
The Role of Economic Blocs in Containing Financial Crises of Member States: The Case of the European Union during the Greek Crisis and the COVID-19 Crisis

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Abstract:

This study aims to examine the role of international economic blocs in assisting their member states during financial crises. It focuses on the case of Greece during its sovereign debt crisis, which brought the country close to bankruptcy, as well as the collective crisis faced by all European Union member states during the COVID-19 pandemic. The study analyzes the policies, decisions, and measures adopted to rescue individual member states or the Union as a whole. It also identifies the key lessons learned from this economic integration, highlighting both successes and shortcomings in managing individual and collective financial crises. This analysis is particularly relevant in light of debates questioning the future sustainability of the European Union.

Keywords: Economic blocs; Financial crises; European Union; Greek crisis, COVID-19 Crisis

Jel Classification Codes : F33, G01, G28.

1. Introduction:

Many countries consider that economic integration represents the most effective refuge from most of the economic problems faced by an individual state and the optimal solution for achieving the desired development. Through such integration, countries can play an active role in shaping the features of the contemporary global economy by controlling most economic interactions on the global stage.

The global economy has been exposed to a series of severe and violent financial crises, which are periods marked by a sharp downturn in the trends of financial market indicators. What is notable about these crises over the past three decades is their increasing frequency and the shortening of the time intervals between them; no sooner does the economy recover from one crisis than another emerges, pushing it back into a phase of contraction. These crises have had significant repercussions, most notably the sovereign debt crisis, the first signs of which appeared in Greece at the end of 2009, from which Europe is still attempting to recover.

This crisis erupted, threatening to undermine a unique experience that had been hoped to culminate in success over several decades. It began as an economic and trade union and was expected to end in the most advanced forms of economic integration. The crisis led to recession within the European Union, prompting the bloc to agree on a plan to rescue Greece from bankruptcy, which was expected to result in the collapse of the European Union. Subsequently, the European sovereign debt crisis of 2012 and the events that followed spread to Italy, Spain, Portugal, and others.

In 2019, concerns arose regarding the impact of the trade war between the United States and China, the U.S. presidential elections, and the United Kingdom's exit from the European Union on the global economy. As a result, upon reaching 2020, the world found itself facing the COVID-19 battle, during which the International Monetary Fund had projected moderate global growth of 3.4%. However, COVID-19—the disease caused by SARS-CoV-2, a new strain of the coronavirus related to SARS—unexpectedly altered these forecasts. Due to fear and uncertainty, and the rational assessment that corporate profits were likely to decline because of the impact of COVID-19, global stock markets erased approximately USD 6 trillion in wealth in a single week from February 24 to 28. The S&P 500 lost more than USD 5 trillion in value during the same week in the United States, while the largest 10 companies in the S&P 500 experienced a combined loss exceeding USD 1.4 trillion, although some recovered in the following week. Part of this loss in value is attributed to investors' rational evaluation that corporate earnings would decline due to the impact of the coronavirus (Ozili & Arun, 2020). All these events have had significant effects on the European Union and its reciprocal relationship with its member states, which this study seeks to examine.

Research Problem :

This study focuses on a central and highly important question :

- What is the role of economic blocs in containing the financial crises affecting their member states ?
- How did the European Union deal with the Greek crisis?

Hypotheses:

Based on the research problem, the main hypothesis is that economic blocs possess all the means and mechanisms necessary to contain financial crises that may affect one of their members or the bloc as a whole. The second hypothesis is that an economic bloc may dissolve if it fails to contain the crises of its members, regardless of the elements of strength it may possess.

Importance of the Study: The importance of this study lies in:

- Drawing attention to the various crises that may occur within economic blocs and identifying the measures used to overcome them.
- Emphasizing the principle of collective strength within the bloc while avoiding negligence in the strict application of bloc rules and ensuring swift decision-making.
- Attempting to benefit from the various positive and negative aspects of the European Union's experience in managing diverse crises.

Previous Studies:

-Basant Gamal (2020) (Gamal, 2020). "Corona Deepens the Crises of the European Union", a report by the Egyptian Center for Thought and Strategic Studies. The study concluded that one of the most important phenomena revealed by the crisis was the weakness of European solidarity, due to the failure of many European countries to support one another in confronting the COVID-19 crisis. As a result, some countries sought alternatives outside the Union to obtain the medical supplies needed to combat the spread of the virus.

Finally, the study pointed to the problem of division over the issuance of joint debt, amid a split between Northern and Southern European countries. The former believe that the European Union should not bear the economic losses incurred by any country due to the virus, while the latter emphasize the necessity for the Union to play an active role in addressing the economic repercussions of the pandemic by providing a package of assistance.

