Crisis in the Eurozone

Causes, Dilemmas and Solutions

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Haworth and Heaton Norris
June 2014

European Integration Timeline

1948 The Organisation for European Economic Cooperation (OEEC) is set up in Paris in April 1948, coordinating the distribution of the Marshall Plan financial aid, which will amount to $12.5 billion from 1948 to 1951. The OEEC consists of one representative from each of the 17 Western European countries that join the organisation. In May 1948, in The Hague, the Congress of Europe (a meeting of delegates from 16 European countries) agree to form the Council of Europe with the aim of establishing closer economic and social ties.

1951 The European Coal and Steel Community (ECSC) is established by the signing of the Treaty of Paris in April 1951. Along with France and West Germany, Italy, Belgium, Luxembourg and The Netherlands have also chosen to join the organisation. Members of the ECSC pledge to remove all import duties and quota restrictions on the trade of coal, iron ore, and steel between the member states.

1952 The European Defence Community (EDC) Treaty is signed by France, West Germany, Italy, Belgium, Holland and Luxembourg in May 1952. It includes the provision for the formation of a parallel European Political Community (EPC). However, both initiatives are destined to founder since the French National Assembly never ratifies the EDC Treaty, finally rejecting it in August 1954.

1955 The process of further European integration is given fresh impetus by a conference of ECSC foreign ministers at Messina, Italy, in June 1955. The meeting agrees to develop the community by encouraging free trade between member states through the removal of tariffs and quotas. Agreement is also reached to form an Atomic Energy Community to encourage cooperation in the nuclear energy industry.

1958 The two Treaties of Rome are signed, establishing the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). As well as stipulating the eventual removal of customs duties on trade between member countries (over a period of 12 years) the EEC Treaty sets out to allow the free movement of workers, capital and services across borders and to harmonise policies on agriculture and transport.

1960 At the Stockholm Convention in January 1960, Austria, Britain, Denmark, Norway, Portugal, Sweden and Switzerland form the

European Free Trade Association (EFTA). The objective of EFTA is to promote free trade but without the formal structures of the EEC.

1961 UK applies to join the EEC.

1963 British application for EEC membership fails.

1967 UK submits second application to join EEC.

1968 Customs union completed and Common Agricultural Policy enacted.

1972 In October, following the recommendations of the Werner Report, the EEC launches its first attempt at harmonising exchange rates. The mechanism adopted is the so called 'snake in the tunnel', whereby participating governments are required to confine the fluctuations of their currencies within a range of +/–1% against each other. The value of the group of currencies (the snake) is also to be maintained within a range of +/–2.25% against the U.S. dollar (the tunnel). Countries requiring assistance to keep their currencies within the required band may receive help only in the form of loans.

1973 Denmark, Ireland and the UK join the EEC.

1975 UK referendum supports staying in EEC.

1978 At a summit in Bremen in July, the French and West German governments announce their intention to create the European Monetary System (EMS). At the centre of the EMS is the European Currency Unit (ECU). The value of the ECU is to be derived from a weighted basket of all participating currencies with the greatest weighting against the West German mark.

1981 Greece joins the EC.

1986 Portugal and Spain join the EC.

1990 UK joins EMS.

1992 At a summit of the European Council in Maastricht, Holland, the Treaty on European Union (TEU), also known as the Maastricht Treaty, is signed. Originally intended to include a declaration of an intention to move towards federal union, at Britain's insistence this aspect is played down. Subsequent to the signing of the Maastricht Treaty, the European Community is referred to as the European Union (EU).
UK leaves EMS.

1993 The Single European Market takes effect. Trade tariffs are scrapped, but duty-free shopping remains until 1999.

1994 Stage 2 of EMU is initiated on January 1st with the establishment of the European Monetary Institute (EMI) to oversee the co-ordination of the monetary policies of the individual national central banks. The EMI will also work towards the introduction of stage 3 by organising the creation of the European Central Bank.

