapse in the bad times.

Therefore, this section has outlined the concept of debt socialization through the stages that it manifests itself in – from the accumulation of high levels of leverage and debt in the private sector that eventually becomes unmanageable, to the shouldering of this debt by national governments, followed by an analysis of the potential international financial implications.

1.1.3. Risky Business – Risk-on, Risk-off Episodes

> The word "risk" derives from the early Italian *risicare*, which means "to dare". In this sense, risk is a choice rather than a fate. The actions we dare to take, which depend on how free we are to make choices, are what the story of risk is all about. And that story helps define what it means to be a human being. (Bernstein, 1998:p.8)

This section will introduce and evaluate the "risk-on, risk-off" phenomenon in global finance. As illustrated by the context-setting, initial quotation, risk is an inherent part of the human experience, and is thus present in and tolerated by actors operating in any sector – and the financial sector is no different. Firstly, the concept itself will be presented with the help of the idea of risk tolerance, followed by a focused exposition of risk-on episodes, followed by a separate exploration of risk-off episodes. Finally, the significance of risk-on, risk-off as a whole for global finance and its relationship to financial crises will be analyzed.

The concept of "risk-on, risk-off", reflects the dynamic nature of investor risk tolerance. Grable (2008:p.19) writes that Financial risk tolerance can be described as the readiness of individuals to act in such a way so as to pursue a beneficial, desired financial outcome, when it is unknown whether or not this outcome will be achieved, and concurrently there is a possibility of achieving a loss in the stead of the desired outcome. Thus, it can generally be defined as 'the maximum amount of uncertainty someone is willing to accept when making a financial decision' (p.19). While it can be said that generally, different people will have different risk tolerance profiles (i.e. one individual may almost always be more predisposed to engaging in risky behavior due to greater risk tolerance, as opposed to another who may be generally more risk averse, and thus have a smaller propensity for risk-taking), risk tolerance is not fixed and can and does change over time. In this sense, it is useful to think of risk tolerance as a matter of degree, a spectrum reaching from total risk aversion on one side, to a completely reckless, no holds barred approach to risk on the other.

Thus, risk-on episodes can be understood as periods in which the potential risk in the economy (either domestic or international) is or is at least perceived to be low, motivating investors to engage in riskier behavior. At such a time, 'everyone thinks that the chances of ultimate failure require too many things to go wrong to be of any substantial probability' (Geanakoplos, 2009:p.10) and the vision of financial gain appears much more probable than the vision of ruin. In terms of international flow of funding, during risk-on episodes, 'global… markets are calm…, [and] investors in mature economies, both real money and leveraged, purchase risk equities and bonds in emerging markets' (McCauley, 2012:p.2). This is relatively intuitive – when investors feel bold, convinced of the stability of the global economy, they will pursue investment opportunities in new markets with more growth potential (and thus greater potential gains), although these markets can be perceived to be riskier than those of more developed and stable economies. In other words, the temperate, positively perceived economic situation inspires the investor to increase his risk tolerance, and he becomes willing to trade safety for greater returns.

Conversely, risk-off episodes can be understood as periods in which risk in the economy is perceived to be high. Investors thus tend to follow the opposite pattern – since they perceive risks to be high, they seek to avoid potential losses by getting out. Therefore, investor risk tolerance diminishes in response to the stimuli of changing perceptions of future economic performance, of bad news, or economic shocks, leading to the prevalence of risk averse attitudes. In other words, the pendulum of risk tolerance shifts from the bold, daring end to the cautious one. McCauley (2012) describes the international risk-off episode as follows: 'seeking to limit losses, leveraged global investors liquidate risky positions, including those in emerging market equities and bonds' (p.5). Additionally, they are reluctant to initiate risky positions and seek safe-haven assets in order to minimize their exposure to risk. This means that even high-quality projects and relatively safe subjects such as banks, businesses, and states are unable to get financing due to the presence of a general risk-off mood, rather than due to their weakness. The significance of the risk-on, risk-off concept for the crises is not inconsequential. Combining risk-on, risk-off with the financial cycle concept as explored in Section 1.1.1. leads to the following potential scenario – during a financial boom and general economic reverie, governments and other economic actors take on more debt (in addition to that which they have already accumulated), expecting the current state of affairs to continue unabated. Global investors, due to their similar perception of the global economic mood jump on these investment opportunities, expecting great gains at low risk. The risk-on episode is in full swing. Some part of the global financial system starts to grind and sputter, and bad news hits. Investors update their perceptions and their risk tolerance decreases significantly – they sound the retreat and begin to vacate the risky positions they occupied during the good times. The prices (and thus value) of these assets plummet, and the debtors are left holding the bag which they are now struggling to keep a hold of. The bad times have arrived – the economy is weak, the excess leverage is no longer sustainable, and accumulated debt is no longer serviceable. Furthermore, the previously plentiful liquidity has dried up and further financing is unavailable.

Therefore, like with the concept of financial cycles, policymaking is crucial in managing risk-on, risk-off episodes – not in the sense of excessive (if not authoritarian) regulation of investor activity (although some authors are inclined to find solutions in despotic policy as well – for example Unger (2012) is of the conviction that 'Greek debt should be held by Greeks' (p.48)) but rather in a sense that reflects the fact that global financial markets and their performance are run and determined by people who behave differently in different circumstances. This suggests that governments would do well to curb enthusiasm and leveraging during risk-on episodes, electing perhaps slower, but steadier growth. Thus, when the inevitable risk-off period arrives, the shift may not be as extreme.

In conclusion, this section explored the phenomenon of recurring risk-on, risk-off moods in global finance. The concept was introduced and outlined with the aid of the related notion of financial risk tolerance, which has been shown to be in a constant flux as investors take in, evaluate, and subsequently update their perceptions of news, information, and their own predictions about financial markets. Risk-on episodes have been characterized as perceived periods of economic calm, in which financial actors gain an increased appetite for returns at the expense of financial safety since their judgement is such that risks, and the probability of losses are low. This leads to an increase in leveraging and flow of funding from the developed, stable economies to the financial peripheries. Risk-off episodes have been characterized as the exact opposite – there is a perceived instability, and risks as well as the potential for losses are deemed to be high, leading investors to liquidate risky positions and seek out safe havens in which to park their resources. The risk-on, risk-off phenomenon was also analyzed in combination with the concept of financial cycles in order to explore potential international implications.

1.2. Political Toolbox

1.2.1. International Relations – Realism

In this section, the realist international relations theory will be presented and discussed. Realism is arguably the oldest school of thought regarding international relations and politics, with many present-day realist writers harking back to ancient texts such as Thucydides' *The Peloponnesian War* – a detailed but unfinished account of the eponymous conflict between Athens and Sparta, Thomas Hobbes' *Leviathan* – a classic work on statecraft and society, and Machiavelli's *The Prince* – the still-relevant manual for effective leadership – as being the pioneering works of the tradition that they now sustain and advance (Dunne & Schmidt, 2011:p.86). Despite its age, realism continues to be 'the dominant tradition in the study of world politics' (Dune & Schmidt, 2011:p.86) and has continued to develop over the years into a multifaceted school of thought that can be divided into several categories and sub-categories. As such, it is also one of the most expansive and vast of all international relations theories.

Despite the 'numerous denominations' (Dunne & Schmidt, 2011:p.93) of realist thought that exists, Wohlforth (2012) provides an accessible and practical approach to understanding the realist perspective and how it should be deployed effectively. Wohlforth (2012) posits that realist theory rests on the foundation of 'three core assumptions about how the world works' (p.36). From these assumptions, scope conditions of political interaction can be deduced. And finally, once this has been accomplished, a general, top-down theory that stems from these assumptions and scope conditions can be deployed to a specific situation (Wohlforth, 2012:p.41). This approach thus reconciles the tension between the realist desire of at once 'creating general theories, explaining particular foreign policies, and advising on how to make prudent foreign policy decisions' (Wivel, 2017).

Exploring and coming to understand these assumptions will be beneficial when examining the development of realist theory and its strands, as well as when later deploying realist theory as an analytical tool. The three core assumptions of realism identified by Wohlforth are groupism, egoism, and power-centrism.

The groupism assumption reflects the fact that human beings are social animals that willingly form, interact in, and succeed within groups. Beyond basic survival, playing the game of life as solitaire is untenable. To thrive, human beings unite into groups, and it is because of these groups and their benefits such as solidarity, mutual support, division of labor and specialization that they are able to do so. At the same time however, this gravitation towards group membership and group cohesion is what creates potential for conflict – when many groups exist, the moment they come into contact lines are drawn and the stage is set for group against group strife. The majority of realist writing is thus centered around nation-states, which are regarded as the most important human groups of today's world, seeing as they are the entities with a monopoly on the use of force, and while many international organizations exist, there is no higher authority than a sovereign state to prevent the deployment of violence as a means of achieving ends (Wivel, 2017). However, Wohlforth (2012) as well as other realist writers such as Morgenthau (1955) stress that the groupism dynamic is not limited to interactions between states, but rather to any setting in which groups interact with each other. Therefore, the critique of excessive state-centrism often levied against realist theory by its critics can be said to be misaimed – it is not a critique of realist theory itself, but of its most widely used application.

The egoism assumption purports that it is self-interest that guides behavior in the political realm, and that this kind of behavior stems directly from human nature. The ultimate self-interest of a person or state can be defined as survival – the basic instinct shared among all living things. Therefore, individuals, groups, or their embodiments such as states will act in the interest of ensuring their continued existence by any means necessary. This is not to say that human beings will always act in a selfish manner and habitually disregard the needs of and impacts on others, but rather than 'when push comes to shove and ultimate trade-offs between collective and self-interest must be confronted, egoism tends to trump altruism' (Wohlforth, 2012:p.36).

The assumption of power-centrism points to the crucial role of power, as well as its inherently unequal distribution in human affairs. While disagreement reigns regarding a precise definition of power and how it is to be measured (Wivel, 2017) and many realist writers focus exclusively on a limited conception of power as military capacity (Dunne & Schmidt, 2011:p.87), Wohlforth offers a refined perspective on power that encompasses both 'social influence or control … and resources' (2012:p.36). In other words, power in the former sense reflects an inequality in the ability of individuals or group to influence politics and get their way, while the latter points to the inequality in the amount of material capacities that entities can utilize to achieve desired outcomes.

Based on these three assumptions, the scope conditions for international politics emerge. These can be said to be anarchy and the high likelihood of conflict in international interactions (Wohlforth, 2012:p.42). The anarchy condition stems from the fact that currently, it is states that hold a legitimate monopoly on violence, and the primacy of states in today's international landscape is just a manifestation of the groupism assumption. There is no supranational entity which can prevent others from using violence – there is no ultimate arbiter on the world stage who can command what states can and cannot do in dealing with each other (Wivel, 2017). In such a world, following the egoism and power-centrism assumptions, states will pursue their interests using their full material or immaterial capacities. But it is important to note that anarchy is a matter of degree – for example, the presence of a great power in a region may lessen anarchy in the interactions between smaller, less powerful states because the former is much more capable of pursuing their interests at the expense of the latter, thus dis-incentivizing actions that may upset the current order (Wohlforth, 2012:p.42). This idea can also be applied to regional groupings such as the EU and NATO – these organizations can be said (amongst other reasons) to have been established in order to attenuate the anarchy condition and to increase member standing and power in relation to entities outside them.

The conflictual politics condition also emerges from the three assumptions, as well as the anarchy condition. The formation of groups allows for conflict between groups, their egoism leads to their diverging interests which they will pursue (possibly at the expense of others), and power-centrism accentuates their inequalities leading to fear, envy, and greater potential for conflict. Again, that is not to say that under a realist perspective there can be no amity of cooperation between groups – precisely because realism predicts and explains conflict, it explains its absence. If there is a low degree of anarchy due to some attenuating force, or the primary interests of some states are shared (perhaps to achieve a better position in relation to another group of states), the three assumptions hold, yet the scope conditions are largely absent. In other words, 'realist theories predict that the absence of conflict is contingent on a particular configuration of power and that conflict might return when that configuration changes' (Wohlforth, 2012:p.42).

Therefore, the application of general, top-down realist theories and their potential for pertinent analysis to specific situations will depends on the weight they assign to the three assumptions, as well as the perceived degree of presence of the outlined scope conditions. Some renditions of realism may thus be more appropriate and fitting for some situations than others. If a specific version of realism does not do a very good job of explaining state behavior during a specific occurrence, it is not an indication of the invalidity of realism as a whole, but rather a lack of correspondence between the identified assumptions and scope conditions and the chosen focus of the given theory.

Thus, the differences between the many strands of realism can be classified as differences of focus: the classical realists, spanning from the classics mentioned at the start of this section to Morgenthau (1955) focus primarily on human nature and motivations as the drivers of international politics (Dunne & Schmidt, 2011:p.90) – in other words different facets of the three assumptions. Structural realists such as Waltz (1979) and Mearsheimer (2001) can be said to be slightly more ambivalent about the fundamental nature of human beings, but more focused on the scope conditions of anarchy in which there is a ‘lack of an overarching authority above states’ which leads states to compete with each other and come into conflicts over power and security (Dunne & Schmidt, 2011:p.91). Among structural realists, a split exists between those who posit that state intentions are defensive in the sense that states merely wish to achieve security by deterring outside threats and keeping the status quo stable in order to prevent conflict that could upset it (Wivel, 2017), and those who argue that the best bet for states is to stay on the offensive – to increase their strength and possibly actively work to weaken others in order to turn the balance of power in their favor and thus ensure their own survival (Wohlforth, 2012:p.39).

In conclusion, despite the vastness of the realist canon, the essential realism as presented by Wohlforth (2012) can be distilled into a theory that examines the international behavior of states, and international politics in general through a lens of the three fundamental assumptions of groupism, egoism, and power centrism, set in the context of the scope conditions of anarchy and conflict propensity, both of which can be present to varying degrees. It is this realist approach that will be used for the analytical purposes of this thesis.

1.2.2. International Relations – Liberalism

This section of the thesis will cover the international relations theory of liberalism, commonly proclaimed as the historic alternative to the still-dominant school of thought of realism. This being the case, liberalism and its core ideas will be covered in order to provide a counter-weight to the already-presented realist school of thought.

Liberalism also has a lengthy lineage along which its roots can be traced. Historically, liberalism is a school of thought that is concerned with both governance *inside* states, a theory of domestic politics, as well as that *between* states and people internationally (Dunne, 2011:p.103). The liberal perspective on the domestic as well as the international domain goes back to the Age of Enlightenment and associated thinkers such as Jeremy Bentham, Immanuel Kant, and John Locke (Dunne, 2011:p.104). Since this time, liberalism has continued to develop and enjoy periods of significant popularity, for example during the interwar years with Woodrow Wilson's liberal notions of the Fourteen Points and the League of Nations as the antidote to the poison of power politics and war (Dunne, 2011:p.105), or during the euphoria at the end of the cold war when, in a famous article Francis Fukuyama (2003) declared the 'end of history' and the associated demonstrable and undisputable supremacy of the liberal ideology – after all, the collapse of the Soviet Union supposedly showed that liberal states were more stable, more peaceful, and thus better equipped to succeed in the international system going forward. Due to such a history, there can be 'no canonical description of liberalism' (Doyle, 1986:p.1152). Thus, this section will not attempt to encompass all liberal thought and its variations, nor to draw a line between the domestic and international theoretical renditions of liberalism, but rather to identify and outline the main facets of liberal thought and how they differ from those of realist theory. Afterward, the general liberal approach to international relations can be used to provide an additional, contrasting lens through which later analysis will be carried out.

If the fundamental assumptions of realism can be said to be groupism, egoism, and power-centrism, then those of liberalism can be said to be individualism, idealism, and institutionalism. These three basic assumptions of liberalism will now be explored.

The individualism assumption emerges from the liberal vision of domestic state politics. According to Dunne (2011:p.102), there are several 'general propositions that define the broad tradition of liberalism' and that these vary among the many strands of the doctrine. Doyle (1997:p.207) posits that an appropriate and broad definition of the liberal approach will be four-dimensional. Firstly, under a liberal system of governance, individual citizens are equal under law and ought to enjoy several basic rights such as the freedom of expression, freedom of religion, and access to basic facilities such as education. Secondly, the state is nothing but an aggregate manifestation of its people – in other words, one state is the result of many individuals, each with their own opinions and interests. Additionally, state authorities are not authorized to infringe upon and abuse the rights of individuals. Thirdly, in order to fully enjoy freedom and liberty, the ownership of private property and means of production should be open to individuals. And fourthly, it is generally agreed that a free market economy is one that will be most efficient and result in the most robust individual freedom for individuals – both at the domestic as well as the international level (Doyle, 1997:p.207). Therefore, while a heavy emphasis on individual freedom and individual expression is evident in these four dimensions of the liberal approach, it appears that in order to assure them, some sort of enforcement mechanism or institution is necessary. This need will be discussed under the institutionalism assumption.

The idealism assumption stems from the idea that human nature is not invariable and not inherently egotistical – liberals believe that human beings are (or at the very least can and prefer to be) good, peaceful, and cooperative, and this way of their being is most prevalent under a liberal democratic political order, both domestically, and internationally (Doyle, 2012:pp.54-59). Therefore, conflict and war are not seen as simple, irremovable, and unavoidable realities of politics, but the result of a lack of the appropriate conditions for human excellence. In summarizing the positions of several liberal thinkers, Dunne (2011:p.103) writes that domestically, conflict can be avoided by ensuring individual liberties and freedoms, an efficient free market economy leading to prosperity, and avoiding unnecessary and harmful infringements by governments that disturb this natural order. Internationally, peace will result from the interaction of transparent, sincere national governments that are subject to the opinions and will of their constituents that seek collective security. Additionally, under liberalism, ideas are significant. Liberals 'argue that power politics itself is the product of ideas, and, crucially, ideas can change' (Dunne, 2011:p.102). Thus, even if the world or the international arena are not currently places in which liberal ideals can flourish, progress is possible and it can be achieved through the permeation of liberal ideas and the remaking of the world order to allow for this. This leads to the third and final basic assumption of liberal theory.