-Kabir Soumia (2014) (Kabir, 2014). "The Sovereign Debt Crisis in Greece". The study concluded that the managers of the Eurozone countries dealt with the crisis as if it were a liquidity crisis, whereas in reality Greece suffered from a solvency problem in addition to a liquidity crisis—a fact well understood by the markets. Lending to Greece merely added debt upon debt, buying additional time without solving Greece's real problems. Moreover, the strict austerity program imposed on Greece negatively affected the Greek economy and did not help restore economic activity, which was necessary to rebalance public finances. Nevertheless, it was deemed

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necessary to reduce deficits. In this context, Greece undertook numerous reform efforts that were met with social backlash due to their negative social impacts, particularly as creditors demanded the acceleration of privatization programs and feared the contagion spreading to other vulnerable countries within the monetary union.

-Ahmima Khaled (2013) (Ahmima, 2013), "The European Sovereign Debt Crisis and Its Repercussions on the Balance of Payments of the Maghreb Countries (A Case Study of Algeria during 2005–2011)". The study concluded that the global economy had not yet recovered from the 2008 subprime mortgage crisis when the Greek sovereign debt crisis erupted, threatening to undermine a unique experiment that had been expected to culminate in the highest forms of economic integration. The global crisis led to recession in the European Union, prompting liquidity injections and monetary stimulus by the European Central Bank, which resulted in increased external borrowing. This led to slower growth and the inability to service sovereign debts, which spread to other Eurozone countries such as Ireland, Portugal, and Spain, and eventually escalated to Italy. The repercussions of the sovereign debt crisis in the Eurozone are expected to affect the stability of the global financial system, including developing countries. The Maghreb countries are among those most affected by any collapse of European economies, given that approximately 60% of their economies are linked to Europe.

2. The European Union:

2.1. The Emergence of the European Union:

The idea of European integration dates back to the 1950s, specifically to 1957, with the signing of the Treaty of Rome, whose provisions entered into force on January 1, 1958. This treaty led to the establishment of the first customs union, initially known as the European Economic Community (EEC), informally referred to as the Common Market. This market represented the first cornerstone in the construction of what would later become the European Union, gradually evolving from a mere framework for trade exchange into a comprehensive economic and political partnership. (Abdelkader, 2011, p. 96)

At the outset, the European Community did not impose strict accession conditions on prospective member states, apart from general requirements. The primary objective was to encourage the participation of as many European countries as possible in order to give the Community an expansive character. However, significant economic and political disparities between Western and Eastern European countries prompted the European Council, in 1993, to introduce what are now known as the Copenhagen Criteria. These criteria are divided into three main categories:

- Political criteria, which require the stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities.

- Economic criteria, which relate to the existence of a functioning and competitive market economy capable of coping with competitive pressures within the Union.

- Legislative criteria, which require the adoption and implementation of EU laws, regulations, and policies established since the Union's inception.

In February 1992, the Treaty on European Union was signed in Maastricht and ratified in 1993. This treaty called for the establishment of a European Central Bank and the adoption of a single European currency, the euro, which officially entered into circulation in January 1999. It also imposed strict convergence criteria on member states, particularly regarding budget deficits and inflation levels, in order to ensure monetary stability within the Union. (Tewfik, 2013, p. 105).

2.2 European Supervision and Oversight:

European Union regulations require member states to submit detailed statistical data and economic reports related to their financial and macroeconomic conditions. These regulations also oblige states to comply with common economic policies concerning taxation, investment, and public finance, with the objective of implementing a unified economic policy framework.

In the case of Greece, the government repeatedly provided inaccurate economic data to EU institutions regarding the true state of its economy. This was revealed during verification processes. In April 2009, Greece submitted a report indicating that its budget deficit for 2008 stood at 5% of gross national income. Subsequent audits uncovered numerous inconsistencies, leading the European Union to request a revision of the report. (Darwish, 2012, p. 2)

In October 2009, Greece resubmitted the data, announcing that the deficit was expected to reach 12.5% of gross national income by the end of the year. This revelation, combined with previous irregularities, severely undermined trust in the credibility of Greek economic reporting. As a result, the European Union accused Greece of several practices, including:

- Underreporting tax revenues
- Inflating military expenditures
- Mismanagement and misuse of European financial aid
- Providing inaccurate statistics related to public services
- Falsifying information on fiscal deficits
- Misreporting interest rates on government bonds
- Presenting European support to the private sector as public revenue

Due to the escalation of the crisis, the European Union imposed a permanent monitoring mechanism on Greece, similar in nature to oversight commissions historically associated with mandate systems. Similar

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supervisory measures were later observed in other countries affected by the sovereign debt crisis, such as Portugal, Spain, and Italy, reinforcing concerns surrounding European sovereign debt and financial stability.

3. The Greek Financial Crisis:

3.1 Structure of the Greek Economy:

Before addressing the Greek financial crisis, it is necessary to outline the main structural characteristics of the Greek economy. The Greek economy is primarily based on three main sectors: the services sector, which contributes approximately 75.5% of GDP and employs 68% of the labor force; the industrial sector, which employs about 20.6% of the labor force; and the agricultural sector, which contributes around 3.7% of GDP and employs 12% of the labor force. The unemployment rate stands at approximately 9%, which is considered high compared to other European Union countries. Moreover, the euro has faced the worst crisis in its 14-year history.

