Slovakia Faces Criticism for Saying “No” to the Bailout Fund for Greece

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"Had the ECB known Slovakia would behave like that, it would have never endorsed Slovakia's euro adoption" (Santa & Strupczewski, 2010), this being said by Jean-Claude Trichet, the president of the European Central Bank (ECB), after Slovakia refused to contribute to the bailout fund for Greece, even though the previous government had agreed to help Greece out, the newly elected right-leaning government claimed it would not support this idea. Despite the fact that Slovakia has been strongly criticized for not contributing to the Greece bailout fund, there are reasonable arguments supporting this decision. In this paper I am going to investigate Slovakia's position, and point out that there are other reasons for supporting this decision other than just to prevent moral hazard from happening again.

Slovakia has become part of the European Union on May 1st 2004, following a successful referendum. This not only meant the free movement of people, services, goods and capital within the members of the European Union, but also adopting the principle of mutual solidarity among the European member states. Shortly after that, Slovakia has proceeded even further with the process of adopting the Euro currency. On January 1st 2009, Slovakia has officially entered into the Euro zone, becoming the 16th member state who gave up their national currency for Euro. Out of the "Visegrad Four" countries, Slovakia was the first one meeting the Convergence Criteria for the adoption of the Euro. These Criteria were first adopted by the EU under the Maastricht treaty in 1992 as following: "budget deficits should be no more than three percent of the GDP, public debt should not be more than 60% of GDP and the inflation be kept under 1, 5 points the average of the three best performers" (Cini, 2007, p. 32).

In 1997, the Stability and Growth pact was agreed and signed by the Euro zone members "in order to help create stable conditions for the new currency" by controlling government spending and borrowing. However, it had to be amended in 2005 to allow more flexibility because many countries have broken these rules. When the financial crises came, even such countries like Germany and France reported their debt over 60%, as the Stability and Growth pact proposes. The European Commission was particularly worried about the government borrowing in Spain, Ireland and Greece. The Commission could fine a country if it broke the rules in three consecutive years with up to 0, 5 % of the GDP (Civitas, 2010).

Greece, as a member of the Euro zone also signed on the Stability and Growth pact, agreeing to keep its deficit under 3% of the DGP and its government public debt to be no more than 60% of GDP. In November 2009, the Greece government announced its deficit to climb up to 12, 7 % of GDP for the year 2009, which is almost twice the amount the previous government had claimed. In March and April 2010, the Euro zone finance ministers and the International Monetary Fund (IMF) agreed to create a “first aid” package to help out Greece to recover its ruined economy in amount of 30 milliard Euros (Onuferova, 2010). The participation on this saving package of the Euro zone states was not obligatory, but it was highly recommended by the European Central bank, in order to stabilize the future of the Euro zone. At that time in Slovakia, the leading coalition consisting of the Smer democratic party, the Slovak national party and the HZDS party, led by the Prime Minister Fico, promised to support the saving package for Greece and pay our share from the total amount. However, the parliamentary election was to be held in June and so the newly elected government would also had to confirm Slovakia’s contribution. What happened though, is that this issue was not discussed with the former opposition in the national council, neither the public opinion on this issues was taken.

On April 22, the Eurostat came out with the shocking numbers concerning Greece, reporting its deficit for 2009 to be 13, 6% of GDP. The next day, the Greek Prime Minister Jorgos Papandreu asked for the activation of the saving package that was created by the EU and the IMF. Greece announced financial insolvency and was on the edge of bankruptcy. Not only was the Greek government very generous to public sector jobs, providing people with enormous social benefits like 13th and 14th salaries, high retirement payments and low retirement age, but they were also "cooking" their financial statements in order to hide their real deficit and debt, so that their interest rates would stay low and they could keep on borrowing. The Greek people lived lives they could not really afford, so the debt grew and grew, until it got revealed (Onuferova, 2010).

After the discussions among the Greece, European Union and the IMF, they came to a conclusion to bailout Greece. Of course, there were some conditions for Greek government to be met. Greek government must have adopted series of saving measures aimed at lowering the public debt and deficit. The Euro zone member states agreed to provide 80 milliards of Euros and the IMF would provide 30 milliards of Euros, representing a total of 110 milliards of Euros as a saving package for the bailout fund for Greece within the three years. Slovakia's share on this amount was calculated to represent 816 millions of Euros (Jancik, 2010).