The institutionalism assumption of liberal theory is derived from the perceived need to eliminate anarchy and to ensure the necessary conditions for the individualism and idealism assumptions to be realized. At the smaller, domestic level, this is achieved by the formation of a liberally democratic state whose government is beholden to public opinion and the preferences of its citizens. At the macro, international level, this is achieved through the formation of institutions which can manage states and keep them in check – both in the sense of state treatment of citizens, as well as in the sense of the behavior of one state towards another (Dunne, 2011:pp.102-106). Ideally, this condition will be guaranteed at the international level by an entity that supersedes the state – a higher authority that completely removes the condition of international anarchy and enforces decisions and ensures peaceful coexistence. Therefore, under the liberal lens, states are important, but they are not the only actors which matter in international politics. The international scene can thus be significantly affected by a range of actors from individuals, states, corporations, and organizations (Dunne, 2011:p.106). In other words, international organizations and actors are the key to providing the order and justice at the international level, that the state, individuals, and interest groups provide at the domestic level (Dunne, 2011:p.101).

Therefore, according to liberal theory, several trends can be identified as the outcome of the previously described assumptions when they manifest into reality. The idealism and institutionalism assumptions result in a focus on reciprocity rather than relative gains (Dunne, 2011:p.107) – given that the people that make up states and international organizations are inherently good and find themselves in the appropriate, conductive circumstances, politics can become a positive-sum game, especially if they subscribe to the same set of ideas that fall under the individuals assumption (Doyle, 2012:p.65). Of course, zero-sum outcomes are still possible – but no longer the norm. An increase in cooperation, openness, and free trade, as well as the creation of international institutions and the embedding of states within them breeds stability and interdependence between states (Dunne, 2011:p.106). The greater the level of cooperation and interdependence, the higher the costs of withdrawing from such an arrangement and regaining the independence to act unilaterally.

1.2.3. Integration Theory – Liberal Intergovernmentalism

This section will outline the Liberal Intergovernmentalism theory of European integration and its main tenets. Unlike realism and other theories of international relations, LI is primarily concerned with the phenomenon of regional integration and 'has acquired the status of a "baseline theory"' in this field (Moravcsik & Schimmelfennig, 2009:p.67). However, LI is still heavily 'grounded in broader social science theory' (Moravcsik & Schimmelfennig, 2009:p.67) including but not limited to international relations theory. As such, it will undoubtedly be an effective tool for the analysis of the progression of European integration in light of the sovereign debt crisis that will be done later in this work, providing specific insights and a unique perspective on the behavior of member states within the Union.

Founder and champion of Liberal Intergovernmentalism theory A. Moravcsik (1993:pp.480-482) articulates that LI rests on the foundation of two basic assumptions: the first is that states are actors and that it is they who primarily drive integration, and the second is that states are *rational* actors who have interests and pursue them, as well as care about the amount of utility that they gain from outcomes. These two assumptions lead LI to a three-stage framework model for cooperation and integration between states, in which the stages are the preference definition stage, the bargaining stage, and the institution creation or adjustment stage which is necessary for the enforcement of the agreed-to bargains that reflect defined interests. These central tenets of LI theory will now be explored in the stated order so that the essence of Liberal Intergovernmentalism can be grasped, and later deployed effectively.

Regarding the two fundamental assumptions that states are not only actors, but that they are rational actors, LI clearly shares a common thread with the realist theory of international relations that has already been discussed in Section 1.2.1. Moravcsik & Schimmelfenig (2009:p.68) explicitly posit that 'the EU… can be profitably studied by treating states as the critical actors in a context of anarchy'. Therefore, while international institutions such as the EU are not completely discounted by Liberal Intergovernmentalism (it is after all a theory to study their role and the reasons for internal integration within them) as in some strands of realism, states retain their primacy in this school of thought as well. If states are the dominant actors in international politics and are thus the drivers of regional integration, supranational institutions such as the EU are their vehicles which allow them to pursue and enforce it.

This leads to the second assumption of state rationality – the assumption of agency. Social actors (including states and their leaders) have a set of interests that they are aware of and are actively pursuing. Accordingly, they evaluate courses of action and potential developments for the degree to which these different ways of achieving their interests will benefit them as well as how advantageous their outcomes are for them. In other words, 'agreement to cooperate, or to establish international institutions, is explained as a collective outcome of interdependent (strategic) rational state choices and intergovernmental negotiations' (Moravcsik & Schimmelfenig, 2009:p.68). Therefore, under the LI lens of European integration, the establishment of international institutions and the giving up of some state sovereignty will be seen as a collective decision by states to do so in order to achieve some other aim, and that doing so is more beneficial for them than not doing so.

It is important to note that Liberal Intergovernmentalism makes no claim to some fundamental aspect of human nature as realism does with the egoism assumption which leads to the primary aim of survival. Rather, LI professes its agreement with liberal theories of international relations in the sense that the interests and aims of the governments of individual states are defined domestically through the activity and interaction of social and interest groups in the political institutions of each state. Therefore, under LI international state interests are not static and invariable over time (as they are often perceived to be in realism), but are dynamic, fluid, and dependent on the domestic political situation (Moravcsik, 1993:p.481). The difference between Liberal Intergovernmentalism and realism is evident from perceived motivations (achievement of a set of ever-changing aims vs. power accumulation and national security), and possible preferred means of achieving them. Moravcsik & Schimmelfennig (2009:p.68) summarize as follows: 'LI simply acknowledges a blunt empirical fact about contemporary institutions like the EU: member states are "masters of the treaty" and continue to enjoy pre-eminent decision-making power and political legitimacy'.

The three stages of the LI integration model will now be examined. Firstly, in the preference definition stage, the preferences that individual states will pursue in the international arena are formed from the aggregates of preferences articulated by domestic social groups as perceived by governments in those states (Moravcsik, 1993:p.483) and as such are 'neither fixed nor uniform; they vary among states and within the same state across time and issue' (Moravcsik & Schimmelfennig, 2009:p.69).

Subsequently, once states have defined their preferences, they enter the bargaining stage in which they 'bargain among themselves in an effort to realize those interests' (Moravcsik, 1993:p.481). Bargaining in the inter-state context is necessary and natural, as 'preferences of different states rarely converge precisely' (Moravcsik & Schimmelfennig, 2009:p.70). Moreover, policy coordination can lead to both positive and negative international policy externalities (Moravcsik, 1993:p.485). These externalities are distributed unevenly among the players (Moravcsik & Schimmelfennig, 2009:pp.70-71), and thus LI can be said to view negotiations as zero-sum games; when one party gains, the other one loses. Policy coordination may allow states to achieve goals that they may not otherwise be able to achieve on their own (Moravcsik, 1993:p.485), such as public goods to the likes of environmental protection, or specific security goals such as security of energy supply on a greater scale and at smaller individual cost than that which individual governments can provide (Moravcsik, 1993:pp.491-494). The bargaining power of individual states is also unequal. Moravcsik & Schimmelfennig (2009) explicate the phenomenon as follows:

> 'Generally, those actors that are least in need of a specific agreement, relative to the status quo, are best able to threaten the others with non-cooperation and thereby force them to make concessions; and those actors that have more and better information about other actors' preferences and the workings of institutions are able to manipulate the outcome to their advantage.' (p.71)

Finally, international institutions enter the LI account in the third stage – the institution creation or adjustment stage – as instruments that can 'cope with unintended, unforeseen, and often unwanted consequences' and as such are 'often necessary conditions for durable international cooperation' (Moravcsik & Schimmelfennig, 2009:p.72). Institutions provide frameworks and rules for decision-making and can serve as a third party that can help arbitrate disputes (Moravcsik, 1993:p.497). In addition to this stabilizing role, institutions lower transaction costs of inter-state negotiation by providing a rule-based forum in which bargaining can take place, as well as effectively gathering and providing accurate information about costs, benefits, and preferences of the actors involved (Mayer, 2008:p.254). Consequently, states may delegate decision-making authority to international institutions such as the EU and thus pool their sovereignty – if they believe that it is in their best interest. In other words, if it helps them to better achieve their goals, better facilitate bargaining, and if it ensures commitment on part of their partners, thus preventing non-compliance or backing out of agreements (Mayer, 2008:p.254).

Therefore, the theory of Liberal Intergovernmentalism is composed of two primary components – two fundamental assumptions and a three-stage model of integration. The former – the two fundamental assumptions of state "actorness" and state rationality set the stage for analysis, leading to the viewpoint that states are the drivers of (and thus the most important actors in) integration, and that when states pursue cooperation and integration it is because it is in their interest to do so. Integration then takes place when states have more to gain from it than to lose. These two assumptions feed the first stage of the model. Once states have identified their interests and preferences domestically, they will bargain amongst themselves in order to realize their (likely differing) preferences in a zero-sum game like negotiation. The creation of or amendment of international institutions (i.e. integration) takes place if the outcome of the aforementioned negotiations is at least partial consensus. Under the LI point of view, national governments thus retain the role of gate-keepers for any further integration and will not allow it to progress further *unless* they perceive it to be in their interest to do so.

1.2.4. Integration Theory – Neofunctionalism

In this section, the integration theory of Neofunctionalism will be presented and examined. Neofunctionalism was one amongst the earliest coherent theories of integration, articulated in 1958 by E. B. Haas in his work *The Uniting of Europe* (2004). The theory of Liberal Intergovernmentalism that has already been covered in Section 1.2.3. emerged in part as a response to the Neofunctionalist approach which largely came to be seen as 'having offered an unsatisfactory account of European integration' (Moravcsik, 1993:p.475). Interestingly enough, even Haas, arguably the founding father of Neofunctionalist thought declared the theory to be 'obsolete' in the 1970s (Niemann & Schmitter, 2009:p.45) when a series of real-world developments appeared to irreconcilably contradict the theory. However, the Neofunctionalist tradition has not been forsaken by all and has enjoyed 'efforts among scholars to resurrect neo-functionalist models' (Moravcsik, 1993:p.478) in response to changing conditions within Europe. The author of this work believes that while Neofunctionalism is not the "be all and end all" theory of integration, it undoubtedly provides several key insights and ways of examining developments in integration, and thus is a valuable theory for the purposes of this thesis. As such, this section will follow those preceding it in laying out the core tenets and concepts of Neofunctionalist thought so that the theory can be understood and subsequently be utilized for later analysis, rather than trying to reconcile all of its various strands and thinkers and attempting to end an enduring academic debate.

The assumptions that serve as the basis of Neofunctionalist theory will now be outlined. Niemann & Schmitter (2009:pp.47-48) identify five fundamental assumptions that underlie Neofunctionalism and allow integration as conceived by this school of thought to happen. Firstly, like realism, Neofunctionalism sought to (at least initially) be a general, "grand" theory that can explain a phenomenon – in this case integration – across different times and places. In other words, the first assumption of Neofunctionalism can be said to be that integration can be distilled to a set of components that follow a certain pattern, regardless of where and when it is taking place – that integration follows a recognizable pattern, and that Neofunctionalism is the theory to 'describe, explain, and predict' it, but also to 'prescribe' how it should or ought to happen (Niemann & Schmitter, 2009:p.46).

Secondly, through the Neofunctionalist lens, integration is a process in a sense different than through a LI perspective. Under LI, integration takes places as the result of a series of negotiations (isolated events) in which individual states agree to further cooperation or integration. The Neofunctionalist view that integration is a process suggests that it is not uniform, that it changes and develops over time, along with how it happens (rules of the game, different ways of progression), as well as when it happens. In other words, 'integration processes evolve over time and take on their own dynamic' (Niemann & Schmitter, 2009:p.47). While there is no agreed upon definition of integration in the Neofunctionalist canon since different authors seek to highlight different aspects, the definition offered by Haas (2004) is telling:

> Political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones. (p.16)

While Haas's definition clearly outlines a mechanism of development, including what should change during integration, as well as who the involved parties are, the mentioned end result of integration is at the very least unclear. Therefore, it is evident that this perspective posits that integration is a state of constant change, a state of perpetual convergence toward a new entity that transcends and consumes its composite parts – a new supranational political community that eclipses the nation-state.

Thirdly, Neofunctionalist theory is pluralist in the sense that, unlike realism, it does not identify a single actor that can be said to be preeminent (e.g. the state). Regional integration is seen as being driven by a diverse, variable, and dynamic set of actors who are not all homogeneous, and who 'are not restricted to the domestic political realm but also interact and build coalitions across national frontiers and bureaucracies' (Niemann & Schmitter, 2009:pp.47-48). Thus, in this aspect Neofunctionalism can be likened to liberal international relations theory which also emphasizes the importance of a variety of actors from individual statesmen, interest groups, and international organizations and questions the importance of states in international politics.

Furthermore, on top of highlighting the importance of various non-state actors, the fourth assumption of Neofunctionalism is that elites are especially important among these actors – both international (Haas, 2004) and national, governmental elites (Lindberg, 1963). The perceived consensus among these elites that favor integration is regarded as sufficient for its further pursuit and realization. Public opinion as formed within individual states is not given much weight or an important role to play in integration in the Neofunctionalist perspective (Niemann & Schmitter, 2009:p.48), unlike in Liberal Intergovernmental theory.

And finally, the fifth assumption that Neofunctionalism rests upon is the assumption of continued economic growth and prosperity in Europe (Niemann & Schmitter, 2009:p.48) – thus, similarly to liberal international relations theory, Neofunctionalists can be said to perceive economic growth and the associated increase in interdependence as a driver of further cooperation and integration for the purpose of generating even more wealth and stability, rather than other ends such as power and security.

These assumptions lead to the following conclusions about Neofunctionalist theory. Like LI practitioners, proponents of Neofunctionalism accept that actors are rational and self-interested. However, as under liberalism, their preferences are not fixed and are subject to change, as well as susceptible to outside influence and learning through involvement with new organizations and processes. In other words, 'membership… [alters] the way that interest groups and, later, member governments, [perceive] their interests' (Niemann & Schmitter, 2009:p.48). Furthermore, institutions can "take the reins" of the integration process from national governments – the institutional organs and their employees are interested either in further integration for ideological reasons, or due to the associated expansion of their competences, powers, and resources, and thus may attempt to influence the perceptions of interests of other actors to achieve these aims. This also reinforces the notion of integration as a process of incremental increases, rather than of several, isolated bargains as under Liberal Intergovernmentalism – decisionmakers work under domestic and institutional time pressures and with imperfect information. Neofunctionalism also focuses on the common interests that emerge from interaction within the integrative organization which leads negotiations and further integration to be perceived as a positive-sum game where all actors involved gain – even if they must make concessions on their own interests, the common interest is furthered.

Moravcsik (1993:pp.474-475) writes that the most important concept in Neofunctionalism is the concept of spillover, which can be understood as the reason behind further and further, autonomous integration. Spillover can be divided into two kinds – functional and political. Functional spillover occurs when insufficient integration weakens already-existing policies. Therefore, integration in one area leads to issues which cannot easily be solved without further integrating in other areas, in which the policies in place are no longer sufficient and must be elevated in order for the system to function smoothly – integration in one area or sector thus 'begets its own impetus toward extension of the entire economy' (Haas, 2004:p.297). Political spillover 'occurs when the existence of supranational organizations sets in motion a self-reinforcing process of institution-building' (Moravcsik, 1993:p.475) – this statement refers to the establishment of non-governmental elites and groups, which are responsible for managing and overseeing integration and cooperative processes, which are now above the member states. They are *supranational* elites and gain the autonomy and resources to pursue their own interests and to enact their influence upon other actors in the integration process.

In conclusion, the integration theory of Neofunctionalism provides an alternative perspective on integration. Through the Neofunctionalist lens, integration is to be understood as a process that is driven by multiple actors, not only member states. In this regard, preeminence is assigned to elites – both national, as well as international. Integrations is not regarded as something that happens when and where it is in the interests of member states, but something that can take on a life of its own due to the concept of spillover. Spillover, both functional and political suggests that further and further integration is always required – whether due to optimization and increasing smooth interaction between policies, or due to the shifting of interests and loyalties of various actors towards the new, integrative organization.

2. Faulty Architecture, a Roof-less Villa: The Development of the Eurozone

This chapter will explore the architecture of relevant EU structures, how they contributed to the European sovereign debt crisis, and analyze the economic as well as political tensions that they resulted in.

The EU is a political project first and an economic project second (Klaus, 2012:pp.20-21; Yglesias, 2015), meaning that the end-goal, a full-fledged political union is the primary pursuit, with other aspects such as integration in transport, energy, as well as the monetary domains are merely secondary (although crucial) means to that primary aim. In other words, in the eyes of the founding fathers of the European project of 'building a single market was seen as an essential pre-requisite to political integration and not a self-standing goal' (Avgouleas & Arner, 2013:p.8). However, it will be argued that the steps taken in monetary unification were insufficient due to a lack of political goodwill within the union, leading to the (without change) unsustainable, Frankenstein-esque system of today – an effort at greatness, but a patchy and eventually dangerous one. When put under pressure or exposed to outside shocks, this system will not be satisfactory for the players within it, it will not hold, and in fact erodes further the political goodwill necessary for further integration and reform that would make it tenable. It must continuously adapt or die. Furthermore, the systems and rules that *were* put into place were not and are not being fully adhered to. This effectively means that regardless of any external shocks (e.g. The Crisis), the system could not function as intended. The rules which were implemented in order to ensure the system's sustainability and the competitiveness of the states that were part of it were being violated since its inception. Therefore, a vicious cycle can be identified. Firstly, a lack of desire and/or will for integration leads to an incomplete and architecturally unsound system which is not fully adhered to and which thus fails to ensure the outcomes for which it was conceived. This further decreases the interest of concerned parties to pursue the integration that the system needs to be improved.