Greece, one of the 16 EU member states that adopted the euro, experienced a crisis characterized by several key macroeconomic indicators reflecting the following structural imbalances (Boualkour, 2013, pp. 59–63):

- Imbalance among economic sectors, as the services sector alone accounts for 75.7% of GDP (more than three-quarters) and employs 68% of the labor force (more than two-thirds), compared to the industrial and agricultural sectors. This indicates that the services sector is larger and more expansive than the real productive sectors.
- The unemployment rate of 9%, which is very high compared to European economies, reflects the Greek economy's inability to create new job opportunities. It also indicates weak investment levels and, more specifically, the inability to attract both direct and indirect foreign investment flows.
- Increasing reliance on aid and financial assistance from the European Union.
- Growing dependence on borrowing, which led to a rise in public debt levels equivalent to 113% of national savings.

Borrowing pressures intensified in early 2010, coinciding with the escalation of the global financial crisis. Consequently, the European Commission began to scrutinize EU economies more closely. Unfortunately, Greece's economic growth rate suddenly declined from 4% to 1.3%, a development that Europeans viewed as a new negative indicator signaling potential danger.

According to World Bank statistics (2010), Greece ranked 32nd globally in terms of GDP size and 33rd in terms of per capita income. Greek per capita income represented 75% of French per capita income in 1980, rose to 90% in 2007, and reached 97% in 2009. Services account for 79% of GDP, industry 18%, and agriculture 3%. The most important service activities are tourism and maritime transport, while major industries include food

processing, tobacco, textiles, chemicals, and mining. Greece attracts more than 16 million tourists annually, with the tourism sector contributing 18% of GDP, rising to 19% in 2009.

The maritime transport sector has long been a key pillar of the Greek economy. Greece ranks among the top five countries worldwide in this sector and is the largest within the European Union. According to EU statistics (2010), Greece ranks first in the EU in cotton production (183,000 tons), second in rice production (229,000 tons), third in the production of figs, tomatoes, and watermelons, and fourth in services production. Approximately 12% of the labor force is employed in the agricultural sector.

3.2 The Origins of the Greek Crisis:

Historically, Greece has experienced recurring debt crises. Following its independence from Ottoman rule in the 19th century, Greece resorted to external borrowing to finance infrastructure and state-building efforts. The country officially declared bankruptcy on four occasions: 1827, 1843, 1893, and 1932. The underlying causes of these defaults—weak productive capacity, excessive borrowing, and fiscal mismanagement—closely resemble those that led to the 2009 crisis.

In the years preceding the crisis, Greece benefited from easy access to credit following its accession to the Eurozone. However, instead of channeling borrowed funds into productive investments, the government financed consumption, public sector wage increases, and social spending without ensuring sufficient revenue generation. (Boualkour, 2013, pp. 59–63) As a result, fiscal deficits and public debt levels rose sharply.

3.3 Definition of the European Sovereign Debt Crisis:

The European sovereign debt crisis emerged at the end of 2009 and early 2010, when government debt accumulated rapidly in several Eurozone countries. Greece was the first country to experience a full-scale sovereign debt crisis. Between 2002 and 2007, domestic demand in Greece increased by 4.2%, compared to an average growth of 1.8% in the Eurozone.

This growth was largely financed through external borrowing rather than productivity gains. Consequently, Greece's current account deficit rose from 5.8% of GDP in 2004 to 14.4% in 2008, while the budget deficit reached 7.7% of GDP in 2008, later climbing to 13.6% in 2010. Public debt exceeded 112% of GDP in 2008, further undermining investor confidence.

Sovereign debt refers to government-issued bonds denominated in foreign currency and sold to international investors. When a government becomes unable to service these obligations, a sovereign debt crisis arises, as occurred in Greece.

3.4 Timeline, Impacts, and Causes of the Greek Crisis:

3.4.1 Chronology of Major Events:

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The sovereign debt crisis emerged immediately after the global financial crisis and gave rise to a series of successive events that produced multiple effects. These developments can be traced through the chronological sequence of the Greek crisis, its impacts on Greece and the European Union, and the underlying causes of its emergence. To trace the developments of the Greek financial and economic crisis, the chronological sequence of events is presented as follows: (Ahmima, 2013, pp. 41–42)

The Greek Prime Minister at the time, George Papandreou, announced that the budget deficit had reached 12.7% of GDP, more than four times higher than what had been previously reported by the former government. Credit rating agencies Fitch and Standard & Poor's downgraded Greece's sovereign credit rating, assigning a negative outlook.