The parliamentary election in Slovakia took place in June, and the result of this election was more than surprising; the new right leaning coalition was elected. However, the new coalition had different opinion towards the Greek bailout fund and in the national council voting, they ruled out contributing to the bailout fund. This decision has caused major discussions all over the world and mostly within the EU, because Slovakia was the only country out of the Euro zone to say "no" to the bailout fund. Here are some of the reactions shortly after Slovakia officially announced its position.

The ECB President, Jean-Claude Trichet said: "Slovakia set a bad example", and that the ECB "will not support euro entry by others unless sure they will not take similar steps in the future". According to the Reuters report, the president Trichet was outraged by Slovakia's decision (Santa & Strupczewski, 2010).

Another EU diplomat who wished not to be named said: “I am just appalled and shocked that a country can behave like that. It is such a flagrant act of not being united and being responsible for our 'common destiny' in the euro area" (Reuters, 2010).

Austrian Finance Minister said that Slovakia has reneged from the agreement (Reuters, 2010).

Some other diplomat said “Slovakia has shot itself in the foot”, and he also said that people will remember this, and they will behave accordingly next time Slovakia asks for a favor (Reuters, 2010).

According to Angela Merkel’s spokesman, ”everyone needs to know that he may one day be dependent on the solidarity of the others”, indirectly reminding Slovakia it may also be in a need of help of others (*Slovak PM defends 'no' ,* 2010).

The majority of criticism talks about the lack of solidarity from Slovakia, which is considered as an essential principle for the working union (Reuters, 2010). The European Union argues, that if we do not help out Greece, the financial stability of the entire European Union will be undermined and the future of the Euro currency will be endangered, because nations like Spain, Portugal, Ireland and Italy could also bankrupt. The Euro currency has been also weakened by the Greece debt crises, because the most of the Greek debt is hold by European banks, mostly German and French. So if Greece defaults on paying for these bonds, the banks would lose lots of money and potentially would be facing difficult times. Financial markets have lost trust in the Euro currency, and that is the reason why the Euro currency is losing its value compared to other currencies, therefore it can be important for the Euro zone members to provide help to the Greece. Especially it is important for those countries, whose banks were mostly involved in lending money to Greece (Jancik, 2010).

Slovakia, on the other has sent warning signals that if we help out Greece, other nations could misuse it and take no responsibility. According to Ivan Miklos, the finance minister of Slovakia, this is the typical example of moral hazard in economy. Moral hazard in economy, meaning hazardous behavior, when the one who is committing to such a behavior, and is making a profit out of it, is relying on the fact that in case of lost, someone else is going to take responsibility. He says that if we help out Greece today, tomorrow there can be more irresponsible nations asking for the same thing, just because of their reckless and irresponsible borrowing for the price of creating huge public debts (Miklos, 2010).

The Prime Minister of Slovakia, Iveta Radicova told to the German daily Financial Times that "she believed Bratislava was speaking for a silent majority in the European Union" and explained why we behaved like that. She reminded that Slovakia had also had difficult times applying "fundamental reforms between 1998 and 2002" and "no one helped us". Slovakian tax payers had to undergo "painful reforms" and Slovakia managed to meet the criteria for the Euro adoption. She argues, how could she do this to the people of Slovakia, simple just take their money and lend them to Greece, for something they must have gone through in the past without any help (*Slovak PM defends 'no' ,* 2010).

The representatives of the Slovakia explained their decision as following: Why should the taxpayers from a country that kept its debt under control to help a "profligate one". In other words, Slovakia is the poorest state out of the Euro zone. If we compare the monthly minimum wage for example, in Slovakia in 2004 it was 308 Euros, compared to 863 Euros in Greece. People in Slovakia had to carry the burden of implementing important reforms, and now they should contribute to a country, in which people earned much more? (Reuters, 2010).