The final stretch of the road to monetary integration, culminating in the creation of the common European currency – the Euro – will now be briefly covered. A detailed tracking of the entire process of economic and monetary integration from the beginnings of Gustav Stresemann's interwar rhetoric calling for a common European currency, and the European Coal and Steel Community (ECSC) of the 1950s (Investopedia, n.d.) would far exceed the scope of this paper.

Therefore, this part of the thesis will examine the run-up to the creation of the Eurozone, making reference to relevant past events on an ad hoc basis for clarity.

The Maastricht Treaty of 1992 resulted in the transformation of the European Community (EC) into the European Union as we know it today. In a drive for increased economic integration and convergence of EU member state economies, the Maastricht Treaty set out the path for the EMU through the three stages summarized in Figure 2.1 below:

Figure 2.1: 'Stages of Economic and Monetary Union (EMU)'

STAGE ONE starting 1 Jul 1990	Complete freedom for capital transactions;
	Increased co-operation between central banks;
	Free use of the ECU (European Currency Unit, forerunner of the €);
	Improvement of economic convergence;
STAGE TWO starting 1 Jan 1994	Establishment of the European Monetary Institute (EMI);
	Ban on the granting of central bank credit;
	Increased co-ordination of monetary policies;
	Strengthening of economic convergence;
	Process leading to the independence of the national central banks, to be completed at the latest by the date of establishment of the European System of Central Banks;
	Preparatory work for Stage Three;
STAGE THREE starting 1 Jan 1999	Irrevocable fixing of conversion rates;
	Introduction of the euro;
	Conduct of the single monetary policy by the European System of Central Banks;
	Entry into effect of the intra-EU exchange rate mechanism (ERM II);
	Entry into force of the Stability and Growth Pact;

Source: https://www.ecb.europa.eu/ecb/history/emu/html/index.en.html

In addition to the three stages, would-be Eurozone members were also obliged to fulfil the five convergence criteria laid out by the Maastricht Treaty. Two basic requirements for euro membership relate to deficit spending and sustainable indebtedness - a limit of three percent on the annual public deficit as a percentage of GDP, as well as a limit of 60% on public debt as a percentage of GDP. These two criteria and their lack of fulfilment will be the analyzed in greater depth in Section 3. Another condition relates to price stability – inflation was to be kept within 1.5% of the rate of the three best performing Member States in this domain (i.e. those three with the lowest inflation rate). The fourth condition measures the durability of convergence – long-term interest rates must stay within 2% of the three Member States with the lowest borrowing rates. The final Maastricht criterion relates to exchange rate stability – 'participation in ERM II [(European

Exchange Rate Mechanism II)] for at least 2 years without severe tensions' is required (European Commission, n.d.A). The stated aim of ERM II is to 'ensure that exchange rate fluctuations between the euro and other EU currencies do not disrupt economic stability within the single market', as well as to ready up future Eurozone members, so that their entry will not disrupt the 'smooth operation of the single market' (European Commission, n.d.B).

Even with such conditions in place (setting aside for now the question of adherence to them by Member States), it has been argued that the Eurozone will not function efficiently. In his *A Theory of Optimum Currency Areas*, Mundell (1961) lays out the assumptions under which a group of states would form an optimally functional currency area – that there is high labor and capital mobility between them, that wages are flexible (especially downwards), there is considerable trade happening between them, that they are alike in their endowment with natural resources, and that there exists a symmetry in the exposure and impact of external shocks, both positive and negative.

When applying the filter of Mundell's optimum currency area to the Eurozone, many find severe discrepancies. Loužek (2015) writes that the required labor mobility, although possible in the EU is relatively low. This is not surprising – while in the legal and formal senses labor mobility in the EU definitely exists, in reality there are significant barriers to be overcome which impede it. Specifically, issues such as facing a language barrier, recognition of all qualifications and experiences, the level of remuneration, and currently only partial pension portability. On the other hand, capital mobility is significantly more developed in the EU. Furthermore, 'the necessary downwards flexibility of salaries and prices is virtually non-existent' (p.89). Europe in general is not known for the flexibility of its labor markets – on the contrary their 'rigidity… is sufficiently well known' (p.89). Additionally, although there is a relatively high degree of regional similarity between EU countries, all the Eurozone states are sufficiently different to ensure an asymmetry in positive and negative shocks, as well as their '[constant] reoccurring in Europe' (p.89).

With the establishment of the European Central Bank (ECB) in 1998 (ECB, n.d.), the ECB became responsible for the monetary policy of the Member States of the euro area. De Grauwe (2013) describes the situation clearly and simply, stating that 'in the Eurozone money and monetary policy are fully centralized' (p.6). The adoption of the euro currency rendered Eurozone members unable to purchase their own government bonds at will (effectively increasing the money supply) and thus to adjust and respond to issues and developments through the exchange rate.

Furthermore, if a state is unable to rely on its central bank for ad-hoc management of the money supply, there is a risk that it can become insolvent or go bankrupt. Previously, excessively indebted countries could rely on their central banks to buy up the debt and keep the state solvent – however, as will be shown this is more or less what the ECB has resorted to since the onset of the sovereign debt crisis. Thus, in a period of crisis, a state that is unable to print its own currency is exposed on two fronts. Firstly, it cannot easily devalue its currency by simply printing more in order to increase its competitiveness and to make its exports more attractive abroad as well as its domestic products more attractive vis-à-vis foreign imports in order to give the domestic economy a boost through the associated increase in production, employment, and balance of trade. Secondly, the inability of Member States to print money exposes them to 'insolvency risks' – in order to avert a crisis of confidence and perhaps total collapse, states must be able to 'eliminate the possibility of sovereign default' in order to reassure investors and other economic actors (McDonnell, 2012:pp.1-2). This has been the traditional purpose and role of central banks, who function as lender of last resort both for sovereigns and in more recent times primarily for key actors in the financial sector. However, the creation of the ECB took this option away from countries – the ECB was not intended to buy debt of Member States and was not originally to fulfill the role of lender of last resort (De Grauwe, 2013:p.3).

While the Eurozone adopted a common monetary policy under the institutions of the EMU and ECB, no similar push for a coordinated fiscal policy materialized, and 'the rest of macroeconomic policies have remained firmly in the hands of national governments' (De Grauwe, 2013:p.6). Instead, authority over fiscal policy was left to individual Member States, subject to the guidelines of the Maastricht criteria which were explored earlier. This leads to further problems – the fact that the ECB mandates a single interest rate for all of the economically diverse Eurozone countries means that reality is altered. To say that a one-size-fits-all approach has been harmful would be an understatement. Instead of leading to convergence and stabilizing economic performance between Eurozone Member States, the single interest rate intensifies the differences between them. Specifically, 'the single interest rate… is too low for the booming countries and too high for the countries in recession' (De Grauwe, p.6). Thus, countries in the periphery of the Eurozone (Greece, Spain, Portugal, Ireland) adopted a currency that was no longer exclusively under their control. Tully (2010) writes that 'the cheap borrowing that made the euro look so attractive caused booms in their domestic consumption that enormously raised costs, especially for labor' and therefore prices - leading to a loss of competitiveness in international trade through internal appreciation (Beker, 2014:p.4). Additionally, they could now borrow at the same rate of interest as European economic powerhouses like Germany (Loužek, 2015:p.93), enabling their governments to spend lavishly and accumulate 'potentially ruinous levels of debt' (Tully, 2010). Simultaneously, differing inflation rates within the Eurozone continued to be an issue. Loužek (2015) writes that 'as soon as the Eurozone was launched, the inflation rates of the individual countries started to diverge from each other' (p.90). Two basic groups formed – one group requires interest rates which are consistently lower than the EU average (Germany, France, Belgium…), while the other requires a converse tendency with interest rates consistently growing and staying above the EU average (Loužek, 2015:p.90-91; Marek, 2014). This triple whammy then 'leads to a stronger boom in the booming countries and a stronger recession in the recession countries than if there had been no monetary union' (De Grauwe, p.7).

Therefore, serious flaws can be and have been detected in the way that the Eurozone was constructed from the outset. What follows is an analytical survey of the three periods relevant for this thesis – the pre-crisis period, the acute crisis period, and the post-crisis period up until present day in relation to the theoretical perspectives presented in Section 1.

The issues of a faulty EU architecture in the period preceding the onset of the EU debt crisis will now be analyzed. This is pertinent in order to gain an understanding of what was happening before the outbreak of the crisis, and to be able to compare the moods and developments that unfolded in the aforementioned period with those which took place during and after it. The optimal starting point appears to be the year 2001 – this year, Greece – the eventual incendiary poster child of the EU sovereign debt crisis – acceded to the euro area after supposed compliance with the Maastricht Criteria, the dot-com bubble burst, and the terrorist attack on the World Trade Center on September 11th shocked the world, leading to a now perpetual War on Terror. The following year, Euro banknotes and coins were officially brought to life and introduced in the 12 euro-area Member States.

Initially, there was great enthusiasm regarding the euro and the deepening of integration within the EU. Expectations were high – 'euro was expected to boost economic growth, employment, and overall prosperity' (Loužek, 2015:p.88). In a paper delivered at the 2001 conference of the European Society for the History of Economic thought, ECB executive board member Professor Otmar Issing (2001) praised the euro area for leading to an increase in the pooling of sovereignty of Eurozone Member States in the monetary and exchange rate policy domains outlined earlier, but also in the domain of microeconomic policy in relation to the Single Market, in relation to trade.

Several liberal and Neofunctionalist undertones can clearly be identified. Issing (2001) stresses the relevance and usefulness of these advancements for future development in other 'important fields in politics... such as a common foreign policy and a common defence policy', thus highlighting the transformative impact of one instance of integration on the normative perspectives of Member States and accentuates the potential and beneficial nature of further integration – even suggesting in which specific domains it may be desirable next. And while at this point Member States still retain authority over their national fiscal policies (demonstrating an awareness of and acknowledging the still Liberal Intergovernmentalist nature of the EU and Eurozone which has not led to a complete, but only a partial cession of sovereignty), at least they are now bound by some common criteria and subject to surveillance. In other words, the EMU and the common currency have to some extent attenuated the anarchy condition in Europe and increased the presence and leverage of transnational institutions that can continue to do so. Furthermore, he notes that both within the European Union as well as globally, states and their functions are changing in response to the diverse pressures of the time, from globalization to innovations as well as growing economic and financial interdependence, all of which are transforming the common understanding of sovereignty, security, but also identity and culture – leading to the conclusion that functional political integration 'is bound to deepen over time, as the legal and regulatory framework will be harmonised further' (Issing, 2001). Therefore, both functional and political spillover is to be expected, as it is both expedient for the states in question as well as a pragmatic response to the pressures of the 21st century. A further natural evolution in the normative understanding of the role and working of the state, questions of sovereignty and cultural identity is identified. The importance of the cited paper is two-fold: firstly, it demonstrates the positive mood surrounding the newly created EMU, and secondly, it shows the normative perspective on it of one member of the non-governmental European elite.

The enthusiasm and positive expectations were not only internal. After the collapse of the Soviet Union, the Eastern European states from behind the now dismantled figurative Iron Curtain began to set their sights upon acceding to the EU for a multitude of reasons. For example, the Czech Republic sought to orchestrate a so-called return to Europe (Černoch, 2004) and perceived entry into the EU ‘as a means to increase the country’s reputation, further legitimizing its role in the international arena’ (Neuman, 2014:p.1). Undoubtedly, another immense (if not the greatest) draw for the Eastern states was access to the common market and economic integration that would stem from accession – ‘economic cooperation, mutual opening up, liberalization of trade, and elimination of barriers to the free flow of goods and services’ (Klaus, 2012:p.19). This economic magnetism was mutual. In addition to the moral and normative reasons for opening up eastwards and going through with the Big Bang enlargement of 2004-2007 which would bump the number of EU Member States to 27 (Aggestam, 2012), and the ‘economic opportunity offered by the new markets of the east’ (The Economist, 2001) was a major driver for the eventual success of negotiating the EU enlargement initiative. Therefore, in addition to the reasoning of a normative and ‘moral obligation’ (The Economist, 2001) to take the long-lost Eastern relatives back to the fold in order to project European values of idealism and institutionalism that are in line with the liberal international relations theory, a certain realism can be identified – it was simply in everybody’s best interest to go through with enlargement. Both old and new Member States would gain much improved access to new markets, a larger and more formidable Union from a security perspective, and the non-governmental elites an increased impetus for both wider and deeper European integration.

The next significant integrative push came during the forming and ratification of the Treaty of Lisbon (The Treaty). In a bid for an ever-closer Union, the 2007 Lisbon Treaty sough to ‘[redefine] and [strengthen] actions taken at a European level’ in response to the 2004 Enlargement (EUR-Lex, n.d.). This was to be achieved through the reform of EU decision-making processes and internal EU policies. In addition to changes and increased integration that the Lisbon Treaty brought to domains such as the foreign policy domain through the introduction of qualified majority voting as opposed to decision-making by unanimity and the establishment of a High Representative for Foreign Affairs and Security Policy – both changes intended to give the Common Foreign and Security Policy (CFSP) ‘greater coherence and visibility’ as well as to give the EU a ‘legal personality, enabling it to negotiate and be a contracting party in international

Treaties' (EUR-Lex, n.d.), The Treaty also had implications for the EMU. While the EMU has already been codified previously, the Lisbon Treaty contained amendments to all three segments of the EMU (as presented in Figure 2.1.), seeking clearer and more binding rules in relation to the EMU. In the field of economic policy under the Lisbon Treaty, the Member States and the EU institutions have 'shared competence in the field of economic policy', and specific articles require 'Member States to coordinate their economic and employment policies and also [recognize] the competence of the Union in such coordination' (Seyad, 2008:pp.1-2). In addition, The Treaty contains an exit clause which 'provides legal certainty to Member States of their right to leave the Union' (Seyad, 2008:p.6) – however, this provision was included based on the assumption that it will never be invoked by any Member State which, as will be explored later did not prove to be the case. This clause can be said to be a response to the failure of some prior integration boosting initiatives such as the Constitutional Treaty in national referendums (Klaus, 2012:pp.48-49) as well as the differing levels of commitment of Member States to further integration within the EU (Seyad, 2008:p.6). Therefore, while the Lisbon Treaty was eventually ratified and entered into force in 2009, there appears to be a significant Liberal Intergovernmentalist tendency in the process – the ratification process was not completely smooth and involved a trial and error passage through referendums, indicating at the very least incomplete support for this integrative effort. Furthermore, the inclusion of the exit clause suggests that further integration was not a foregone conclusion and while Member States regarded the Lisbon Treaty as serving their interests sufficiently in order to push it through, doubts remained and some states still wished to keep a back door open if integrative pressures and further spillover took a turn for a direction in which they did not wish to go.

The outbreak of the global financial crisis in 2008 would be the external shock that put the defective (or at the very least incomplete) EU structures under immense pressure. The crisis that started in the US sub-prime mortgage market in 2007 but quickly spread around the world and entered a more acute phase in 2008 with the collapse of Lehman Brothers investment bank led to the eruption of a full-blown sovereign debt crisis in Europe which still reverberates throughout it today. The effects of The Global Financial Crisis on the Eurozone were multiple. Firstly, there was an almost overnight drying-up of global liquidity (Davies, 2017) and flight of investor capital from the most afflicted countries into the safe-haven states (Baldwin & Gros, 2015:p.2), which will be explored in more detail in Section 3. Secondly, it led to a slowdown of global economic activity which unquestionably affected Europe as well, which will also be explored in more detail in Section 3. And thirdly, it undermined the position and integrity of European banks which were heavily invested in and dependent on US money markets (Lane, 2012:p.55).

It is the third effect which resulted in a series of bank bailouts by EU Member States in order to avoid a total 'collapse of their financial system' (Avgouleas & Arner, 2013:p.3). In addition to the sizeable private debt, European banks also carried significant amounts of European sovereign debt which they assumed 'was essentially risk-free' (Beker, 2014:p.2). This being the case, they could not be allowed to fail and thus debt was essentially socialized as has been outlined in Section 1.1.2., transferring a huge amount of debt from private institutions onto the sovereigns and leading to a 'vicious circle of ever more bank bailouts and ever-higher levels of national debt' Avgouleas & Arner, 2013:p.23).

The institutional structure of the EMU was not robust enough to deal with the new reality brought on by The Crisis and lacked the authority and institutions that would enable it to restore financial stability in such a situation, especially after the revelations regarding the situation of Greece. As has already been discussed, at its inception the ECB was explicitly not a lender of last resort and subject to a no bailout clause which 'specified that member states should not be liable for, nor assume, the commitments or debts of any other' (Sarotte, 2010). Taken together with the idea that the Eurozone is a political and not an economic project, in order to prevent a possible breaking up of the EMU and possibly the EU as a whole through a domino-like series of sovereign defaults, existing institutions had to be transformed and new ones created.

The ECB was arguably the only institution that could prevent total collapse – 'as a money creating institution it has an infinite capacity to buy government bonds' (De Grauwe, 2013:p.16). In 2010, the ECB bolstered lending to European banks and began intervening in the sovereign debt markets (Woodruff, 2014:p.27). However, the start of said interventions rested on two conditions – firstly, the creation of a 'rescue fund' financed by Member State governments – the European Financial Stability Facility (EFSF), and the adoption of austerity programs in the afflicted countries (Woodruff, 2014:pp.38-40).