- February 2010: Announcement of an austerity package.
 - Greece declared a broad set of austerity measures, including the freezing of wages for public sector employees earning less than €2,000 per month, and the imposition of higher taxes on households.
 - The outbreak of street riots and social unrest in reaction to austerity plans.
 - Greek public debt surged to €300 billion, while the interest rate spread between Greek and German debt widened to 4%, amid declining investor confidence.
- March 5: Greece announced a new austerity policy aimed at saving approximately €4.8 billion, through:
 - The sale of public real estate assets and raising the average retirement age in the public sector from 61 to 63 years.
 - Reducing public sector wages by 20% and pensions by 30%, and increasing taxes on gas, alcohol, and tobacco from 19% to 23%.
 - Increasing the value-added tax (VAT) by an estimated 30%.
 - Nationwide strikes and demonstrations involving both the public and private sectors.
- April 2010: Announcement of rescue plans for Greece.
 - EU leaders agreed on a €30 billion rescue package for Greece.
 - Eurostat, the EU statistical agency, announced that Greece's 2009 budget deficit was actually 13.6% of GDP, rather than the previously reported 12.7%.
 - Standard & Poor's further downgraded Greece's credit rating to junk status.
- May 2010: Financial assistance to Greece amounting to €110 billion to prevent economic collapse.

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- A three-year bailout package totaling €110 billion was approved, jointly agreed upon by Greece, Eurozone countries, and the International Monetary Fund (IMF). Eurozone countries committed €80 billion, while the IMF provided €30 billion.
 - Eurozone countries established the European Financial Stability Facility (EFSF) with initial guarantees of €440 billion, committing to provide loans of up to €60 billion.
 - February 2011: Creation of a permanent rescue fund, as Eurozone finance ministers agreed to establish a long-term stabilization mechanism.
 - May 2011: Efforts to avoid the restructuring of Greek debt.
 - A meeting between Greek Prime Minister George Papandreou and senior officials of the European Central Bank (ECB) resulted in an agreement to avoid debt restructuring, with both sides emphasizing that fiscal austerity was the only viable solution to the crisis.
 - Greece announced its intention to privatize certain industries in an effort to raise €50 billion to service sovereign debt.
 - July 2011: Adoption of a new austerity policy, including:
 - Privatization of companies worth €1 billion, and higher taxes on individuals earning more than €8,000 per year.
 - An additional tax on incomes exceeding €12,000 per year.
 - Increased taxes on pensions.
 - The establishment of a special authority to manage and exploit public assets.
 - July 2011: The Greek Parliament voted in favor of a new round of severe austerity measures. Subsequently, the European Union approved the release of the final tranche of loans amounting to €12 billion, and agreed on a second bailout package for Greece worth €109 billion, aimed at resolving the Greek crisis and preventing contagion across other European economies.
 - October 21: Eurozone finance ministers approved an additional €8 billion loan tranche to rescue Greece.
 - December 8: The President of the European Central Bank, Mario Draghi, stated that attempts to circumvent the spirit of the Maastricht Treaty should be avoided, emphasizing the need for greater European efforts to mitigate the sovereign debt crisis.
 - December 9: Leaders of the 17 Eurozone countries met in Brussels, alongside several EU member states, and agreed on enhanced budgetary centralization and automatic sanctions for countries violating fiscal rules. Many investors had called for strengthening rescue mechanisms by an

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additional €200 billion; however, then-French President Nicolas Sarkozy failed to amend the treaty to enforce stricter budgetary discipline due to opposition from the United Kingdom and Hungary.

3.4.2 Economic and Social Impacts:

The Greek crisis produced numerous effects. We will examine the consequences of the crisis on the Greek economy as well as the impacts of the crisis on the European Union.

- **Impacts on the Greek Economy:**

The high ratio of public debt to GDP, which currently exceeds 10%, is primarily due to the concentration of debt maturities within a short period and the significant fiscal deficit, which prevents Greece from meeting its obligations within this short timeframe. Consequently, Greek government bonds have been classified as junk bonds. The risk premium added to these bonds caused the interest rate on two-year Greek bonds to reach 18%, as investors rushed to sell and dispose of them, driving the yields to such high levels. (Majzoub & Maury, 2012, pp. 11–12)

Reform efforts may further complicate the economic situation, since the proposed programs to address the Greek crisis focus mainly on raising taxes, reducing wages and incomes of government employees, and cutting public spending to address the severe fiscal imbalances. Such measures are inevitably associated with a decline in growth rates. When the economy experiences a decrease in output and an increase in unemployment, these policies raise the likelihood of Greece entering a prolonged recession, especially given the limited domestic policy tools available to manage the crisis. The use of expansionary monetary policies to stimulate demand is constrained because Eurozone countries have delegated control over such policies to the European Central Bank (ECB), which complicates economic adjustment for a member state facing a crisis, as in the case of Greece.

- **Impacts on the European Union:**

A study issued by the European Statistical Office (Eurostat) indicated that the average deficit rate among the 17 Eurozone member states rose to 6.2%, while the total public debt in the region increased from €7.1 trillion in 2009 to €7.8 trillion. The study also confirmed that the debt levels of the member states continued to rise, accompanied by an increase in the debt-to-GDP ratio from 79.8% to 85.6% over the same period.