1995 Austria, Finland and Sweden join the EU, bringing membership to 15.

The Schengen Agreement comes into force and scraps border controls. UK and Ireland stay out of the agreement.

1997 Heads of government draft a new agreement in Amsterdam which updates the Maastricht Treaty and prepares the EU for its eastward expansion. Qualified majority voting is introduced into new areas, reducing individual countries' powers to veto new measures.

1998 At the beginning of May, at a summit of EU officials and heads of state in Brussels, the announcement is made as to which countries will participate in the launch of the euro the following January. In June the European Central Bank (ECB) is established in Frankfurt, Germany. The ECB together with the national central banks of the 15 EU member states form the European System of Central Banks (ESCB), which will be responsible for setting monetary policy for the euro countries and managing those countries' foreign reserves.

The EU opens accession negotiations with Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus.

1999 Romania, Slovakia, Latvia, Lithuania, Bulgaria and Malta are invited to begin accession negotiations.

Eleven countries adopt the euro as their official currency (although national currency notes and coins remain in circulation), but Sweden, Denmark and the UK stay out.

2000 The Nice summit agrees to limit the size of the Commission and increase the president's powers. Qualified majority voting is introduced in new areas, but members keep their vetoes on social security and tax. A timetable for taking forward accession negotiations is endorsed.

2001 The Laeken European Council establishes the Convention on the Future of Europe.

2002 Euro notes and coins are introduced in 12 EU countries.

The European Commission announces that ten countries are on course to meet the criteria for accession to the EU in 2004.

2003 The UK has been a member of the EU for 30 years.

2004 EU enlargement to 25 member states with addition of Slovakia, Latvia, Lithuania, Malta, Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus.

2005 EU Constitution ratification ended by referendum defeats in France and the Netherlands.

The UK holds EU presidency, but fails to make progress on new 2007–2013 budget.

Accession negotiations are opened with Turkey and Croatia.

2006 Slovenia's entry into the euro on 1 January 2007 is confirmed.

Accession negotiations with Turkey are suspended.

2007 EU enlargement to 27 member states with addition of Bulgaria and Romania.

2008 Slovenia becomes the first of the recent enlargement member to hold the presidency of the Council of the EU.
Treaty of Lisbon ratification ended by referendum defeat in Ireland.

2009 Final year of the Barroso Commission.
Seventh series of elections to the European Parliament.
Second referendum on the Treaty of Lisbon in Ireland.

2010 Spain is the first country to hold the Presidency of the Council of the EU under the Lisbon Treaty and the new `trio presidency system' with Belgium and Hungary.
Heads of state and government agree to support the Greek government in its efforts to meet the Stability Programme targets for 2010.
European Council adopts a ten-year strategy for smart, sustainable and inclusive growth: Europe 2020.
The EU agrees to support the Irish economy to help safeguard the stability of the euro.

2011 Estonia adopts the euro, becoming the seventeenth member of the euro area.
The first 'European semester' of economic policy coordination between EU countries to help prevent economic crises like the one in 2008–2010.
A comprehensive package of measures to strengthen the European economy is finalised with the Euro Plus Pact to reinforce economic policy coordination in the EMU.
Three new European financial supervisory authorities begin operating: the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority.
European Council agrees that the accession negotiations with Croatia should be concluded by the end of June 2011, paving the way for the country to become the twenty-eighth EU member in 2013.
The EU seeks to resolve the eurozone crisis centered on Greece through establishing the European Financial Stability Facility (EFSF) to become the European Stability Mechanism (ESM) from 2013.

2012 Denmark takes over the six-month rotating presidency of the Council.
Croatia vote 'yes' by 66 to 33% in its accession referendum and so will become the twenty-eighth EU member on 1 July 2013.

The European Council proposes a new treaty on stability, coordination and governance in the economic and monetary union, which is agreed by all EU countries with the exception of the Czech Republic and the UK.

A treaty to create a European Stability Mechanism (ESM) is signed.