Germany played a leading role in the creation of this new EU institution, and largely set the parameters of the response. As the richest Eurozone member and due to a significant portion of exposure of German banks to Greek sovereign debt, Germany could be nothing less than the keystone of a rescue fund financed by Member States. At the same time however, the German government was under the pressure of a strong public opinion against any aid to Greece, or any other perceived “financial sinner” state for that matter. France, another key player in the EU (whose banks had exposure to Greek debt) and the second largest economy of the Eurozone had similar motivations but was more keen on pushing the ECB to take action without conditions, potentially upsetting the neutrality of this institution. The United Kingdom, an important EU Member State which was traditionally stand-offish to integration efforts (for example having negotiated an opt-out of joining the EMU and adopting the euro) was against funding a new EU mechanism and regarded the need for bailouts as a problem and responsibility of Eurozone states, not all EU states, despite its banks also being significantly exposed (Gocaj & Meunier, 2013:p.244).

The creation of the EFSF can thus be interpreted through a Liberal Intergovernmentalist perspective – despite the outlined differences, the main players had common interests due to the exposure of their banks to debt across the Eurozone, as well as wanting to avoid a collapse of European cross-border financial services. Additionally, Germany (being the European economic powerhouse) can be said to have had superior bargaining power and being least in need of an agreement. Thus, the resulting form of the EFSF was that of ‘an intergovernmental instrument’ that was to be strictly overseen by Member States (Gocaj & Meunier, 2013:p.245) - and was to be bundled with austerity measures as preferred by German leadership and conditioned by the ECB.

The influence of the ECB in the creation of the new institution should be noted. Although the final negotiation and creation of the EFSF came about through the efforts of Member States, ‘the ECB played a pivotal role in bringing about this outcome’ (Woodruff, 2014:p.40). The ECB, as the central bank of the Eurozone countries made a credible threat to not intervene in the market and save some of its charges from default unless its conditions were met. Furthermore, these conditions practically directed the economic policy of states (austerity measures), and called for further institutionalization and expansion of institutional oversight over states (EFSF). This illustrates two things. Firstly, the importance of non-state actors such as the ECB which seek to supersede states and enforce certain orders in international politics as posited by liberal international relations theory cannot be understated. Thus, in the EU states continue to be the reference point and drivers of institutional creation, their behavior is no longer completely autonomous – they now are not only limited by the interests, capacities and potential for conflict with other states, but also by the institutions to which they have ceded certain aspects of their sovereignty such as the ECB. Secondly, the creation of the EFSF can be regarded as an example of Neofunctionalist functional spillover – in other words as an integrative response in the face of an issue or crisis that cannot be remedied with the mechanisms and structures currently in place. Additionally, the support for what is essentially a bailout fund by Angela Merkel and the German leadership – despite significant public opposition – demonstrates the importance of elites as the likely pilots of integration.

The EFSF as conceived as a temporary mechanism with a shelf-life of three years in order to expunge the fear of defaults in the Eurozone (Gocaj & Meunier, 2013:p.245). Its subsequent expansion and transformation into the European Stability Mechanism (ESM) in 2012 was a testament to the 'long-term nature of the sovereign debt crisis, continuing contagion' (Gocaj & Meunier, 2013:p.247), as well as the continuous nature of spillover in European integration. The purpose of the ESM was largely the same as that of the EFSF – to provide financial assistance to Eurozone countries that are in severe financial peril. However, the ESM is to be a permanent rescue facility that will stay in place regardless of the current debt situation in Europe, rather than a tailor-made solution to the acute phase of the sovereign debt crisis which manifested as a result of the GFC. The ESM carries more conditions than its predecessor, requiring members to contribute to the ESM capital stock in order to be eligible for financial assistance, as well as a four-point reform agenda requiring the restoring of fiscal sustainability, the safeguarding of financial stability, the enhancing of growth, competitiveness, and investment, and finally a modern State and public administration (ESM, 2016). Concurrently with this transformation, the ECB implemented the Outright Monetary Transactions (OMT) program 'which promises to buy unlimited amounts of sovereign bonds during crises' (De Grauwe, 2013:p.16) Thus, the ECB can finally be said to have taken on the role of lender of last resort in response to the challenges that the Eurozone faced and continues to face.

To further strengthen the architecture that revealed itself to be so lacking in the face of The Crisis, EU Member States negotiated and agreed upon the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), the most important part of which for the purposes of this work can be said to be the so-called Fiscal Compact (The Compact). As described by the ECB (2012), the Fiscal Compact aims to 'strengthen the fiscal governance framework in the euro area' (p.101) and is a 'step towards anchoring fiscal discipline in the euro area' (p.102). The Compact can be said to be a communization of fiscal policy, much in the same way that the creation and empowerment of the ECB was a communization of monetary policy – it includes prescriptions for the state of Member States budgets (to be balanced or in surplus), entrusts enforcement to an automatic correction mechanism, and brings in line benchmarking of debt reduction, public debt issuance plans, as well as strengthens procedures for when rule-breaking is identified (ECB, 2012). The Fiscal Compact was negotiated and signed by all EU Member States with the exception of the UK and the Czech Republic and was adopted in 2013. At the outset, The Compact was an intergovernmental treaty and thus not formally part of EU law in order to speed up its adoption. However, it was designed with the vision of being eventually incorporated into EU law in order to codify the powers and mechanisms that it enshrined.

The Fiscal Compact illustrates several interesting phenomena that continue to be relevant to this day. Firstly, both Eurozone and non-Eurozone Member States are party to it. Although the Eurozone faces specific risks, the ongoing sovereign debt crisis (which can be said to have affected Eurozone Member States much more severely than other EU states) poses a risk to the EU as a whole. This suggests that in order to preserve the European project and to continue to fight the long-term effects of the crisis, Member States are willing to continue to integrate *in some respects*. Despite a certain sense of disillusionment with the euro currency and an unwillingness to join an institutional framework that mandates a one-size-fits-all monetary policy from Member States outside the Eurozone (e.g. Poland, Hungary, and Sweden) (Robert, 2017), they are willing to join a Fiscal Compact that entails a one-size-fits-all fiscal policy (Hall, 2016:p.64). This indicates a realist approach to European integration on the part of some Member States – integration that is allowed to happen is pursuant to their specific interests. In this specific case, states can be said to be set on preserving their monetary independence in order to, for example, better control competitiveness in trade. At the same time however, being party to an agreement that limits their (as well as other countries) potential for profligate spending can be seen to be advantageous, especially in conjunction with the ESM – it is better to contribute a relatively small amount to a common bail-out fund in case they are the ones to run into trouble, than to stay outside of the mechanism.

Secondly, it illustrates the seemingly unending nature of both the sovereign debt crisis, as well as the process of integration. What has been shown in this section is that the faulty architecture that was in place prior to the outbreak of the crisis did not allow for an efficient treatment of the disease that emerged in light of the GFC, and the rectification of this issue is still ongoing. Klaus (2012) wrote that:

> … It is obvious at first sight that an unstable system was created, which either has to return to the EU (it is potentially possible that the EMU will survive, but with a much smaller number of more homogeneous countries), or it will have to evolve smoothly into the EFU, the European Fiscal (or Financial) Union, and then – sooner or later – into the final phase: the EPU, the European Political Union… (pp.65-66)

The initiatives that have been started during as well as after the most acute period of the crisis seem to point to precisely such an evolution, and it can be said that since the Fiscal Compact the EU is currently trying to stabilize itself in the EFU stage.

Therefore, it can be said that the EU sovereign debt crisis has influenced the progression of European integration to a significant extent in the direction of further integration. The threat of The GFC and the outbreak of the sovereign debt crisis proved severe enough to motivate Member States to band together and resolve some of the issues that were built-in to the EMU and the system that they inhabit from the beginning. As shown in this section, integration in general and the support for it was great during the pre-crisis period. During the acute crisis period, deep integration progressed remarkably quickly - more so in the Eurozone than the EU however. It progressed despite public pushback and levels of enthusiasm markedly lower than those exhibited in the pre-crisis period. In the post-crisis period, integration related to the fallout of the ongoing crisis continued across the Eurozone and EU boundary in order to further address the ongoing sovereign debt crisis.

3. Excessive Leveraging & Short-sighted Selfishness

This section will examine and analyze the issue of excessive indebtedness and leveraging as a major contributor to the outbreak of the ongoing sovereign debt crisis. In Section 2., the architecture of the EMU and the institutions and rules governing this aspect of European economies have been outlined and their impacts on European integration assessed. At this point it is important to examine the data relevant to the sovereign debt situation in order to evaluate what happened in practice, as well as to extract the implications on the reality and unfolding of the ongoing EU sovereign debt crisis.

As in the previous section, the period preceding the outbreak of the sovereign debt crisis will be examined first. Appendix A presents a table of general government gross debt as a percentage of gross domestic product (GDP) for the EU28 between 2000 and 2016. Appendix B presents a table of general government deficit or surplus as a percentage of GDP for the EU28 between 2005 and 2016. Even a brief surface level survey of these statistics reveals that a significant part of Member States failed to meet the two relevant Maastricht criteria at the creation of or during their membership of the EMU. For example, Belgium – the long-term epicenter of European integration and the seat of the most important EU political bodies – had a debt level of 108.8% of GDP in 2000, and an average debt level of 96.9% of GDP during the pre-crisis period under examination (between 2001 and 2008). That is, well above the 60% limit set out by the Maastricht criteria. Regarding the Maastricht deficit limit of 3% of GDP, the biggest European economic players Germany and France at times strayed outside the defined bounds, both in 2005 and the latter in 2008 as well. Omitting for now the worst offenders in terms of violating these rules, this brief examination neatly reinforces the idea of the predominance of political motivations for integration, the faulty architecture of the EMU and the lack of rule upholding and enforcement that led to the sovereign debt crisis. From a political perspective, the EMU and the euro currency – proclaimed by the European Commission imminently prior to the crisis to have become the 'symbol of Europe, considered by euro-area citizens to be among the most positive results of European integration' (Hall, 2016:p.51) – could not possibly exclude the aforementioned European states, despite an observed lack of adherence to the rules.

Table 3.1 shows the varied levels of indebtedness as a percentage of GDP for selected countries, namely the PIIGS (Portugal, Italy, Ireland, Greece, Spain), Germany, the Czech Republic, as well as the EU27 and Euro area averages. The averages serve as a reference point for the status of those two large groups. The PIIGS are most relevant, seeing as those are the countries in which the sovereign debt crisis severely manifested itself and they were nearest to default and required bailouts. Germany, the economic powerhouse of Europe serves as the chosen antithesis of the PIIGS, and the Czech Republic serves as an example of an EU Member State which is not an Eurozone member and has opted out of The Compact.

Table 3.1: Government gross debt as percentage of GDP for selected countries (2001-2008)

	Year							
Country	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
EU (27 countries)	59.3	58.9	60.4	60.9	61.5	60.1	57.6	60.8
Euro area (18 countries)	67.1	67	68.2	68.5	69.3	67.5	65.1	68.8
Portugal	53.4	56.2	58.7	62	67.4	69.2	68.4	71.7
Italy	104.7	101.9	100.5	100.1	101.9	102.6	99.8	102.4
Ireland	33.2	30.6	29.9	28.2	26.1	23.6	23.9	42.4
Greece	107.1	104.9	101.5	102.9	107.4	103.6	103.1	109.4
Spain	54.2	51.3	47.6	45.3	42.3	38.9	35.6	39.5
Germany	57.7	59.4	63.1	64.8	67	66.5	63.7	65.1
Czech Republic	22.8	25.9	28.3	28.5	27.9	27.7	27.5	28.3

Source: author, data from Appendix A

Interestingly, while the EU average level of indebtedness hovers around the Maastricht criterion limit of 60% of GDP, the Eurozone average level of indebtedness surpasses it by around 5 to 9 percentage points in the pre-crisis period. Therefore, the Eurozone Member States can be said to be worse at keeping within the Maastricht criteria than non-euro countries, such as the Czech Republic, since their inclusion significantly brings down the average level of indebtedness.

The table also illustrates the significant disparities in the indebtedness of individual countries. Greece and Italy exhibit the highest relative levels of indebtedness from the countries under examination, with their national debt accounting for just about or over 100% of their GDP. The other problem states from the PIIGS group are more interesting. The average Portuguese level of indebtedness was 63.4%, identical to the German average level. The level of indebtedness increases significantly from 2005 onwards, however. Ireland and Spain actually exhibit decreasing debt levels during the pre-crisis period until 2008 when an increase occurs (a much more marked increase for Ireland, with debt as a percentage of GDP jumping from 23.9% in 2007 to 42.4% in 2008.

At this point it is fitting to examine the structural differences between European economies, commonly divided into the northern and southern countries. The monetary union brought together countries whose economies are structured in severely different ways. Hall (2016) outlines the distinction between the 'coordinated market economies' in the north (pointing to Germany, Austria, Finland, etc. as examples) and the 'Mediterranean' economies of the south (with reference to Portugal, Greece, Italy, and Spain) (p.52). Despite the geographical distance, De Grauwe (2013:p.7) includes Ireland in this southern economic group as well for the structural reasons that follow. Difference between the two can be found along several lines. Due to institutional effectiveness and sound structures, the north (exemplified by Germany) is able to pursue export-led strategy of economic growth. The long-tradition of labor unions and employer associations in the north results in a lot of bargaining experience and the ability to hold down labor unit costs for the pursuit of exports which is regarded as everybody's interest. Efficient training structures and tradition in production allows for the production and export of high quality and high value-added goods for which demand is relatively stable and high, and competition lower (Hall, 2016:pp.52-53).

Conversely, in the south, labor and employer associations are many and fractured, and thus all relatively weak. While they do agree periodically, long-term wage coordination is usually unsatisfactory and difficult. Furthermore, training and skill-forming institutions are not as developed in the southern economies, making them rely on cheaper labor and cheaper products rather than high quality, high-value added products. However, the competition for these products is much higher. Before the EMU, these countries could rely on devaluing their currency as a form of increasing competitiveness in international markets, but centralized monetary policy and the single currency removed this possibility. An alternative growth strategy for the southern countries 'lay in the expansion of domestic demand' (Hall, 2016:p.54). This path forward appeared even more attractive as EMU membership lowered the cost of capital by incentivizing foreign investors from the northern countries and abroad to invest their surpluses. However, a strategy focused on growing domestic demand brings with it wage and price inflation, and, as shown in Section 2. the centralized one-size-fits-all monetary policy of the ECB and the lacking fiscal policy coordination at this point in time were not prepared to keep this in check (De Grauwe, 2013:p.7; Hall, 2016:pp.52-54). Additionally, these countries experienced credit and housing booms (Lane, 2012:p.54) and became heavily dependent on uninterrupted financial flows (Woodruff, 2014:p.25).

It has been shown that several Eurozone countries (Portugal, Italy, Greece) were severely indebted and excessively leveraged prior to the official outbreak of the sovereign debt crisis, both relative to other Eurozone members, as well as to the Maastricht criteria which were the conditions for their participation in the euro area. Furthermore, the structural differences in the economies of the southern European countries (under which PIIGS can be classified) have been presented. And lastly, the boom of cheap credit and asset price explosion has been noted. Thus, in line with the theory of the financial cycle of leveraging and deleveraging as outlined in Section 1.1.1, conditions were ripe for a culmination of the financial cycle. Since the establishment of the EMU, the vulnerable southern states benefited from accommodative monetary and financial conditions and investors (along with some states) were able to become more and more leveraged. The literature shows that 'peaks in the financial cycle are closely associated with systemic banking crises' (Borio, 2012:p.4), and the external shock in the form of the GFC was what it took to send the EU into the sovereign debt crisis, the effects of which still reverberate today.