Undoubtedly, the events of 2008, following the collapse of Lehman Brothers in the United States and the exacerbation of the subprime mortgage crisis, which led to the global financial market collapse, were the main reasons for the slowdown in growth in most of the major world economies. Comparing this to the collapse of a member state within the European Union, such as Greece, the impact would undoubtedly be far greater and more severe. Most economic forecasts and reports predict that the fall of Greece would have severe negative effects on global markets, along with a deterioration of the euro, due to the anticipated decline in global oil

demand, which would negatively affect both production and exports. Economists are deeply concerned about these potential outcomes; however, the positive aspect is that rapid solutions could be found, using the lessons learned from the 2008 financial crisis and the subsequent recession.

These factors can be summarized as follows:

- Severe disruption in financial markets: Financial markets may respond worse than expected, increasing concerns about the potential collapse of other financially unstable EU countries, such as Portugal and Spain. Membership in a monetary union does not guarantee financial support from the union itself. Consequently, interest rates on European bonds, including those of financially stable countries like Germany and France, would rise, increasing the cost of debt refinancing and reducing the prospects for sustained economic recovery in European economies.
- Decline in international commodity prices, particularly oil, due to pessimistic forecasts regarding global economic growth following a sovereign debt crisis in Europe. This would negatively impact the budgets of oil-exporting countries in the Gulf and reduce oil revenues, potentially returning global economies and markets to conditions similar to those following the 2008 U.S. subprime mortgage crisis. Conversely, gold prices would rise, as it is traditionally considered a safe haven in times of crisis.
- Expansion of austerity programs: Countries with high public debt would be forced to implement strict austerity measures to stabilize their budgets, mainly through higher taxes and reductions in public sector expenditures. While such measures help reduce deficits, they also negatively affect growth and reduce the chances of economic recovery, likely resulting in persistently high unemployment rates.
- Increased pressures on the euro: The euro would continue to depreciate against the U.S. dollar, undermining the confidence it had previously gained as an international currency, especially following the post-2008 financial crisis. In the worst-case scenario, the monetary union could collapse, and the euro could disappear if financially unstable countries were forced to exit the Eurozone, reverting to a simple economic bloc without a single currency. This would undermine confidence in the euro and eliminate the benefits gained from its introduction.
- Rising global interest rates: Increased interest rates worldwide would raise borrowing costs, especially for governments with budget deficits. Credit constraints would intensify internationally due to higher lending risks, making borrowing extremely difficult. This could lead to reduced investment and global growth, potentially triggering a double-dip slowdown: first due to the U.S. subprime mortgage crisis, and second as a result of the European sovereign debt crisis.

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- Decline in international trade: Reduced economic activity in the EU's trade partners, particularly Mediterranean countries, Southeast Asia, and other developing countries, would result from the expected sharp decline in European trade activity. This would hinder hopes for a global trade recovery in 2010, following the sharp decline after the previous year's global financial crisis.

3.5 European Rescue Measures:

To prevent a disorderly default and contain systemic risk, the European Union, in cooperation with the International Monetary Fund and the European Central Bank, implemented a series of financial assistance programs known as bailout packages. (Majdoub & Maury, 2012, pp. 7-9)

The first bailout package, approved in 2010, amounted to €110 billion and was conditional upon strict austerity measures. These included reductions in public sector wages, pension reforms, tax increases, privatization of state-owned enterprises, and reductions in military spending.

A second bailout package, adopted in 2011, provided additional financial assistance of approximately €109 billion, combined with debt restructuring measures aimed at reducing the burden on public finances.

3.6 Consequences of a Potential Greek Economic Collapse:

A hypothetical Greek default or exit from the Eurozone would have had far-reaching consequences, including: (Darwish, 2012, p. 7):

- Loss of confidence in Italian and Spanish bonds, leading to a refusal to purchase them. This would force these two countries to seek a European bailout package far exceeding the one provided to Greece.
- Greece's exit from the Eurozone, which would trigger a crisis of confidence among European countries and lead investors to move their funds to other markets, such as the United States and Japan.
- The European Union would be obliged to cover over €160 billion in bonds, with Germany alone potentially losing between €60–80 billion, in addition to the decline in the value of European investments in Greece.
- Massive capital withdrawals from Greek banks, which would cause the bankruptcy of some Greek banks, and this would affect European banks as well, potentially leading to their collapse or, at minimum, creating chaos in the European and global banking systems.
- The rise of extremist parties to power due to the chaos caused by the economic collapse, or even a military coup, which would have serious repercussions for both the European economy and security.

- Greece's inability to repay its debts, leading to debt write-offs, which would limit European banks' lending capacity, reduce consumption, and ultimately result in economic recession in the European market.