The European Council grants candidate status to Serbia.

The European Citizens' Initiative becomes a reality, enabling citizens to propose EU legislation on specific issues for the first time.

As part of the 'European Semester', the Commission adopts recommendations for each member state, offering guidance on 2012–2013 national budgets and economic policies.

Cyprus takes over the six-month rotating presidency of the Council.

The European Stability Mechanism (ESM) enters into force.

The European Union is awarded the Nobel Peace Prize 2012.

2013 Ireland takes over the six-month rotating presidency of the Council.

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union enters into force.

Croatia joins the EU, bringing the total number of member countries to 28.

Lithuania takes over the six-month rotating presidency of the Council.

2014 Greece takes over the six-month rotating presidency of the Council.

Latvia adopts the euro as its currency, becoming the eighteenth member of the euro area.

The European Parliament adopts a set of rulebooks on how to deal with banks in serious difficulties, as the final element of the EU's Banking Union.

Chronology of Eurozone Crisis

1970	EC Commission resolution to establish Economic and Monetary Union (EMU). Werner Committee Report on EMU issued.
1973	Collapse of 'snake in the tunnel' policy.
1977	European Monetary System (EMS) launched.
1979	EMS comes into operation.
1991	European Council meeting in Maastricht agrees the Treaty on European Union.
1992	Crisis in the ERM leading to the UK and Italy suspending their memberships.
1998	European Council decides that 11 EU member states will participate when the euro is launched in 1999 (France, Germany, Italy, Belgium, Luxembourg, the Netherlands, Ireland, Spain, Portugal, Finland and Austria).
1999	Exchange rate parities of the participating member states and their conversion rates into euros are irrevocably fixed. The euro becomes a currency in its own right. Member states' monetary policy, exchange-rate policy carried out, and new public-sector debt instruments issued, in euros. The ESCB, national and EU public authorities to oversee and assist with currency changeover.
2001	Greece is added to list of eurozone member states.
2002	Euro banknotes and coins to circulate alongside national currency notes and coins.
2007	January: Slovenia joins the euro.
2008	January: Malta and Cyprus join the euro. EU leaders agree on a €200bn stimulus plan to help boost European growth following the global financial crisis.
2009	January: Slovakia joins the euro. Estonia, Denmark, Latvia and Lithuania join the Exchange Rate Mechanism (ERM) to bring their currencies and monetary policy into line with the euro in preparation for joining. The EU orders France, Spain, the Irish Republic and Greece to reduce their budget deficits.
	April: Standard and Poor's downgrades Greece's debt ratings below investment-grade to junk-bond status; downgrades Portuguese debt two notches and issues negative outlook; downgrades Spanish bonds.
	October: Amid much anger in Greece towards the previous government over corruption and spending, George Papandreou's Socialists win a general election.

December: Greece admits that its debts have reached €300bn, the highest in modern history, such that it is burdened with debt amounting to 113% of GDP.

2010 January: An EU report condemns 'severe irregularities' in Greek accounting procedures. Greece's budget deficit in 2009 is revised upwards to 12.7%, from 3.7%, and more than four times the maximum allowed by EU rules. The ECB dismisses speculation that Greece will have to leave the EU. Greece unveils a series of austerity measures aimed at curbing the deficit from 12.7% in 2009 to 2.8% in 2012.

March: The eurozone and IMF agree a safety net of €22bn to help Greece, raised to €30bn in April. Papandreou continues to insist that no bailout is needed. ECB extends softer rules on collateral to avoid a situation where one ratings agency decides if a eurozone country's bonds are eligible for use as ECB collateral.

April: The EU announces that the Greek deficit is even worse than thought at 13.6% of GDP, not 12.7%.

May: The ECB announces that it will accept Greek government bonds as collateral no matter what their rating is. The eurozone members and the IMF agree a €110bn bailout package to rescue Greece. Ireland's debt starts to come under scrutiny.