Following the onset of the GFC, the largest banks in many European countries faced severe difficulties and liquidity issues. As discussed above, southern states were heavily reliant on foreign investment – specifically, 'the periphery was relying on foreign lenders to cover the savings-investment gap' (Baldwin & Gros, 2015:p.2). This phenomenon can be observed in the state of a country's current account. A surplus in the current account indicates a deficit in the capital account, reflecting capital outflows and investment abroad. A deficit in the current account indicates a surplus in the capital account, reflecting net capital inflows and investment coming in from abroad. The discrepancy considered by Baldwin & Gros (2015) as referenced above is illustrated by Table 3.2 below:

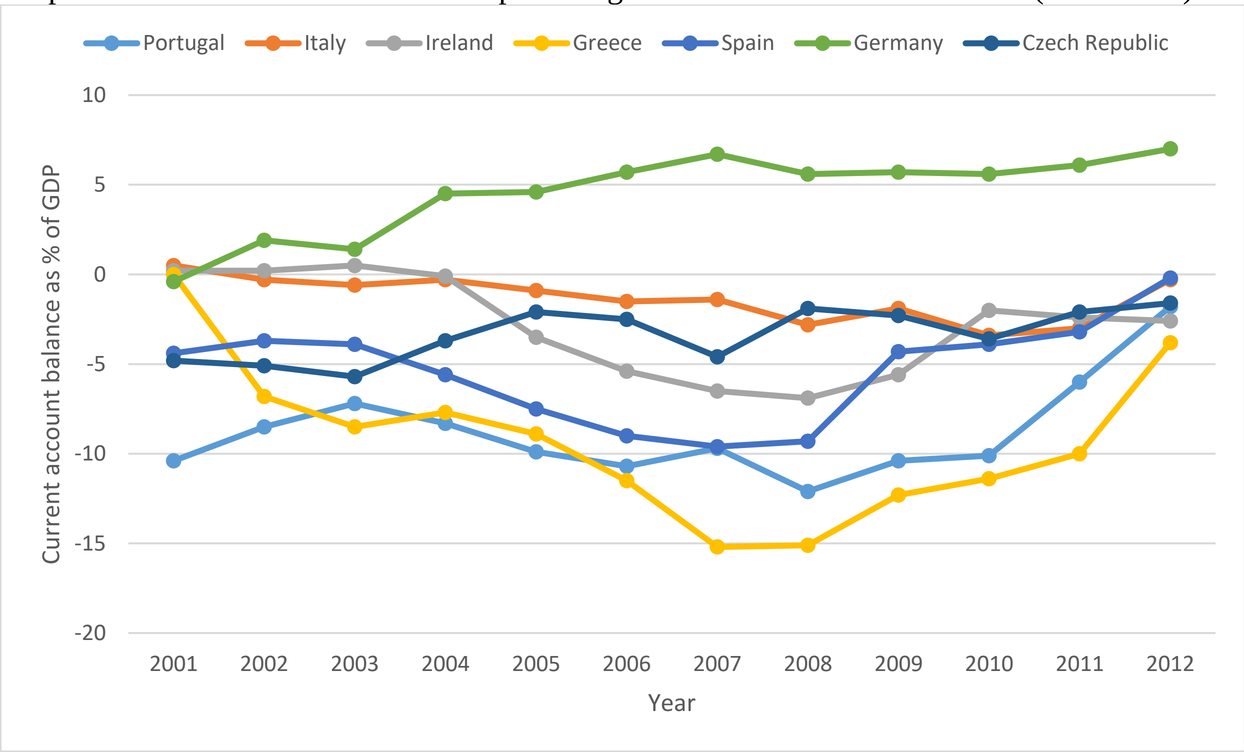
Table 3.2: Current account balance as percentage of GDP for selected countries (2001-2012)

Country	Year											
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Portugal	-10.4	-8.5	-7.2	-8.3	-9.9	-10.7	-9.7	-12.1	-10.4	-10.1	-6	-1.8
Italy	0.5	-0.3	-0.6	-0.3	-0.9	-1.5	-1.4	-2.8	-1.9	-3.4	-3	-0.3
Ireland	0.2	0.2	0.5	-0.1	-3.5	-5.4	-6.5	-6.9	-5.6	-2	-2.4	-2.6
Greece	x	-6.8	-8.5	-7.7	-8.9	-11.5	-15.2	-15.1	-12.3	-11.4	-10	-3.8
Spain	-4.4	-3.7	-3.9	-5.6	-7.5	-9	-9.6	-9.3	-4.3	-3.9	-3.2	-0.2
Germany	-0.4	1.9	1.4	4.5	4.6	5.7	6.7	5.6	5.7	5.6	6.1	7
Czech Republic	-4.8	-5.1	-5.7	-3.7	-2.1	-2.5	-4.6	-1.9	-2.3	-3.6	-2.1	-1.6

Source: author, data from Appendix C

Table 3.2 show a progressive deterioration of the current account deficit in the PIIGS countries between 2001 and 2008, indicating an increasing reliance on foreign investment to cover the savings-investment gap. Greece exhibits the worst deterioration, with its current account deficit increasing from -6.8% of GDP in 2002 to -15.1% of GDP in 2008. The Irish current account went from an ever so slight surplus of 0.2% to a deficit of almost -7% of GDP within the same period. The Spanish current account deficit increased by about -5%, going from -4.4% to -9.3%. While the Italian current account deficit deteriorated, it only did so by about -4%, and continued to do so until 2010. The Portuguese current account deficit actually improved between 2001 and 2003, but then fell to a low of -12.1% of GDP by 2008. All of the PIIGS exhibit a reduction in their current account deficit from the onset of the GFC in 2008 (with the exception of Italy, in which this reversion occurs in 2010 as already mentioned), illustrating the associated reduction in incoming investment. On the other hand, throughout the entire period of 2001 to 2012, Germany and the Czech Republic exhibit an improvement in their current account balance. Germany exhibits a marked increase from a slight deficit of -0.4% of GDP to a surplus of 5.6% in 2008 and 7% in 2012. The Czech Republic did not progress as much, but still managed to reduce its current account deficit from almost -5% in 2001 to -1.9% in 2008 and -1.6% in 2012. Graph 3.1 below serves as a visual accompaniment to this preceding analysis – in it, the 2001 to 2008 and then 2008 to 2012 trends in the current accounts of the selected countries are visible more clearly.

Graph 3.1: Current account balance as percentage of GDP for selected countries (2001-2012)



Source: author, data from Appendix C

The GFC was the catalyst necessary for the shifting of the risk-on episode that followed the creation of the EMU and the perceived stability and improvements that it brought into a risk-off episode as the foreign investors which funded the growth in the vulnerable states 'got cold feet' and stopped lending across borders, seeking instead safe havens for their investments as they perceived risks to be high (Baldwin & Gros, 2015:p.2). These banks were exposed not only to private debt but also significant amounts of sovereign debt. Thus, in order to avoid a total 'collapse of their financial [systems]' (Avgouleas & Arner, 2013:p.3), governments decided to bail these banks out and provide the necessary liquidity to keep them afloat (Avgouleas & Arner, 2013; Laurent & Olson, 2008; Baldwin & Gros, 2015) – effectively socializing huge amounts of debt that had accumulated over the years prior to The Crisis. In other words, they were given a pass as governments took on greater debt in order to finance the private debt.

Table 3.3: Government gross debt as percentage of GDP for selected countries (2008-2012)

Country	Year				
	2008	2009	2010	2011	2012
EU (27 countries)	60.8	72.8	78.4	81.1	83.8
Euro area (18 countries)	68.8	78.5	84	86.2	89.6
Portugal	71.7	83.6	96.2	111.4	126.2
Italy	102.4	112.5	115.4	116.5	123.4
Ireland	42.4	61.5	86.1	110.3	119.6
Greece	109.4	126.7	146.2	172.1	159.6
Spain	39.5	52.8	60.1	69.5	85.7
Germany	65.1	72.6	80.9	78.6	79.8
Czech Republic	28.3	33.6	37.4	39.8	44.5

Source: author, data from Appendix A

Table 3.3 shows an overview of the rapid increase in public debt as percentage of GDP for the set of countries under discussion during the acute crisis period. As can be seen, the indebtedness of all countries under consideration demonstrates a marked increase in this timeframe. While the Eurozone average level of debt remained slightly higher than the EU27 average level of debt, the two end up converging, with only about a 6% difference in 2012, and both groups of countries surpassing the Maastricht criteria of public debt levels of 60% by over 20%. This illustrates just how deeply the GFC and its effects affected all European economies.

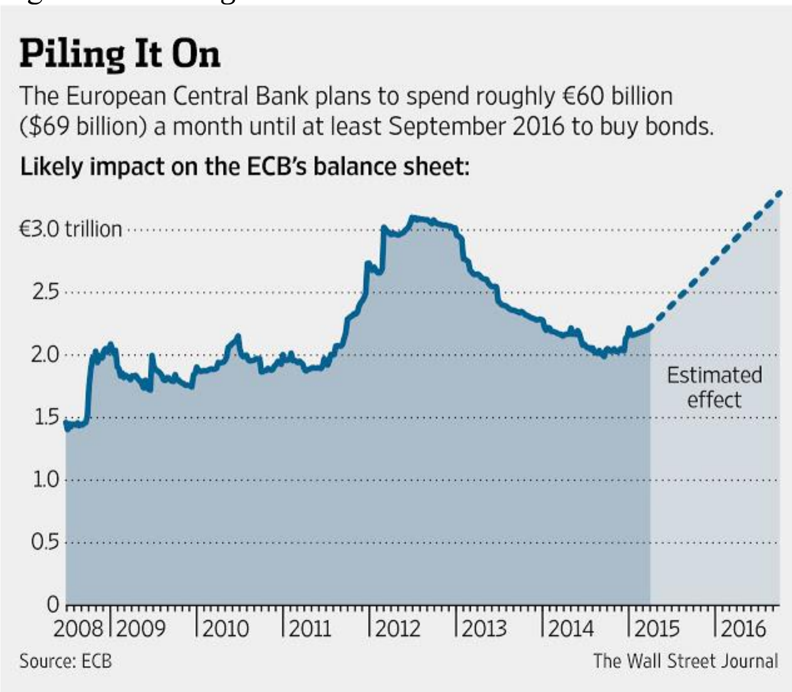
Regarding the individual countries under consideration, Greece retained its number one position with an all time high level of debt of 172.1% of GDP (nearly triple that of the Maastricht criterion) and an average level of 142.8% for the period. It is followed by Italy and Portugal who reached and indebtedness level of over 120% of GDP. The Spanish situation also declined, although not as dramatically with debt levels going from 39.5% in 2008 (well below the Maastricht criterion) to 85.7% in 2012. Perhaps the most striking is the worsening of the Irish level of national debt, which jumped from 42.4% of GDP in 2008 to 119.6% of GDP in 2012 – an increase of about 77% to levels almost on par with Italy and Portugal, countries among the worst offenders in terms of sovereign debt. Furthermore, these two countries (Spain and Ireland) were the ones who exhibited decreasing debt levels during the pre-crisis period examined previously – this indicates that despite efforts to deleverage, their economies were not prepared for the shock that came in the form of the GFC and were hit hard by the associated decrease in liquidity and necessity for bank bailouts. Germany, the biggest European economy also experienced an increase in indebtedness, reaching a maximum of 80.9% in 2010, but this level decreased by about 1% by 2012. The Czech

Republic, the non-Eurozone EU Member State also took a hit with its average indebtedness rising from 27.1% in the pre-crisis period to an average of 36.7% for the acute crisis period – an increase of about 10%. Once again this can be said to show that virtually all EU countries were affected by The Crisis and the following devolution of the Eurozone debt situation.

The chronological devolution of the Eurozone debt situation during the crisis period will now be examined in greater detail, with a focus on the most important events. In 2009, as a response to the uniquely high debt levels (which were later revised as Greece later admitted to falsifying data), rating agencies began downgrading Greek bank and sovereign debt. Then-Prime Minister Papandreou attempted to reassure the markets and European partners, insisting that Greece will not default on its debts (BBC, 2009). In 2010, despite the Greek data manipulation coming to light and growing concerns over the stability of the most indebted Member States (PIIGS), the ECB dismissed speculations of an imminent "Grexit" due to its debt situation, or any thinning of the Eurozone herd. Greece revealed intentions to undertake austerity measures and reforms in order to bring its deficit spending under control – the EU collectively pushes for a tougher austerity plan and Greeks riot in the streets while Papandreou insists that a bailout will not be necessary (BBC, 2012). However, Greek borrowing costs continue to increase as these efforts are insufficient to allay the increasingly risk-off moods and high-risk perceptions of investors.

In May 2010, Eurozone countries along with the IMF agree on a EUR 110 billion bailout package to rescue Greece from default – the first sovereign bailout after a series of bank bailouts. Half a year later, a similar but smaller (EUR 85 billion) bailout package is negotiated for Ireland, once again conditioned on severe austerity measure implementation. Towards the end of that year, European Commission President Barroso denies that Portugal may soon require similar financial aid, calling such speculations "absolutely false, completely false" (BBC, 2010) However, Portugal admitted the dismal state of its finances in April 2011, and in May that same year another joint Eurozone and IMF bailout (EUR 78 billion) was approved. A second bailout package (EUR 109 billion) for Greece is agreed after the Greek parliament passes further, even stricter austerity measures in July of that year. Risk-averse and wary investors demand astronomical returns for lending to vulnerable countries and the ECB begins starts buying government bonds to bring down borrowing costs and continues to do so into the present – as shown by Figure 3.1 below:

Figure 3.1: 'Piling It On'



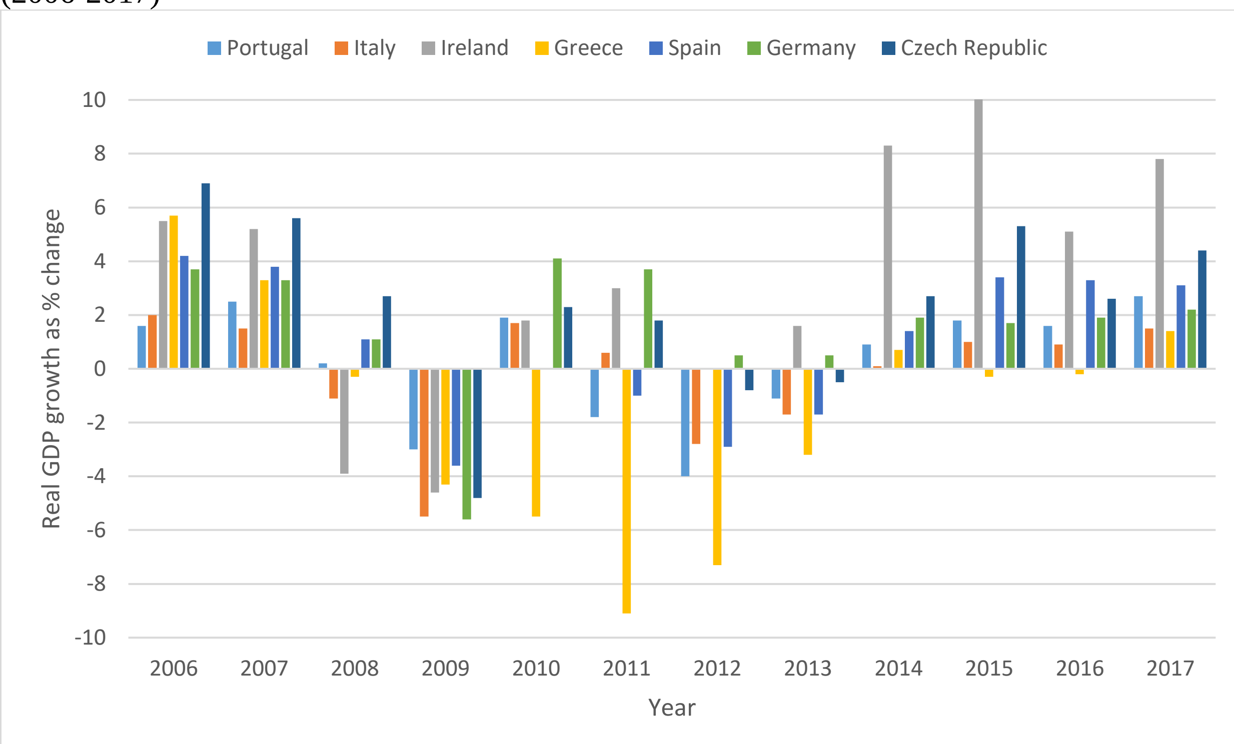
Source: http://www.edgeandodds.com/2015/01/23/new-view-23-jan-2015-ecb/

Italy and Spain undertake and implement voluntary reforms and austerity measures despite public opposition, in order to improve their situations and calm investors. Towards the end of the year, a significant portion of Greek sovereign debt is written-down. Credit rating agencies continue to downgrade sovereigns across the Eurozone. In 2012, the second Greek bailout is approved (BBC, 2012).

Several factors of the progression of the most acute phase of the crisis warrant deeper consideration. Firstly, while the EMU was initially ill-prepared for the near-breakdown that occurred during this period and the ECB was not originally a lender of last resort as demonstrated in Section 2., the institutional framework adapted to the situation as the sovereign debt crisis progressed and the ECB started intervening in sovereign debt markets, shoring up government debts, and simultaneously launched operations to increase liquidity in the banking sectors of the PIIGS. However, this aid was conditioned on the implementation of reforms and severe austerity measures – so severe that they led to mass riots and high dissatisfaction of the populace in the relevant countries. This is both logical and necessary – excessive government leveraging and deficit spending which proved to be unsustainable and must be curbed in order to remain serviceable and to return to normal levels.

Nonetheless, earlier in this section the structural differences in the economies of the northern and southern Eurozone states were expounded upon, and these differences substantiate questions to the appropriateness of enforcing such severe austerity measures. The economies of the PIIGS and their growth have been shown to be heavily dependent on domestic demand rather than export, and austerity is counterproductive to such an end. Cuts on salaries, pensions, and other benefits translate to less disposable income to be spent in the economy leading to a further contraction in domestic demand and weaker economic performance. Increased taxation fills the government coffers but also stifles demand. The effects of The Crisis and the enforcement of austerity measures on the growth of GDP are visible in Graph 3.2:

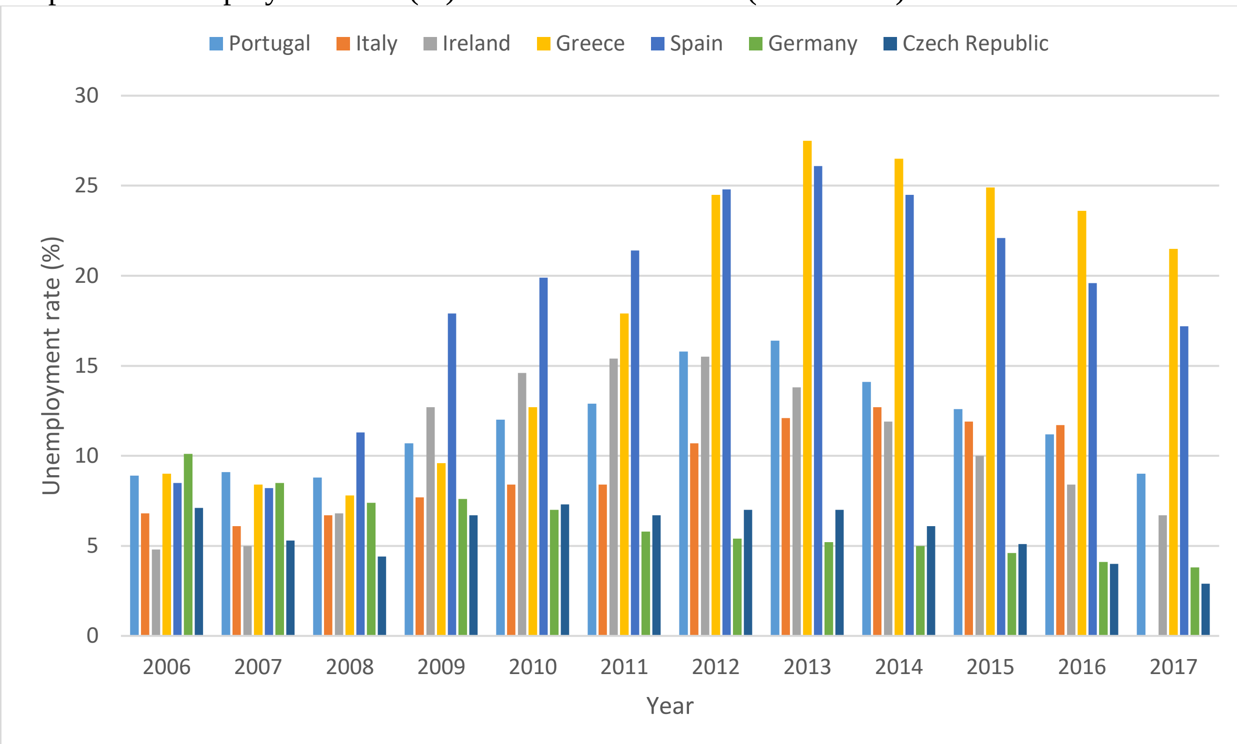
Graph 3.2: Real GDP growth rate as percentage change on previous year for selected countries (2006-2017)



Source: author, data from Appendix D

Additionally, due to EMU membership and the centralized monetary policy it entails, these countries also lacked the option of currency devaluation in order to increase the attractiveness of their exports and to try to pursue an alternate growth strategy. Therefore, while their sovereign debt was covered, the improvements in the economy could hardly be realized due to a mismatch between the means of achieving them (austerity) and the structure of these economies. As can be seen in Graph 3.3 below, austerity and weak economic performance have also contributed to growing (and in some states like Greece and Spain astronomical) unemployment in the most afflicted states in the EU periphery, further contributing to social unrest and protests against the measures that were set as conditions for the bailouts:

Graph 3.3: Unemployment rate (%) for selected countries (2006-2017)



Source: author, data from Appendix E

Secondly, the rhetoric and behavior of various actors during the period proved largely inefficient in assuaging investor fears and in containing or keeping in check the transition from a risk-on to a risk-off mood. The transition appears justified – the examples above (Greek insistence on the impossibility of a default, EU denial of the need for a Portuguese bailout, etc.) proved to be false and the exact opposite of what actually happened. Determining whether this was deliberate misinformation, honest ignorance, or a self-fulfilling cycle of the actors own making (perceived risk is high, investors withdraw, situation worsens, rating agencies downgrade, situation worsens further) is beyond the scope of this thesis and warrants a dedicated analysis, but it was likely a combination of all of the above.