4. The European Union in the Face of the COVID-19 Pandemic:

The COVID-19 pandemic revived old disagreements and tested the European Union's ability to formulate a coordinated response to a major crisis (DW, 2020). The virus entered EU countries early, and Europe was initially unprepared for the pandemic, failing to implement necessary measures effectively. However, the member states soon realized the importance of intervention and efficiency in confronting the crisis, and actions were taken as follows (diplomatie.gouv.fr, 2021):

- Adoption of a €750 billion recovery plan to support the economies of member states.
- Provision of €40 billion from the European Investment Bank to support medium-sized and small enterprises.
- Allocation of €47.5 billion from the EU budget through structural funds to the most affected member states and regions.
- Allocation of over €660 million to support research in treatments and vaccine development.
- Provision of more than €1.9 billion for the European Civil Protection Mechanism (co-financing repatriation of EU citizens and purchasing equipment) under the recovery plan.
- Allocation of over €3.6 million to the European Centre for Disease Prevention and Control.
- Provision of €372.5 billion as part of measures to support reforms and investments initiated by EU member states.
- Plans to purchase €1.1 trillion in bonds within the year.
- The European Central Bank (ECB) will pay 0.50% to banks if they borrow in its regular operations, and 1% if banks reinject liquidity into the economy.

Additionally, the ECB's Pandemic Emergency Purchase Programme (PEPP) was implemented, allowing the ECB to purchase €1,850 billion of public and private sector debt within the Eurozone markets.

Statistics confirmed expectations that Eurozone GDP declined by 6.8% throughout 2020 (echos, 2020), marking the worst economic year in the contemporary history of the region, compared to a 3.7% GDP decline during the 2009 recession.

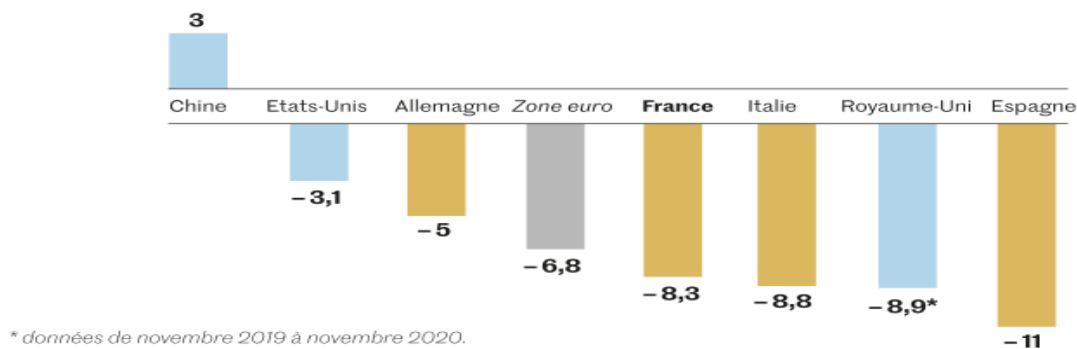
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Fig N° 1: Some European countries with a decline in their GDP

Des pays d'Europe de l'Ouest particulièrement touchés

Taux de croissance en 2020, par pays, en %

■ Pays appartenant à la zone euro



* données de novembre 2019 à novembre 2020.

Sources : Eurostat, Office for National Statistics, Oxford Economics • Infographie : Le Monde

The previous figure illustrates the significant and uneven economic impact of the COVID-19 pandemic across major global economies and European countries in 2020. While China was the only major economy to record positive growth, Western economies experienced substantial contractions. The United States saw a moderate decline, whereas most European countries suffered deeper recessions, confirming that Europe was among the regions most severely affected by the crisis.

Within Europe, the economic downturn was highly heterogeneous. Germany experienced a relatively modest contraction compared with the Euro area average, recording a GDP decline of approximately -5%, compared with -6.8% for the Euro area. This relative resilience can be attributed to Germany's strong industrial base, diversified economy, and substantial fiscal capacity.

In contrast, Southern European economies, including France, Italy, and Spain, experienced markedly sharper GDP declines. GDP contracted by approximately -8.3% in France, -8.8% in Italy, and -11% in Spain. These more severe downturns reflect long-standing structural vulnerabilities, including a heavy reliance on services and tourism, as well as more constrained fiscal space, which limited the ability of national governments to respond effectively to the shock.

The United Kingdom also experienced a deep contraction of -8.9%, despite being outside the European Union at the time, indicating that the economic impact of the pandemic transcended institutional and political boundaries.

These heterogeneous GDP contractions raise important policy implications for economic coordination within the European Union. The asymmetric impact of the crisis underscores persistent structural divergences and unequal fiscal capacities among member states, reinforcing the rationale for enhanced fiscal coordination and solidarity at the EU level (European Commission, 2021).

In this context, recovery instruments such as NextGenerationEU represent a significant step toward mitigating economic divergence by supporting investment and structural reforms in the most affected countries. However, the persistence of uneven economic outcomes suggests that temporary measures alone may be

insufficient, highlighting the need for deeper fiscal integration and the establishment of long-term convergence mechanisms to strengthen the European Union's capacity to respond to future systemic shocks. Furthermore, the International Monetary Fund (IMF) (Kammer, 2021) warned that advanced European countries might achieve only around 1% growth by the end of 2022, well below the planned 2–3% target. Fiscal policy effectiveness remains limited without sufficient resources, while central banks face minimal room to maneuver due to already low interest rates. Delays in achieving full employment further complicate labor market reintegration. Emerging European economies are comparatively less affected, having implemented fewer stimulus measures and benefiting from higher potential growth, although their exports may still be constrained by reduced demand from advanced economies.