June: The EU releases the results of 'stress tests' conducted on 91 European financial institutions, with seven failing to maintain the minimum amount of ready capital required by examiners.

September: EU finance ministers and IMF approve second of the bailout instalments for Greece of €6.5bn and €2.57bn respectively. Ireland's central bank announces that the cost of bailing out Anglo Irish Bank could reach as much as €34.3bn, pushing its budget deficit to 32% of GDP.

November: Ireland starts talks and then accepts an €85bn package to help alleviate its debt burden, contrary to previous denials that it would need external help. Ireland then passes an austerity budget.

2011 January: Estonia joins the euro. Fitch becomes the third ratings agency to cut Greek debt to 'junk' status after S&P and Moody's.
February: Eurozone finance ministers set up a permanent bailout fund, the European Stability Mechanism (ESM), of €500bn.
May: The eurozone and IMF approve a €78bn bailout for Portugal.
June: Eurozone ministers say Greece must impose new austerity measures before it gets the next tranche of its loan, without which the country will probably default on its debts. Standard & Poor's downgrades Greece's credit rating, making it the country with the world's lowest-rated sovereign debt.

July: A second bailout for Greece is agreed. The eurozone agrees a comprehensive €109bn package designed to resolve the Greek crisis and prevent contagion among other European economies. The Greek parliament votes in favour of a fresh round of austerity measures; the EU approves the latest tranche of the Greek loan of €12bn.

August: Interest rates on ten-year Italian government bonds top 6% as confidence in the coalition led by Prime Minister Silvio Berlusconi is undermined by personal scandals and his on-going disagreements with Finance Minister Giulio Tremonti. Italy's €1.9tr public debt falls under increasing scrutiny from investors and, at 120% of GDP, Italy's rate of indebtedness is second only to Greece. The ECB says it will buy Italian and Spanish government bonds to try to bring down their borrowing costs, as concern grows that the debt crisis may spread to the larger economies of Italy and Spain.

September: A meeting of finance ministers and central bankers in Washington leads to more calls for urgent action, but a lack of concrete proposals sparks further falls in share markets. Greece holds 'productive and substantive' talks with its international supporters, the European Central Bank, European Commission and IMF. Spain passes a constitutional amendment to add in a 'golden rule,' keeping future budget deficits to a strict limit. Italy's legislature approves a €54bn austerity package with the intention of wiping out Italy's budget deficit by 2013, but Italy has its debt rating cut by S&P.

October: The Bank of England injects a further £75bn into the UK economy through quantitative easing, while the ECB unveils emergency loan measures to help banks. European leaders reach a 'three-pronged' agreement described as vital to solve the region's huge debt crisis. Some private banks holding Greek debt have accepted a loss of 50%. Banks must also raise more capital to protect themselves against losses resulting from any future government defaults. Slovakia's coalition government collapses when Prime Minister Iveta Radičová ties her country's approval of the expansion of the EFSF (requiring unanimous consent of all eurozone members) to a confidence motion. Eurozone finance ministers approve the next €8 bn tranche of Greek bailout loans, potentially saving the country from default.

November: Summit of G20 leaders discusses the eurozone crisis, and European leaders publicly declare that Greece's departure from the single currency is a possibility. Prime Minister Papandreou announces a Greek referendum on the new eurozone debt deal, but then withdraws promised referendum amid heavy pressure from Germany and France. Papandreou responds by abandoning the planned referendum. Spain becomes the third eurozone country in three weeks to see a change in government. Spanish voters sweep the ruling Spanish Socialist Workers' Party (PSOE) from power, handing the Popular Party (PP) an overall majority in parliament. Zapatero remains caretaker prime minister while PP leader Mariano Rajoy begins the task of forming a new government. Berlusconi's budget passes, and he resigns to be replaced by Mario Monti, a politically independent economist who previously served on the European Commission. S&P downgrades Belgium's long-term sovereign credit ratings.