Thirdly, a kind of debt socialization different to the socialization of private debt by governments during bank bailouts appears to emerge during the crisis – an international socialization of debt. When Eurozone countries agreed and implemented bailout packages for the most heavily afflicted states facing default, and later when the EU introduced the EFSF and ESM as outlined in Section 2., the debt of one Member State became the business of all other Member States. Much like the situation where a sovereign bails out a banking institution that is regarded as "too big to fail" and such a collapse is perceived to have a significantly negative impact, Member States are now in a situation where a member cannot be allowed to fail lest the whole thing falls apart and rather elect to bail countries facing financial difficulties out. This leads to a moral hazard that goes against the efforts at improving the European sovereign debt situation – if a Eurozone (or EU) member will not be allowed to fail by the Eurozone or EU and the member knows this, it is more likely to engage in riskier behavior in terms of its sovereign debt and deficit spending.

Table 3.4: Government gross debt as percentage of GDP for selected countries (2012-2016)

	Year				
Country	**2012**	**2013**	**2014**	**2015**	**2016**
EU (28 countries)	83.7	85.6	86.5	84.5	83.2
Euro area (19 countries)	89.4	91.3	91.8	89.9	88.9
Portugal	126.2	129	130.6	128.8	130.1
Italy	123.4	129	131.8	131.5	132
Ireland	119.6	119.4	104.5	76.9	72.8
Greece	159.6	177.4	179	176.8	180.8
Spain	85.7	95.5	100.4	99.4	99
Germany	79.8	77.4	74.6	70.9	68.1
Czech Republic	44.5	44.9	42.2	40	36.8

Source: author, data from Appendix A

Table 3.4 shows the further development of government indebtedness since the acute crisis period, from 2012 to 2016 (at the time of writing, data for 2017 and 2018 was not yet available from Eurostat). As can be seen, public debt as a percentage of GDP in this period generally did not decrease, with the exception of Ireland, Germany, and the Czech Republic. Irish public debt starts to fall rapidly from 2013 onwards, reaching a level of 72.8% in 2016 – a level still above the Maastricht limit of 60% but one closest to it in the preceding eight years. German debt as a percentage of GDP decreases more moderately throughout the period, but it is important to note that it was never as high as that of Ireland. By 2016, German debt practically returned to the 2008 level (68.1% in 2016 vs. 65.1% in 2008) at the outbreak of the GFC, indicating a relatively successful recovery of public finances in the wake of the crisis and the acute crisis period. The sovereign debt of the Czech Republic also increased during the crisis and until 2013 by about 16%, but fell to 36.8% of GDP in 2016 and thus remained well below the Maastricht criterion throughout the relevant time period.

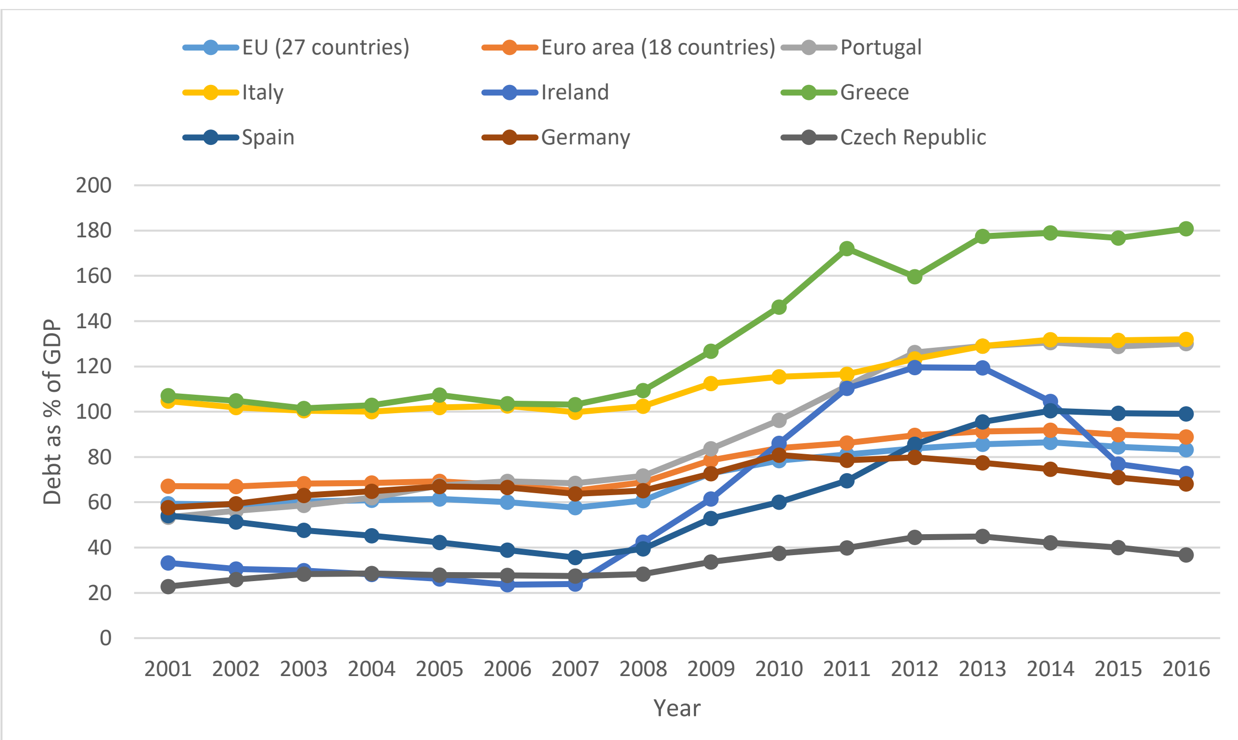
The EU and Eurozone averages remained relatively stable, with the EU28 (with Croatia joining in 2013) oscillating between 83% and 87%, and the Eurozone (now with 19 members) oscillating between 89% and 92% - the EU average thus remains lower than the Eurozone average, but only slightly. Both group averages also increased from the pre-crisis period to the post-crisis period, indicating that the sovereign debt crisis has yet to be resolved. The remaining countries, exhibited an overall increase in sovereign debt. Portuguese debt climbed to 130.1% of GDP in 2016, making it one of the most indebted members of the Eurozone. Italian debt grew to 132% in 2016, making the countries near equals in terms of indebtedness – however, Portuguese debt grew much more in the timeframe under consideration as it started at just over 50% in 2001 when the Italian sovereign debt already amounted to over 100% of its GDP. Spanish sovereign debt increased dramatically during the crisis from 39.5% in 2008 to about 100% in 2014, and continues to however around the 99-100% mark in the following years. Greek debt ballooned to 180.8% of GDP in 2016, a level triple that of the Maastricht requirement for accession to and membership of the EMU. Therefore, it is evident that despite the steps taken in Europe in response to the GFC and unfolding sovereign debt crisis, the sovereign debt situation in Europe has only gotten worse – while some Member States were able to rein in their debt, many of the worst offenders (as well as the group averages) are in a significantly worse state than at any point during the entire time frame under consideration.

Since 2012, financial assistance to vulnerable states has continued. After severe risks were identified in the Cypriot banking sector, the country also requested a bailout. The solution proposed in 2013 differed from the others already mentioned in this section – not only was the bailout conditioned on the implementation of austerity, but also on the one-time taxation of deposits in the affected banks, meaning that depositors themselves will bear a significant portion of the bailout to the financial institutions. This proposal was vehemently rejected by the public as exemplified by a series of protests. In order to prevent a run on the banks by the dissatisfied population which could significantly worsen the situation, the government ordered banks to remain closed – a significantly anti-democratic solution. While a bailout was eventually agreed, it entailed the closure of the second biggest Cypriot bank (effectively, it was allowed to fail). In 2016, Cyprus exited the bailout program (CNN Library, 2018).

Greece continues to be in a critical condition. In 2013, unemployment is about 30%, with around 60% of under-25s unemployed as well (CNN Library, 2018). 2015 is a dramatic year as Greece delays and blocks repaying EUR 1.5 billion to the IMF. This crisis is resolved and Greece receives a third bailout package later that year. In 2018, it is announced that Greece is now in the final phase of its bailout and will receive further funds to tide it over (CNN Library, 2018).

On the other end of the spectrum, Ireland implements the mandated reforms and gets its house in order – this results in it being the first Eurozone country to exit the bailout program in 2013, although it will continue to repay the received aid long into the future. Similarly, Portugal and Spain announce their exit of the bailout program in 2014 (CNN Library, 2018). However, this is only partially comforting – as can be seen in Graph 3.4 below, the European sovereign debt situation has only worsened overall:

Graph 3.4: Government gross debt as percentage of GDP for selected countries (2001-2016)



Source: author, data from Appendix A

Thus, it is evident that the EU sovereign debt crisis is far from resolved – while mechanisms to combat it have emerged on an ad-hoc basis and these have seemingly alleviated the most intense symptoms and prevented a break-up of the Eurozone and the EU, the situation remains dire. Discussions are now underway of raising interest rates in the Eurozone – but arguably the excessive leveraging of sovereigns which is present in the Eurozone has been stabilized and made serviceable only through prolonged periods of zero or near zero interests rates. One can only imagine how the indebted Eurozone would deal with such a change, or the emergence of a new external shock as that which was felt during the eruption of the GFC. Since the majority of countries under consideration are now much more heavily indebted than before the crisis, one can (and should) logically ask if Europe can afford to do what it did from 2008 onwards again. The author is of the opinion that while the situation now appears to be stable, it is nowhere near a comfortable position in which the EU is prepared to deal with a severe shock – whether from the empirical perspective of relative indebtedness as explored in this section, or an architectural perspective as outlined in Section 2.

3.1. Dazed & Confused: Current Implications

In the context of the preceding discussion which tracked the problems of the faulty EU architecture (Section 2.) and excessive leveraging and its implications (Section 3.) which has focused primarily on the Eurozone countries, this subsection will focus on the challenges to integration and continued existence in the present state that a heavily indebted EU as a whole now faces.

One issue that has always been present but has emerged into the spotlight since the events dealt with within this thesis is the fragmentation of the "ever-closer union" into several tiers – the Eurozone as opposed to the EU as a whole, the vulnerable southern states of the Eurozone (PIIGS) and the disciplined north, and in the currently ongoing discussion the united (or at least heavily in favor of further integration) "core" and the cautious "periphery". Calls have come for a two-speed or multi-speed Europe – in the words of the Prime Minister of Luxembourg Xavier Bettel "When a country says 'I don't want to,' I can say: 'Well, too bad. Don't block me. Let me get on with it with the others," (Synovitz & Jozwiak, 2017). This can be interpreted as a renunciation of the Liberal Intergovernmentalist nature of the EU thus far – as a union of sovereign states, which was designed as a voluntarily collaborative domain. However, as more and more states joined this domain, reaching the current number of 28 Member States and the EU eyeing further expansion into the Balkans, it becomes increasingly difficult to reach agreement and solutions that are seen as beneficial to all. Indeed, European integration and cooperation has slowed down significantly since the outbreak of the sovereign debt crisis. While increased integration within the Eurozone has occurred based on a "life or death" impulse as explored in Section 2., it has stalled at the EU level, as will be shown in more detail later in this subsection.

It is clear that there are significant tensions along the core and periphery lines in Europe today. On one hand, European elites and governmental elites sympathetic to further integration such as newly elected French President Emmanuel Macron proclaim that the EU must "move forward to avoid breaking down" and that "Our generation has a special responsibility to rebuild Europe" (Maurice, 2017). On the other, more cautious actors are hesitant to jump into further integration headfirst. It is important to note that this is nothing new – even prior to the Czech Republic's EU accession, Václav Klaus warned 'that the Czech Republic must not dissolve in the EU like a sugar cube in a cup of coffee' (Pehe, 1999). More recently, a hesitancy can be seen in the expansion of the Eurozone. While all EU Member States with the exception of the UK (until Brexit) and Denmark – these countries negotiated opt-outs of the EMU – are obliged to eventually adopt the common currency upon meeting the Maastricht criteria, many states remain guarded. For example, in the midst of the crisis in 2010, Mr. Skrzypek (a now deceased Polish central banker) wrote that ‘Poland should not rush to sign up to the Euro’ and that due to its absence from the EMU, the Polish economy was growing and projected to continue growing impressively (Majone, 2012:p.10) Neither of these two countries used to illustrate a cautious approach to deepening integration has yet adopted the Euro, displaying a tendency towards realism and the primacy of perceived state interests as opposed to a rhetorical or practical commitment to European values, integration at all costs, or some special European responsibility in the idealist vein of the liberalism as exhibited by Mr. Macron. Majone (2012) writes that ‘as long as resources and preferences are fairly similar across countries, the advantages of common rules are likely to exceed the welfare losses caused by harmonization’ (p.23). The already high level of heterogeneity of economies and state interests in the EU and the Eurozone suggests that integration going forward will be anything but smooth sailing, and it is questionable whether a two or multi speed Europe is the appropriate solution to the normative issues that plague the EU.

Perhaps the best example of this normative disconnect is Brexit – the activation of the exit clause by the UK which is now in the midst of negotiating its exit from the EU. Brexit can be understood as a declaration and reclamation of state sovereignty in the face of a perceived inefficiency and lack of benefits of European integration. Despite initial skepticism and efforts to control the speed of its integration into the EU (such as by negotiating its EMU opt-out), the UK was a long-time Member State and an important and legitimizing force within it. Brexit can thus be perceived as withdrawal from the institutional structures which are no longer seen as necessary or beneficial – the UK has apparently reached its limits in its willingness to cede and pool sovereignty, or to be exposed to spillover effects. Seemingly in line with the egoism assumption of the realist theory of international relations, the UK can be said to have assessed its interests and confronted the trade-offs between the collective EU interest and its own self-interest, and decided to pursue the latter despite the associated great uncertainty. Thus, while the Eurozone was able to prevent an exit of a desperate and weak Greece in the midst of a raging sovereign debt crisis and to somewhat regain its footing, the EU as a whole was not able to accommodate the varying interests of its members and to prevent the departure of a confident and sovereign Brexit. Time will tell whether this will lead to speedier deepening of European integration, or further reassessments of the relationship with the EU of individual states. The rise and increasing popularity of alternative or anti-European parties within Member States, such as the National Front in France, the AFD in Germany, the Freedom Party in Austria, and Jobbik in Hungary amongst countless others (New York Times, 2016) suggests the latter, as well as that that the continuation of European integration is by no means certain, and that the 'EU's political culture of total optimism' (Majone, 2012:p.28) may benefit from an increased realism if it wishes to avoid another shocking revelation à la Brexit.

Furthermore, dissatisfaction grows not only in Member States vis-à-vis the EU, but also regionally within EU members. The most recent and publicized examples of the failed Scottish referendum and the suppressed effort at Catalonian independence from Spain – while different in their motivations and progression – point to an increased divergence between the current course of Europe today and the perceptions of various interest groups (Prott, 2017). The Catalonian example is especially relevant to the subject of this thesis as a significant reason for the pursuit of independence is economic. Catalunya is the richest Spanish region and highest contributor to GDP – at EUR 266 billion it amounts to around one-fifth of Spanish economic output (Benavides, 2017). Therefore, there is a clear rationale for Catalunya abandoning the highly leveraged and struggling Spanish economy and seeking stability and fortune independently. However, the EU has voiced its support for the Spanish governments efforts to shut-down the movements efforts, likely as a clear demonstration of intent in order to prevent further fragmentation of and within the EU in the post-Brexit period.