According to Slovak Finance Minister, Ivan Miklos, "when it comes to solidarity between the rich and the poor, responsible and irresponsible ones, of taxpayers and bank owners or managers", this is not what he considers a solidarity. The present rescue plan is designed in a way that not those who caused the problem are paying, but those who were not included at all. Miklos blames the Greek government for hiding the inconvenient truth and also the banks for supporting this lending and, of course, earning huge interest on Greek loans. He asks why should the banks not be the one paying, why do we let them earn on this situation (Miklos, 2010).

Miklos thinks that the financial help from the European Union, as it is now, will not help to the future of the Euro, but on the other hand, can cause the end of it. He says if we give money to Greece, it can be a signal for other irresponsible countries to go on with the moral hazard, which consequently can lead to the end of the Euro zone. As a solution, he suggests that the Greece steps out of the Euro zone, converts back to its former currency and start to rebuild and restructure its economy, the process of so called devaluation. This process of restructuring the economy cannot be done in the current situation, because the Euro currency does not allow it. Therefore Greece should return to their former currency. This process would create macro-economical stability and would improve competitiveness within the country. He understands it will make Greece poorer, but this would be a role example for countries that are in similar condition not to rely on the help of others, but take steps in advance (Miklos, 2010). This default option is being suggested by others as well. Many experts say “bailouts only delay the inevitable”, and that governments should start negotiating with the bond owners about the loss on their investments, rather than applying major cuts in their budget deficits, which only slows down the economy. What the experts sees as more appropriate is “organized restructuring of the debt” combined with financial help. According to Peter Mathews, a banking consultant, “the people who provided the funds to these banks should take the consequences”. Kenneth S. Rogoff, a Harvard professor and expert on sovereign debt crises thinks that “there is just no escaping debt restructuring for Greece (Landon, 2010).

The EU, on the other hand finds it necessary to bail out Greece, because more than 2 trillion Euros in debt belonging to Greece, Ireland, Spain and Portugal are held by German, French and British banks (Landon, 2010).

As a response to the Greece debt crisis, the European Union created a European Financial Stability Facility, that was to be signed by all EU member states, and its main purpose is to provide financial assistance to a country in need. This was created after the Greece issue came out, to preserve stability within the countries in the EU. Slovakia signed on to this deal, meaning it will contribute to a bailout fund to a country in difficulty, but we proposed certain conditions that must be met first. The first one is that the EU will make changes to the Stability and Growth pact, to ensure certain rules for all countries. Secondly, there should be a concrete mechanism of a controlled bankruptcy of a country not respecting the rules. Third condition is that the ECB and the European Commission will clearly identify that the country that is to be provided financial help has taken all the possible steps to re-finance itself out of the debt (Onuferova, 2010).

By signing on to this act, Slovakia committed itself to help bailout a country in difficulty. Recently, Ireland has asked the EU for financial help. Ireland is not in such a bad condition as Greece, their deficit in 2009 was 14,4% , but their debt was “only” 65,4 %. Miklos, the finance minister of Slovakia is defending our “yes” to Ireland, because he says Ireland is in different position than Greece, they have the working economic polity, their only problem is the estate bubble, that has just been deflated. Another difference is that in bailout fund for Greece, we would directly give them money, which would only make their debts higher, whereas in Ireland, we are only a guarantee, or a “backer” for the bank, that if Ireland does not pay its loans, we will pay for them. Even countries that are not in the Euro zone, the United Kingdom and Sweden decided to help Ireland out (Kovacik & Suchy, 2010).

The question to be solved in order to ensure the stability and the future of the Euro currency is how will the financial help be determined, and what measures are going to be applied in deciding which country should be provided with a bailout fund. What if countries like Portugal and Spain, also ask for a financial help from the Stability Facility? How is the EU going to determine whether the economy of the country is functioning well enough, or is it just another irresponsible country relying on the help of others? These are very serious questions that need to be solved out to secure the future of the Euro and the Euro zone with it.

For someone, it may seem that Slovakia is using different methods in judging to which country should it provide financial help, but we can see that there are voices among the experts who say that sometimes the default of the country could be a better option than trying to pour new money into the economy. Despite the criticism, Slovakia has showed a good example of having its own opinion, without braking any rules or agreements, and outlined the path the Euro zone could be headed to preserve the stability within the European Union.

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