In fact, according to the European Commission (2021), by the second quarter of 2021, the European economy returned to a recovery path, supported by improvements in the public health situation, progress in vaccination campaigns, the gradual easing of containment measures, and the adaptation of firms and households to existing restrictions. GDP in the EU rebounded by 2.0% quarter-on-quarter (2.1% in the euro area), more than offsetting the contraction of the previous two quarters and surpassing the European Commission's Summer Interim Forecast of 1.3% growth. On an annual basis, GDP growth reached nearly 14%, marking the highest reading in the history of the available time series and offsetting the scale of the previous year's GDP decline. Revisions to 2020 growth data also implied a slightly higher statistical carry-over into 2021 (2.3% instead of 2.2%). Overall, real GDP growth up to the second quarter of 2021 narrowed the gap to pre-pandemic output levels in the fourth quarter of 2019 to 2.3% for the EU and 2.7% for the euro area (European Commission, 2021).

5. The impact of policy measures on financial conditions:

The European Central Bank (ECB) implemented a comprehensive set of measures to mitigate the economic impact of the COVID-19 pandemic and maintain financial stability in the euro area. Building on lessons from the 2009 Greek debt crisis, the ECB reinforced long-term refinancing operations (LTROs) in 2020 with loans at favorable rates of one to two years, ensuring banks could continue lending despite the economic shock (BCE, 2021). These targeted, temporary measures have supported liquidity, mitigated adverse feedback loops between financial markets and the real economy, bolstered confidence, and are expected to guide inflation toward a sustained level slightly below, but close to, 2%.

A key element of the ECB's response has been its asset purchases and the targeted longer-term refinancing operations (TLTRO III). These monetary policy measures have focused on three main objectives: stabilizing financial markets to prevent fragmentation and safeguard the transmission of monetary policy across the euro area; providing ample central bank liquidity to support credit provision to the real economy; and ensuring that the overall monetary stance remains sufficiently accommodative.

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Another central tool was asset purchases on secondary markets. Since 2014, the ECB has conducted purchases under the Asset Purchase Programme (APP), initially aimed at supporting monetary policy and achieving inflation targets. In 2020, the APP was significantly expanded in scope and scale, with a strong emphasis on government bonds from euro area countries. This expansion sought not only to maintain price stability but also to prevent excessive divergence in sovereign borrowing costs, which could have undermined monetary policy transmission across member states. (Hutchinson & Mee, 2020)

The ECB also focused on interest rate spread management, particularly after March 2020, when tensions re-emerged in certain euro area bond markets, most notably Italian government bonds. Without intervention, rising yields in specific countries could have reflected market doubts about debt sustainability and created fragmentation in the monetary union. By actively managing these spreads, the ECB sought to ensure uniform transmission of monetary policy and prevent financial conditions from diverging excessively between member states.

Importantly, the ECB's toolkit during COVID-19 proved more flexible than in previous crises, such as the 2012 Eurozone debt crisis. Beyond standard refinancing operations and asset purchases, the ECB was able to target specific banks or segments of the bond market, adapt the maturity and conditions of its lending facilities, and adjust the composition of its asset purchases. This adaptability allowed the ECB to respond rapidly to changing market conditions, stabilize financial markets, and support credit provision to the real economy, ensuring that monetary policy remained effective despite unprecedented uncertainty.

6. COVID-19 and European Social Challenges;

EU heads of state and governments coordinated efforts to mitigate social and economic impacts of the pandemic, including:

- Shared medical equipment: Creation of the first common medical reserve and joint procurement for protective equipment, ventilators, and lab supplies, along with increased production capacity and export authorizations.
- Repatriation of EU citizens stranded abroad.
- Facilitating movement of goods and people within the EU via priority supply corridors, ensuring hospitals, stores, and factories receive supplies, especially for cross-border workers and returning citizens.
- Crisis fund allocation: Reallocation of €37 billion from the EU budget under cohesion policy.
- Support for enterprises by simplifying rules to facilitate access to government aid.
- Suspension of the Stability and Growth Pact rules, allowing member states to exceed budget constraints to confront the pandemic.

The European Commission ensures proper implementation and monitors additional complementary measures, while emerging EU economies (Kammer, 2021), approaching pre-COVID production and employment levels, are expected to face more pronounced side effects, including wage pressures due to reduced labor market slack. Central banks in these countries are advised to monitor wage developments but can adopt a measured approach given the temporary nature of inflation. In this context, Both Romania and Poland experienced strong economic recoveries in the first half of 2021, with GDP rebounding to or surpassing pre-pandemic levels by the second quarter. In Romania, growth is projected to remain robust at around 5%, driven primarily by domestic consumption and investments supported by the Recovery and Resilience Facility, while unemployment is expected to fall below 5% and the government deficit is set to decline gradually to 6.3% of GDP by 2023, despite a rising debt-to-GDP ratio of 53.2%. Similarly, Poland's GDP reached pre-crisis levels in Q2 2021, supported by the easing of COVID-19 restrictions and improved business and consumer confidence. Growth is expected to remain strong in 2022 and 2023, fueled by rising household incomes, a gradual reduction in the savings rate, policy support including personal income tax adjustments, and dynamic investment supported by firms' financial capacity and low borrowing costs. In both countries, potential new waves of COVID-19 infections pose risks to economic activity and fiscal projections, while exports are expected to benefit from the recovery of major trading partners. (European Commission, 2021).