The EU is also under several external pressures. The Ukraine Crisis which erupted in 2014 has essentially become a frozen-conflict after the Russian annexation of Crimea, and other than the implementation of economic and trade sanctions on Russia and the efforts to negotiate peace by Angela Merkel and Francois Hollande, the EU has remained largely impotent to do anything about the situation that it helped bring about (Amadeo, 2017; Whitmore, 2014). Similarly, the Migration Crisis that started in 2015 has divided Member States – while some opened their borders and call for EU-wide solidarity, others build fences (Baczynska & Ledwith, 2016) and reject solidary solutions such as quotas. Thus, it appears that the optimism and progress towards a common European foreign and defense policies from the pre-crisis period has all but evaporated.

Therefore, this subsection, along with Section 3. has revealed that the onset of the sovereign debt crisis has influenced the progression of European integration to a considerable extent. However, the direction of integration, whether towards or away from further integration varies across the time period under consideration. Specifically, the pre-crisis period demonstrates a positive environment for and a positive perception of further integration – the EMU was created and the euro adopted by an increasing number of states despite the basic rules in the form of the Maastricht criteria not being adhered to universally within the Eurozone. The onset of the GFC and the EU sovereign debt crisis resulted in drastic increases in the indebtedness of the countries selected for analysis, and the progression of the acute crisis phase demonstrates a Janus-faced approach to integration within the EU. Meaning that on the one hand, further integration occurred and some solidarity was exhibited in the form of bailouts out of the necessity of survival of individual afflicted countries and the Eurozone and EU, but on the other hand, there was not only talk but a real possibility of a forced Grexit from the Eurozone, and severe public dissatisfaction with the austerity measures imposed on the states receiving said bailouts. In the post-crisis period, the EU has been shown to still be reeling from the effects of the sovereign debt crisis and struggling to cope with new challenges such as Brexit, external crises such as the Ukraine and migration crises, as well as questions regarding its very identity with the re-emergence of a debate regarding a two or multi-speed Europe.

Conclusion

In answering the core question regarding the extent to which, and the direction in which the EU sovereign debt crisis has influenced the progression European integration, the thesis has investigated and demonstrated the links and the development of European integration in relation to the European sovereign debt situation across the three periods identified as relevant for this purpose: the pre-sovereign debt crisis period (2001-2008), the period of the acute sovereign debt crisis (2008-2012), and the current period (2012-present). This chronological delineation of the thematic analysis has given the individual analytical sections (Sections 2. and 3.) a coherent structure and added value to the thesis as it offers a comprehensive analytical overview, rather than a more specific but context-limited excision of an exact moment in time.

The analysis carried out as part of this work is multi-disciplinary, and marries financial theories (specifically that of the financial cycle of leveraging and deleveraging in the context of global liquidity (Section 1.1.1.), the concept of debt socialization along the private and public divide (Section 1.1.2.), and the phenomenon of risk-on, risk-off episodes in global financial markets (Section 1.1.3.)) – which allow for understanding the mechanisms and concepts behind the emergence of the EU sovereign debt crisis, its most-acute manifestation, and the present-day period – as well as political theories (specifically the international relations theories of realism (Section 1.2.1.) and liberalism (Section 1.2.2.), followed by integration theories of Liberal Intergovernmentalism (Section 1.2.3.) and Neofunctionalism (Section 1.2.4.)). These theories have allowed for the analysis of the motives of the individual actors involved, the political climate within the EU during the periods of the sovereign debt crisis under scrutiny in this work, including the development of the level of support for further cooperation and integration within the EU.

Thus, to the knowledge of the author, this thesis brings a unique, original contribution to previous work that has been done in the study of both European integration as well as the European sovereign debt crisis. Furthermore, the thesis and the analysis contained within can be said to be valuable for business. While it is not written from a business perspective, understanding the political and economic environment in which businesses operate is crucial for business success. The work thus offers valuable insight into the political and economic dimensions of European integration and the European sovereign debt crisis, both of which undoubtedly affect businesses in the real world.

Section 2. has explored and tracked the development of the architecture of relevant EU structures from the origins of the EMU, the ECB and the common currency, to the creation of the EFSF and the ESM, and further still to the TSCG and the fiscal compact. Furthermore, it has been shown how they contributed to or conversely tried to address the EU sovereign debt crisis, as well as the economic and political tensions that they resulted in. The analysis in this section has proceeded chronologically, in order to show that since its inception the EMU was structurally deficient. Afterwards, an analytical survey of the development of relevant EU institutions during the three periods outlined above was carried through the theoretical perspectives outlined in Section 1. In this section it has been shown that the EU sovereign debt crisis has influenced the progression of European integration to a significant extent in the direction of further integration. The sovereign debt crisis that rages in Europe to this day has incited significant reform of the architecturally unsound system adopted at the time of creation of the EMU. In contrast to the hypothesis outlined in the Introduction of this thesis, relatively deep integration progressed remarkably quickly in the Eurozone during the acute crisis period.

Section 3. has examined and analyzed the issue of excessive leveraging and indebtedness in a select group of countries (Portugal, Italy, Ireland, Greece, Spain, Germany, and the Czech Republic, as well as the averages of two groups of states – the EU and the Eurozone) throughout the three periods specified as relevant for this research project and illustrated the effects of on the economic as well as political situation in Europe. Subsection 3.1. briefly tackles the current challenges that European integration and the EU now face while still dealing with the ongoing sovereign debt crisis. What Section 3. as a whole shows is that the onset of the sovereign debt crisis has influenced the progression of European integration to a considerable extent. However, the direction of integration, whether towards or away from further integration varies across the time period under consideration. Specifically, the pre-crisis period demonstrates a highly positive environment for further integration and significant enthusiasm can be identified, despite severe rule breaking on part of the Member States – rule breaking of the very rules that were intended to ensure the stability of the EMU which would be tested so relentlessly in the wake of the GFC. The onset of the EU sovereign debt crisis resulted in drastic increases in the indebtedness of the countries selected for analysis, and a severe deterioration of their economic situation. As a result, integration within the EU at this time was fragmented. On the one hand, some further integration occurred, and some solidarity was exhibited in the form of bailouts out of the necessity of survival of the most-afflicted countries, the Eurozone, and the EU. However, a real possibility of a forced Grexit from the Eurozone, as well as severe public dissatisfaction with the austerity measures imposed on the states as a condition for receiving any aid in the form of bailouts.

Furthermore, austerity has effectively handicapped several European economies, specifically those PIIGS. Subsection 3.1. outlines how in the post-crisis period, the EU appears to be significantly weakened from the ordeal that it has been undergoing as part of being mired in a sovereign debt crisis, making it struggle with new challenges in the form of Brexit, external crises such as the Ukraine and migration crises, as well as questions regarding the very nature of this massive political project with the re-emergence of a debate regarding a two or multi-speed Europe.

In conclusion, while the sovereign debt crisis has forced Member States to cooperate and pursue some integration (especially at the Eurozone level) in order to keep the Union as whole as possible, it has had and continues to have a severely negative impact on the progression of European integration in general. In line with the hypothesis set out in the introduction of this thesis, it has been shown on the one hand that there is greater support for integration and that integration is smoother in times of economic prosperity, and on the other hand that integration is more protracted and follows a rockier path in times of economic downturn and rampant debt. The analysis that has been carried out in this thesis, especially the analysis within Section 2., has however also revealed that integration can and did continue during the most acute-phase of the crisis. However, this integration was largely ad-hoc and directed toward rectifying the faults inherent in the initial design of the EMU in a patchwork manner. Thus, it can be seen as a means of wrestling with the immediate threat of collapse that was brought on by the GFC and the outbreak of the sovereign debt crisis, in contrast to the optimistic and voluntary integration of the kind seen in the period which preceded the crisis.

In closing, it is safe to say that one would do well to keep in mind the words of Kenneth Arrow (1992) in dealing with questions of European integration and the sovereign debt crisis going forward, whether from an academic or practical (policy-making or business) perspective:

> To me our knowledge of the way things work, in society or in nature, comes trailing clouds of vagueness. Vast ills have followed a belief in certainty, whether historical inevitability, grand diplomatic designs, or extreme views on economic policy. When developing policy with wide effects for an individual or society, caution is needed because we cannot predict the consequences. (p.46)

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Appendices

Appendix A – 'General government gross debt'

General government gross debt
Percentage of gross domestic product (GDP)

geo \ time	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EU (28 countries)	:	:	58.8	60.3	60.9	61.5	60.1	57.5	60.7	72.7	78.3	81	83.7	85.6	86.5	84.5	83.2
EU (27 countries)	60.1	59.3	58.9	60.4	60.9	61.5	60.1	57.6	60.8	72.8	78.4	81.1	83.8	85.6	86.5	84.5	83.2
Euro area (19 countries)	68.1	67	66.9	68.1	68.4	69.2	67.3	64.9	68.6	78.4	83.8	86.1	89.4	91.3	91.8	89.9	88.9
Euro area (18 countries)	68.1	67.1	67	68.2	68.5	69.3	67.5	65.1	68.8	78.5	84	86.2	89.6	91.5	92	90.1	89.1
Belgium	108.8	107.6	104.7	101.1	96.5	94.7	91.1	87	92.5	99.5	99.7	102.6	104.3	105.5	106.8	106	105.7
Bulgaria	71.2	65	51.4	43.7	36	26.8	21	16.3	13	13.7	15.3	15.2	16.7	17	27	26	29
Czech Republic	17	22.8	25.9	28.3	28.5	27.9	27.7	27.5	28.3	33.6	37.4	39.8	44.5	44.9	42.2	40	36.8
Denmark	52.4	48.5	49.1	46.2	44.2	37.4	31.5	27.3	33.3	40.2	42.6	46.1	44.9	44	44	39.5	37.7
Germany	58.9	57.7	59.4	63.1	64.8	67	66.5	63.7	65.1	72.6	80.9	78.6	79.8	77.4	74.6	70.9	68.1
Estonia	5.1	4.8	5.7	5.6	5.1	4.5	4.4	3.7	4.5	7	6.6	6.1	9.7	10.2	10.7	10	9.4
Ireland	36.1	33.2	30.6	29.9	28.2	26.1	23.6	23.9	42.4	61.5	86.1	110.3	119.6	119.4	104.5	76.9	72.8
Greece	104.9	107.1	104.9	101.5	102.9	107.4	103.6	103.1	109.4	126.7	146.2	172.1	159.6	177.4	179	176.8	180.8
Spain	58	54.2	51.3	47.6	45.3	42.3	38.9	35.6	39.5	52.8	60.1	69.5	85.7	95.5	100.4	99.4	99
France	58.6	58.1	60	64.1	65.7	67.1	64.4	64.3	68	78.9	81.6	85.2	89.6	92.4	95	95.8	96.5
Croatia	:	:	36.6	38.1	40.4	41.3	38.9	37.7	39.6	49	58.2	65	70.6	81.7	85.8	85.4	82.9
Italy	105.1	104.7	101.9	100.5	100.1	101.9	102.6	99.8	102.4	112.5	115.4	116.5	123.4	129	131.8	131.5	132
Cyprus	54.9	56.5	59.7	63.1	64.1	62.8	58.7	53.5	45.1	53.8	56.3	65.7	79.7	102.6	107.5	107.5	107.1
Latvia	12.1	13.8	13	13.7	14	11.4	9.6	8	18.2	35.8	46.8	42.7	41.2	39	40.9	36.9	40.6
Lithuania	23.5	22.9	22.1	20.4	18.7	17.6	17.2	15.9	14.6	28	36.2	37.2	39.8	38.8	40.5	42.6	40.1
Luxembourg	6.5	6.9	6.8	6.9	7.3	7.4	7.8	7.7	14.9	15.7	19.8	18.7	22	23.7	22.7	22	20.8
Hungary	54.8	51.4	54.6	57.1	58	60	64.1	65	71	77.2	79.7	79.9	77.6	76	75.2	74.7	73.9
Malta	60.9	65.5	63.2	69.1	71.9	70	64.5	62.3	62.6	67.6	67.5	70.1	67.8	68.4	63.8	60.3	57.6
Netherlands	51.7	49.1	48.4	49.6	49.8	49.2	44.7	42.7	54.7	56.8	59.3	61.6	66.3	67.8	68	64.6	61.8
Austria	65.7	66.4	66.4	65.5	64.8	68.3	67	64.7	68.4	79.6	82.4	82.2	81.7	81	83.8	84.3	83.6
Poland	36.5	37.3	41.8	46.6	45	46.4	46.9	44.2	46.3	49.4	53.1	54.1	53.7	55.7	50.2	51.1	54.1
Portugal	50.3	53.4	56.2	58.7	62	67.4	69.2	68.4	71.7	83.6	96.2	111.4	126.2	129	130.6	128.8	130.1
Romania	22.4	25.7	24.8	21.3	18.6	15.7	12.3	12.7	13.2	23.2	30.2	34.4	37.3	37.8	39.4	37.9	37.6
Slovenia	25.9	26.1	27.3	26.7	26.8	26.3	26	22.8	21.8	34.6	38.4	46.6	53.8	70.4	80.3	82.6	78.5
Slovakia	49.6	48.3	42.9	41.6	40.6	34.1	31	30.1	28.5	36.3	41.2	43.7	52.2	54.7	53.5	52.3	51.8
Finland	42.5	41	40.2	42.8	42.7	40	38.2	34	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.6	63.1
Sweden	50.8	52.3	50.3	49.8	48.9	49.2	44	39.3	37.8	41.4	38.6	37.9	38.1	40.8	45.5	44.2	42.2
United Kingdom	37	34.4	34.5	35.7	38.7	39.9	40.8	41.9	49.9	64.1	75.6	81.3	84.5	85.6	87.4	88.2	88.3

Source of Data: Eurostat
Last update: 06.03.2018
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Hyperlink to the table:
http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=sdg_17_40

Appendix B – 'General government deficit/surplus'

General government deficit/surplus
% of GDP and million EUR
Percentage of gross domestic product (GDP)

geo \ time	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
EU (28 countries)	-2.5	-1.6	-0.9	-2.5	-6.6	-6.4	-4.6	-4.2	-3.3	-3	-2.4	-1.7
EU (27 countries)	-2.5	-1.6	-0.9	-2.5	-6.6	-6.4	-4.5	-4.2	-3.3	-3	-2.4	-1.7
Euro area (19 countries)	-2.6	-1.5	-0.6	-2.2	-6.3	-6.2	-4.2	-3.6	-3	-2.6	-2.1	-1.5
Euro area (18 countries)	-2.6	-1.5	-0.6	-2.2	-6.3	-6.2	-4.2	-3.6	-3	-2.6	-2.1	-1.5
Belgium	-2.8	0.2	0.1	-1.1	-5.4	-4	-4.1	-4.2	-3.1	-3.1	-2.5	-2.5
Bulgaria	1	1.8	1.1	1.6	-4.1	-3.1	-2	-0.3	-0.4	-5.5	-1.6	0
Czech Republic	-3	-2.2	-0.7	-2	-5.5	-4.2	-2.7	-3.9	-1.2	-1.9	-0.6	0.7
Denmark	5	5	5	3.2	-2.8	-2.7	-2.1	-3.5	-1.2	1.1	-1.8	-0.6
Germany	-3.4	-1.7	0.2	-0.2	-3.2	-4.2	-1	0	-0.1	0.3	0.6	0.8
Estonia	1.1	2.9	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3
Ireland	1.6	2.8	0.3	-7	-13.8	-32.1	-12.7	-8	-6.1	-3.6	-1.9	-0.7
Greece	-6.2	-5.9	-6.7	-10.2	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.7	0.5
Spain	1.2	2.2	1.9	-4.4	-11	-9.4	-9.6	-10.5	-7	-6	-5.3	-4.5
France	-3.2	-2.3	-2.5	-3.2	-7.2	-6.8	-5.1	-4.8	-4.1	-3.9	-3.6	-3.4
Croatia	-3.9	-3.4	-2.4	-2.8	-6	-6.5	-7.8	-5.2	-5.3	-5.1	-3.3	-0.9
Italy	-4.2	-3.6	-1.5	-2.7	-5.3	-4.2	-3.7	-2.9	-2.9	-3	-2.6	-2.5
Cyprus	-2.2	-1	3.2	0.9	-5.4	-4.7	-5.7	-5.6	-5.1	-8.8	-1.2	0.5
Latvia	-0.4	-0.5	-0.5	-4.2	-9.1	-8.7	-4.3	-1.2	-1	-1.2	-1.2	0
Lithuania	-0.3	-0.3	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.2	0.3
Luxembourg	0.1	1.9	4.2	3.3	-0.7	-0.7	0.5	0.3	1	1.3	1.4	1.6
Hungary	-7.8	-9.3	-5	-3.7	-4.5	-4.5	-5.4	-2.4	-2.6	-2.7	-2	-1.9
Malta	-2.6	-2.5	-2.1	-4.2	-3.2	-2.4	-2.4	-3.5	-2.4	-1.8	-1.1	1.1
Netherlands	-0.3	0.2	0.2	0.2	-5.4	-5	-4.3	-3.9	-2.4	-2.3	-2.1	0.4
Austria	-2.5	-2.5	-1.4	-1.5	-5.3	-4.4	-2.6	-2.2	-2	-2.7	-1	-1.6
Poland	-4	-3.6	-1.9	-3.6	-7.3	-7.3	-4.8	-3.7	-4.1	-3.6	-2.6	-2.5
Portugal	-6.2	-4.3	-3	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2
Romania	-0.8	-2.1	-2.8	-5.5	-9.5	-6.9	-5.4	-3.7	-2.1	-1.4	-0.8	-3
Slovenia	-1.3	-1.2	-0.1	-1.4	-5.8	-5.6	-6.7	-4	-14.7	-5.3	-2.9	-1.9
Slovakia	-2.9	-3.6	-1.9	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.7	-2.2
Finland	2.6	3.9	5.1	4.2	-2.5	-2.6	-1	-2.2	-2.6	-3.2	-2.7	-1.7
Sweden	1.8	2.2	3.4	1.9	-0.7	0	-0.2	-1	-1.4	-1.6	0.2	1.1
United Kingdom	-3.2	-2.8	-2.6	-5.2	-10.1	-9.4	-7.5	-8.2	-5.4	-5.5	-4.3	-2.9