December: All eurozone members and six countries that aspire to join agree on a new intergovernmental treaty (a fiscal stability union) to cap government spending and borrowing, with penalties for those countries that violate the limits. All other non-eurozone countries, except the UK, are also prepared to join in. The ECB starts the biggest infusion of credit into the European banking system by loaning €489bn to 523 banks at a rate of just 1% over a three-year period. In Greece a new interim national union government led by Lucas Papademos (former ECB vice-president) submits its plans for the 2012 budget, promising to cut its deficit from 9% of GDP 2011 to 5.4% in 2012; however, both Fitch and Moody's cuts Greece's rating, with a negative outlook.

2012 January: The 'fiscal pact' initially proposed in December 2001, containing for new rules that make it harder to break budget deficits, is signed by 25 EU members, with the UK and the Czech Republic opting-out. Talks stall between Greece and its private creditors over a debt write-off deal. The deal is necessary if Greece is to receive the bailout funds it needs to repay billions of euros of debt in March. Standard & Poor's downgrades France and eight other eurozone countries, together with the EFSF blaming the failure of eurozone leaders to deal with the debt crisis.

February: The ECB holds a second auction, providing 800 Eurozone banks with further €529.5bn in loans. Following negotiations with private lenders and the EU/IMF/ECB troika as Greece tries to get a debt write-off and make even more spending cuts to get its second bailout, its coalition government finally agrees to pass the demands made of it by international lenders. But the eurozone effectively casts doubt on the figures, requiring a further €325m in budget cuts.

March: 25 EU countries sign the new pact on fiscal discipline. While it will be binding only for those countries that use the euro, other signatories can choose to abide by its guidelines. However, unlike previous EU treaties, unanimous support from member countries is not required, and the agreement enters into force upon ratification by 12 of the 17 eurozone countries. Eurozone finance ministers announce an expansion of the EFSF and ESM to a combined €800bn in funding. This increase is made at the urging of the G20 and the IMF, who had expressed concern that the existing rescue funds were not sufficient to manage the bailout of a country such as Spain or Italy. The government of Prime Minister Mariano Rajoy unveils a budget that cuts some €27bn in spending, intended to bring Spain back into line with the new EU fiscal pact. The eurozone governments and IMF finally back a second Greek bailout of €130bn. With a majority of private bondholders agreeing to swap their existing Greek government bonds for ones with a longer term, a lower interest rate and less than half the previous face value, the Greek government exercises 'collective action clauses' to force the remaining bondholders to accept the deal. The action allows Greece to erase some €100bn in government debt. Unlike the 'selective default' of July 2011 the activation of the collective action clauses marks the event as a true loan default. The International Swaps and Derivatives Association declares that a 'credit event' has occurred, a decision that triggers the payout of credit-default swap insurance.

April: Spanish shares hit by worries over the country's economy, and the Spanish government's ten-year cost of borrowing rose back towards 6%, signalling fear over the country's creditworthiness. Italian borrowing costs increase in a sign of fresh concerns among investors about the country's ability to reduce its high levels of debt. In an auction of three-year bonds, Italy pays an interest rate of 3.89%, up from 2.76% in a sale of similar bonds the previous month.

May: The European Commission adopts a package of recommendations for budgetary measures and economic reforms and recommends that the euro area make steps towards a 'full economic and monetary union', including a banking union, integrated supervision and a common deposit insurance scheme. Spain's fourth largest bank, Bankia, is effectively nationalised as the government announces a €23.5bn bailout. A majority of Greeks vote in a general election for parties that reject the country's bailout agreement. Market analysts begin to discuss a 'Grexit', so capital flight becomes a growing concern as depositors fear a possible return to the drachma. Greece agrees to repay in full a €435m bond after previously declaring that it would default on any investors that did not participate in its €206bn debt swap. It is reported that depositors withdrew €700m from banks, sparking fears of a bank run.

June: EU leaders' meeting is dominated by Rajoy and Monti, who secure more-favourable lending terms, and eurozone leaders