7. Acting as a Union:

No single country can overcome the crisis alone; it is essential to continue following the principle of solidarity, whether during the pandemic or afterward. A number of EU coordination mechanisms were activated, including information exchange, adoption of best practices, and crisis management, to support ministries responsible for sectors affected by the crisis. This was particularly evident in expert committees, especially in the health sector, with France represented through the Committee on Health Security under the Ministry of Solidarity and Health.

Solidarity among European countries was manifested daily in practical ways: hosting patients to alleviate the burden on the hardest-hit countries; donating medical equipment—for instance, Italy received over three million protective masks from neighboring countries; coordinating efforts to repatriate more than 78,000 European citizens stranded abroad; and implementing joint research programs. The European Commission also established a mechanism to monitor the implementation of emergency measures by member states to ensure compliance with the EU's core values.

EU member states decided to speak with a unified voice when negotiating with pharmaceutical companies for COVID-19 vaccine purchases, aiming to ensure the supply and safety of vaccines for European citizens and others. The EU requested over 200 million doses to vaccinate 100 million people in Europe. All vaccines developed underwent a joint evaluation by the European Medicines Agency (EMA), which approved the first Pfizer-BioNTech vaccine on December 21, 2020.

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While the pandemic's impact on the EU cannot be understated, it also should not be exaggerated for three reasons:

- Regardless of how the EU handled the crisis, it is unlikely to collapse. The EU is a regional organization that did not emerge overnight but developed over decades from its original core, the European Coal and Steel Community of six countries, and has now expanded to 28 states, gradually overcoming unprecedented challenges and crises such as the Greek debt crisis and irregular migration from conflict zones.
- EU member states have a strategic interest in maintaining the union, not only to express a unified European identity but also in response to apparent strains in US-European partnerships. Consequently, there is a need for a relatively independent European defense framework, in addition to addressing shared challenges such as Russia, reflected in numerous strategic border areas and contentious issues.
- Although there were no immediate responses from the European Commission to the crisis, this does not imply the absence of collective plans or strategies for crisis management.

8. Results and discussion:

Results: From this study, we can conclude the following:

- The proper foundations for building an economic, and subsequently political, union are essential to help all members overcome problems and crises in a smooth manner.
- We examined two different models of crises that a union may face. The first concerned a single country, and we chose Greece, despite the fact that the crisis also affected other countries such as Italy, Spain, Portugal, and others. Greece had particular characteristics, most notably being on the verge of bankruptcy, and without the European Union, the consequences would have been severe, without delving into secondary details. The second case, the COVID-19 crisis, affects the union as a whole without exception. It is an economic, financial, health, social, and potentially political crisis, and if the EU fails to overcome it, it could collapse or lose many of its members, though it is too early to predict this while the crisis is ongoing.
- Regardless of the union's strength, trust and adherence to its rules and regulations are the primary means of navigating crises successfully.
- Poor debt management by any member state, combined with rising interest rates and financial bubbles, can lead to the declaration of bankruptcy—as in the case of Greece—if it were not for being part of a strong union, which helped restore confidence in its capabilities despite the large losses incurred.

- Regardless of the causes or factors that triggered the Greek crisis or COVID-19, it is impossible to overcome liquidity problems within the EU without a real economic buffer in the medium term.
- The researchers believe it is necessary to monitor Goldman Sachs and other financial institutions, particularly American ones, which assisted Greece in providing positive economic reports to enable its entry into the EU.

Regarding the study's hypotheses:

- Economic unions possess all the tools and measures necessary to contain financial crises that may affect one of their members or the union as a whole. This is true in the case of the EU with Greece, confirming our first hypothesis.
- The second hypothesis, which suggests that a union collapses if it fails to contain crises affecting its members regardless of its potential strengths, is not supported by the case of the European Union.

9. Conclusion:

Among the various crises the European Union has faced, some believe that the Greek crisis and the COVID-19 pandemic could be decisive. However, we argue that, despite the diversity of its member states in terms of political systems, ideologies, historical conflicts, and borders, none of these factors can undermine the EU's foundations. Firstly, there is a fear of returning to historical wars, the emergence of regional blocs and alliances that would not be in Europe's interest to confront as individual states, and the capacity of member states to renew themselves even after Brexit, all of which suggest that the EU is unlikely to disappear. Secondly, past challenges, such as the Greek crisis, the subsequent Eurozone sovereign debt crises, and finally, the COVID-19 pandemic and its consequences, will continue to reexamine and test all of the EU's core principles.

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