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Hyperlink to the table:
http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00127

Appendix C – 'Current account balance – annual data'

Current account balance - annual data

Percentage of gross domestic product (GDP)

geo \ time	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Belgium	:	:	:	:	:	:	:	:	3.5	3.3	2.1	1.9	2	-1	-1.1	1.8	-1.1	-0.1	-0.3	-0.9	-0.1	0.1	-0.2
Bulgaria	:	:	:	-0.2	-4.6	-5.3	-5.4	-2.4	-5.3	-6.4	-11.4	-17.2	-23.9	-22	-8.3	-1.7	0.3	-0.9	1.3	0.1	0	2.3	4.5
Czech Republic	-2.3	-6.2	-5.8	-1.9	-2.3	-4.4	-4.8	-5.1	-5.7	-3.7	-2.1	-2.5	-4.6	-1.9	-2.3	-3.6	-2.1	-1.6	-0.5	0.2	0.2	1.6	1.1
Denmark	:	:	:	:	:	:	:	:	:	:	4.2	3.3	1.4	2.9	3.5	6.6	6.6	6.3	7.8	8.9	8.8	7.3	7.9
Germany	-1.2	-0.7	-0.5	-0.7	-1.4	-1.7	-0.4	1.9	1.4	4.5	4.6	5.7	6.7	5.6	5.7	5.6	6.1	7	6.7	7.5	8.9	8.5	8
Estonia	-4	-8.2	-11.2	-8.6	-4.3	-5.4	-7.1	-11.1	-12.9	-12	-8.7	-15	-15	-8.7	2.5	1.8	1.3	-1.9	0.5	0.3	2	1.9	3.2
Ireland	:	:	:	0.8	0.2	0.6	0.2	0.2	0.5	-0.1	-3.5	-5.4	-6.5	-6.9	-5.6	-2	-2.4	-2.6	2.1	1.6	10.9	3.9	12.5
Greece	:	:	:	:	:	:	:	-6.8	-8.5	-7.7	-8.9	-11.5	-15.2	-15.1	-12.3	-11.4	-10	-3.8	-2	-1.6	-0.2	-1.1	-0.8
Spain	-0.9	-0.7	-0.7	-1.7	-3.3	-4.4	-4.4	-3.7	-3.9	-5.6	-7.5	-9	-9.6	-9.3	-4.3	-3.9	-3.2	-0.2	1.5	1.1	1.1	1.9	1.9
France	:	:	:	:	3.4	1.2	1.5	1.2	0.9	0.4	0	0	-0.3	-1	-0.8	-0.8	-1	-1.2	-0.9	-1.3	-0.4	-0.9	-0.8
Croatia	:	:	:	:	:	-2.3	-3.1	-7.2	-6.1	-4.3	-5.3	-6.6	-7.3	-9	-5.3	-1.2	-0.8	-0.2	1	2	4.4	2.4	3.7
Italy	2.1	2.9	2.6	1.7	1.1	0.1	0.5	-0.3	-0.6	-0.3	-0.9	-1.5	-1.4	-2.8	-1.9	-3.4	-3	-0.3	1	1.9	1.5	2.6	2.8
Cyprus	:	:	:	:	:	:	:	:	:	-5.1	-6	-8.2	-11.8	-15.5	-7.7	-11.3	-4.1	-6	-4.9	-4.3	-1.5	-4.9	-6.7
Latvia	:	:	:	:	:	-3.8	-6	-5.4	-7.1	-11.6	-11.7	-20.7	-20.7	-12.3	7.8	2.1	-3.2	-3.6	-2.7	-1.7	-0.5	1.4	-0.8
Lithuania	:	:	:	:	:	:	:	:	:	-7.6	-7.3	-10.9	-15.5	-13.6	1.4	-1.3	-4.6	-1.4	0.8	3.2	-2.8	-1.1	0.8
Luxembourg	11.1	10.3	9.8	8.9	8	12.6	8.3	9.3	6.5	11.8	11	9.9	9.7	7.6	7.2	6.7	6	5.6	5.5	5.2	5.1	6.4	5
Hungary	-3.1	-3.7	-4	-7.1	-7.9	-8.5	-5.8	-6.3	-8	-8.5	-7	-7	-7.1	-7	-0.8	0.3	0.8	1.7	3.8	1.5	3.4	6	2.8
Malta	:	:	:	:	:	:	:	:	:	-3.7	-6.5	-6.6	-1.9	-1.1	-6.6	-4.7	-0.2	1.7	2.7	8.8	4.5	7	12.6
Netherlands	:	:	:	:	:	:	:	:	:	7.7	7.1	9.2	7	5	5.5	7	8.7	10.3	9.9	8.6	8.7	8.5	10.2
Austria	-2.7	-2.8	-2.6	-1.9	-2.3	-0.7	-0.8	2.1	1.5	2.1	2.3	3.3	3.8	4.5	2.6	2.9	1.6	1.5	1.9	2.5	1.9	2.1	1.9
Poland	:	:	:	:	:	:	:	:	:	-5.5	-2.6	-4	-6.3	-6.7	-4	-5.4	-5.2	-3.7	-1.3	-2.1	-0.6	-0.3	0.3
Portugal	:	-4.4	-6.1	-7.6	-8.9	-10.8	-10.4	-8.5	-7.2	-8.3	-9.9	-10.7	-9.7	-12.1	-10.4	-10.1	-6	-1.8	1.6	0.1	0.1	0.6	0.5
Romania	:	:	:	:	-4.2	-3.8	-5.6	-3.4	-5.9	-8.3	-8.6	-10.3	-13.5	-11.5	-4.7	-5.1	-4.9	-4.8	-1.1	-0.7	-1.2	-2.1	-3.4
Slovenia	-0.5	0.1	0.1	-0.7	-3.3	-2.8	0	0.9	-0.8	-2.7	-1.8	-1.8	-4.1	-5.3	-0.6	-0.1	0.2	2.1	4.4	5.8	4.4	5.2	6.4
Slovakia	:	:	:	:	:	:	:	:	:	-10.1	-10.6	-9.5	-5.9	-6.5	-3.4	-4.7	-5	0.9	1.9	1.1	-1.7	-1.5	-2.1
Finland	4	3.8	5.1	5.2	5.2	7.5	8.1	8.2	4.6	5.8	3	3.7	3.7	2.1	1.6	1.1	-1.7	-2.3	-2.2	-1.8	-0.7	-0.3	0.7
Sweden	3.2	3.3	3.9	3.6	3.9	4	4.7	4.5	5.9	6	6.1	8.2	8.2	7.8	6	6	5.6	5.6	5.2	4.5	4.5	4.2	3.2
United Kingdom	:	:	0.1	-0.1	-2.6	-2.4	-2.1	-2.2	-1.9	-2.4	-2.1	-3.1	-3.8	-4.6	-3.9	-3.8	-2.4	-4.2	-5.5	-5.3	-5.2	-5.8	-4.1

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Hyperlink to the table:
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Appendix D – 'Real GDP growth rate – volume'

Real GDP growth rate - volume
Percentage change on previous year

geo \ time	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EU (28 countries)	3.3	3	0.4	-4.3	2.1	1.7	-0.4	0.3	1.8	2.3	2	2.4
Euro area (changing composition)	3.2	3	0.4	-4.4	2.1	1.6	-0.9	-0.3	1.3	2.1	1.8	2.4
Euro area (19 countries)	3.2	3	0.4	-4.5	2.1	1.6	-0.9	-0.2	1.3	2.1	1.8	2.4
Belgium	2.5	3.4	0.8	-2.3	2.7	1.8	0.2	0.2	1.4	1.4	1.5	1.7
Bulgaria	6.9	7.3	6	-3.6	1.3	1.9	0	0.9	1.3	3.6	3.9	3.6 (p)
Czech Republic	6.9	5.6	2.7	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.6	4.4
Denmark	3.9	0.9	-0.5	-4.9	1.9	1.3	0.2	0.9	1.6	1.6	2	2.2
Germany	3.7	3.3	1.1	-5.6	4.1	3.7	0.5	0.5	1.9	1.7	1.9	2.2
Estonia	10.3	7.7	-5.4	-14.7	2.3	7.6	4.3	1.9	2.9	1.7	2.1	4.9
Ireland	5.5	5.2	-3.9	-4.6	1.8	3	0	1.6	8.3	25.6	5.1	7.8
Greece	5.7	3.3	-0.3	-4.3	-5.5	-9.1 (p)	-7.3 (p)	-3.2 (p)	0.7 (p)	-0.3 (p)	-0.2 (p)	1.4 (p)
Spain	4.2	3.8	1.1	-3.6	0	-1	-2.9	-1.7	1.4	3.4 (p)	3.3 (p)	3.1 (p)
France	2.4	2.4	0.2	-2.9	2	2.1	0.2	0.6	0.9	1.1 (p)	1.2 (p)	1.8 (p)
Croatia	4.8	5.2	2.1	-7.4	-1.4	-0.3	-2.2	-0.6	-0.1	2.3	3.2	2.8
Italy	2	1.5	-1.1	-5.5	1.7	0.6	-2.8	-1.7	0.1	1	0.9	1.5
Cyprus	4.5	4.8	3.9	-1.8	1.3	0.3	-3.1	-5.9	-1.4	2	3.4 (p)	3.9 (p)
Latvia	11.9	10	-3.5	-14.4	-3.9	6.4	4	2.4	1.9	3	2.2	4.5
Lithuania	7.4	11.1	2.6	-14.8	1.6	6	3.8	3.5	3.5	2	2.3	3.8
Luxembourg	5.2	8.4	-1.3	-4.4	4.9	2.5	-0.4	3.7	5.8	2.9	3.1	2.3
Hungary	3.9	0.4	0.9	-6.6	0.7	1.7	-1.6	2.1	4.2	3.4	2.2	4
Malta	1.8	4	3.3	-2.5	3.5	1.3	2.7	4.7	8.1	9.9	5.5	6.6
Netherlands	3.5	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.2	1.4	2.3	2.2 (p)	3.2 (p)
Austria	3.5	3.7	1.5	-3.8	1.8	2.9	0.7	0	0.8	1.1	1.5	2.9
Poland	6.2	7	4.2	2.8	3.6	5	1.6	1.4	3.3	3.8	3	4.6
Portugal	1.6	2.5	0.2	-3	1.9	-1.8	-4	-1.1	0.9	1.8	1.6 (p)	2.7 (e)
Romania	8.1	6.9	8.3	-5.9	-2.8	2	1.2	3.5	3.1	4	4.8 (p)	6.9 (p)
Slovenia	5.7	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3	2.3	3.1	5
Slovakia	8.5	10.8	5.6	-5.4	5	2.8	1.7	1.5	2.8	3.9	3.3	3.4
Finland	4.1	5.2	0.7	-8.3	3	2.6	-1.4	-0.8	-0.6	0.1	2.1	2.6
Sweden	4.7	3.4	-0.6	-5.2	6	2.7	-0.3	1.2	2.6	4.5	3.2	2.4
United Kingdom	2.5	2.4	-0.5	-4.2	1.7	1.5	1.5	2.1	3.1	2.3	1.9	1.8

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Hyperlink to the table:
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Appendix E – 'Unemployment rate – annual data'

Unemployment rate - annual data

Total

geo \ time	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Belgium	9.7	9.5	9.2	9.3	8.4	6.9	6.6	7.5	8.2	8.4	8.5	8.3	7.5	7	7.9	8.3	7.2	7.6	8.4	8.5	8.5	7.8	7.1 (b)
Bulgaria	:	:	:	:	:	16.4	19.6	18.2	13.7	12.1	10.1	9	6.9	5.6	6.8	10.3 (i)	11.3	12.3	13	11.4	9.2	7.6	6.2
Czech Republic	4	3.9	4.8	6.5	8.7	8.8	8.1	7.3	7.8	8.3	7.9	7.1	5.3	4.4	6.7	7.3	6.7	7	7	6.1	5.1	4	2.9
Denmark	6.7	6.3	5.2	4.9	5.2	4.3	4.5	4.6	5.4	5.5	4.8	3.9 (i)	3.8	3.4	6	7.5	7.6	7.5	7	6.6	6.2	6.2	5.7
Germany	8.2	8.9	9.6	9.4	8.6	7.9	7.8	8.6	9.7	10.4	11.2 (i)	10.1	8.5	7.4	7.6	7	5.8	5.4	5.2	5	4.6	4.1	3.8
Estonia	:	:	:	:	:	14.6	13	11.2	10.3	10.1	8	5.9	4.6	5.5 (i)	13.5	16.7	12.3	10	8.6	7.4	6.2	6.8	5.8
Ireland	12.3	11.7	9.9	7.5	5.8	4.5	4.2	4.7	4.9	4.8	4.7	4.8	5	6.8	12.7	14.6	15.4	15.5	13.8	11.9	10	8.4	6.7
Greece	:	:	:	11.1	12	11.2	10.7	10.3	9.7 (i)	10.6	10	9	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5	24.9	23.6	21.5
Spain	20.7 (i)	19.9	18.4	16.4	13.6	11.9	10.6	11.5	11.5	11	9.2	8.5	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5	22.1	19.6	17.2
France	10.2 (i)	10.5	10.7	10.3	10	8.6	7.8	7.9	8.5	8.9	8.9	8.8	8	7.4	9.1	9.3	9.2	9.8	10.3	10.3	10.4	10.1	9.4
Croatia	:	:	:	:	:	15.6	16	15.3	14.1	13.8	13	11.6 (i)	9.9	8.6	9.3	11.8	13.7	15.8	17.4	17.2	16.1	13.4	11.1
Italy	11.2	11.2	11.2	11.3	10.9	10	9	8.5	8.4	8	7.7	6.8	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7	11.9	11.7	:
Cyprus	:	:	:	:	:	4.8	3.9	3.5	4.1	4.6 (i)	5.3	4.6	3.9	3.7	5.4	6.3	7.9	11.9	15.9	16.1	15	13	11.1
Latvia	:	:	:	:	14.1	14.3	13.5 (i)	12.5	11.6	11.7	10	7	6.1	7.7	17.5	19.5	16.2	15	11.9	10.8	9.9	9.6	8.7
Lithuania	:	:	:	13.2	14.6	16.4	17.4	13.8	12.4	10.9	8.3	5.8	4.3	5.8	13.8	17.8	15.4	13.4	11.8	10.7	9.1	7.9	7.1
Luxembourg	2.9	2.9	2.7	2.7	2.4	2.2	1.9	2.6	3.8	5	4.6	4.6 (i)	4.2	4.9	5.1	4.6	4.8	5.1	5.9	6	6.5	6.3	5.6
Hungary	:	9.9	9.1	8.7	6.9	6.3	5.6	5.6	5.8	6.1	7.2	7.5	7.4	7.8 (i)	10	11.2	11	11	10.2	7.7	6.8	5.1	4.2
Malta	:	:	:	:	:	6.7	7.6	7	7.6	7.2	6.9	6.8	6.5	6	6.9	6.9	6.4	6.3	6.4	5.8	5.4	4.7	4
Netherlands	8.3	7.7	6.5	5.1	4.2	3.7	3.1	3.7 (i)	4.8	5.7	5.9	5	4.2	3.7	4.4	5	5	5.8	7.3	7.4	6.9	6	4.9
Austria	4.2	4.7	4.7	4.7	4.2	3.9	4	4.4	4.8 (i)	5.5	5.6	5.3	4.9	4.1	5.3	4.8	4.6	4.9	5.4	5.6	5.7	6	5.5
Poland	:	:	10.9	10.2	13.4	16.1	18.3	20	19.8	19.1	17.9	13.9	9.6	7.1	8.1 (i)	9.7	9.7	10.1	10.3	9	7.5	6.2	4.9
Portugal	7.9	8	7.5 (i)	6.1	5.5	5.1	5.1	6.2	7.4	7.8	8.8	8.9	9.1	8.8	10.7	12	12.9	15.8	16.4	14.1	12.6	11.2	9
Romania	:	:	6.1	6.3	7.1	7.6	7.4	8.3	7.7 (i)	8	7.1	7.2	6.4	5.6	6.5	7	7.2	6.8	7.1	6.8	6.8	5.9	4.9
Slovenia	:	6.9	6.9	7.4	7.4	6.7	6.2	6.3	6.7	6.3	6.5	6	4.9	4.4	5.9	7.3	8.2	8.9	10.1	9.7	9	8	6.6
Slovakia	:	:	:	12.7	16.5	18.9	19.5	18.8	17.7	18.4	16.4	13.5	11.2	9.6	12.1	14.5	13.7 (i)	14	14.2	13.2	11.5	9.7	8.1
Finland	15.4	14.6	12.7	11.4	10.2	9.8	9.1	9.1	9	8.8	8.4	7.7	6.9	6.4	8.2	8.4	7.8	7.7	8.2	8.7	9.4	8.8	8.6
Sweden	8.8	9.6	9.9	8.2	6.7	5.6 (i)	5.8 (b)	6	6.6	7.4	7.7	7.1	6.1	6.2	8.3	8.6	7.8	8	8	7.9	7.4	6.9	6.7
United Kingdom	8.5	7.9	6.8	6.1	5.9	5.4	5	5.1	5	4.7	4.8	5.4	5.3	5.6	7.6	7.8	8.1	7.9	7.5	6.1	5.3	4.8	4.4

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