MASTER THESIS

Titel der Master Thesis / Title of the Master's Thesis

„The Life-Cycle of a temporary Gr-exit scenario in 2015: Legal Methods and Consequences "

verfasst von / submitted by

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angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Master of Advanced International Studies (M.A.I.S.)

Wien 2021 / Vienna 2021

Studienkennzahl lt. Studienblatt Postgraduate programme code as it appears on the student record sheet:	A 992 940
Universitätslehrgang lt. Studienblatt Postgraduate programme as it appears on the student record sheet:	Internationale Studien / International Studies
Betreut von / Supervisor:	Univ.-Prof. Dr. Werner Neudeck

diplomatische akademie wien

Vienna School of International Studies

École des Hautes Études Internationales de Vienne

"On my honour as a student of the Diplomatische Akademie Wien, I submit this work in good faith and pledge that I have neither given nor received unauthorized assistance on it."

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Abstract / Zusammenfassung

The present thesis examines, firstly, whether an EMU exit could be possible without an EU exit under existing EU Treaties and, secondly, the economic and financial consequences of a currency exit in the Gr-exit context of 2015. Both legal analysis on EU law as well as an assessment on economic elements especially focusing on the Theory of Optimum Currency Areas by Robert A. Mundell are utilized. In this respect, an EU amendment, an EU-exit with a simultaneous EMU exit, and a Council agreement represent the three options we analyze for the present purposes. Taking into account the advantages and disadvantages of each scenario, it seems that an amendment as well as a Council agreement would require high political efforts while an accession/re-accession case would entail massive procedural technicalities in terms of EU law. From a debt restructuring perspective, a debt repayable in the new drachma currency would be conceivable only through a Council agreement or an EU amendment. With regard to the consequences ('viability') of the initiative, the positive effects of devaluation are certainly a point for a Gr-exit; however, from an Optimum Currency Area perspective, an already integrated country concerning trade and labor factors would mean that Greece would 'lose', at least, in the field of its trade relations. From our part, we cannot neglect the argument that an exit scenario could result in, domestically, severe political repercussions, social distress, legal uncertainty, and 'unknown economics'; but, nonetheless, these phenomena might refer to only a limited period of time. Moreover, the fact that the present assessment regards an EMU-exit rather than an EU-exit eventually uncovers the non-dramatic side of the initiative.

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Die vorliegende Arbeit untersucht erstens, ob ein EWU-Austritt ohne EU-Austritt unter den bestehenden EU-Verträgen möglich ist und zweitens die wirtschaftlichen und finanziellen Folgen eines Währungsaustritts im Kontext des Austritts Griechenlands aus dem Euro im Jahr 2015. Dabei wird sowohl eine juristische Analyse zum EU-Recht als auch eine Einschätzung zu ökonomischen Elementen unter besonderer Berücksichtigung der Theory of Optimum Currency Areas (‚Theorie optimaler Währungsräume') von Robert A. Mundell herangezogen. Dabei stellen eine EU-Änderung, ein EU-Austritt mit gleichzeitigem EWU-Austritt und ein Ratsabkommen die drei Optionen dar, die wir für die vorliegenden Zwecke analysieren. Unter Abwägung der Vor- und Nachteile der einzelnen Szenarien zeigt sich, dass sowohl eine Änderung als auch ein Ratsabkommen hohe politische Anstrengungen erfordern würden, während ein Beitritt/Wiederbeitritt mit massiven verfahrenstechnischen Problemen im Sinne des EU-Rechts verbunden wäre. Aus Sicht einer Umschuldung wäre eine Rückzahlung der Schulden in der neuen Drachmenwährung nur durch eine Ratsvereinbarung oder eine EU-Änderung denkbar. Was die Folgen der Initiative betrifft, so sind die positiven Effekte der Abwertung sicherlich ein Argument für einen ‚Gr- Austritt' (‚Gr-exit'); aus der Perspektive einer Optimum Currency Area würde ein bereits integriertes Land in Bezug auf Handel und Arbeitsfaktoren jedoch bedeuten, dass Griechenland zumindest im Bereich seiner Handelsbeziehungen "verlieren" würde. Von unserer Seite aus können wir das Argument nicht vernachlässigen, dass ein Austrittsszenario innenpolitisch zu schweren Auswirkungen, sozialer Not, Rechtsunsicherheit und "unbekannter Ökonomie" führen könnte; allerdings könnten sich diese Phänomene nur auf eine begrenzte Zeitspanne beziehen. Die Tatsache, dass sich die vorliegende Bewertung auf einen WWU-Austritt und nicht auf einen EU-Austritt bezieht, offenbart schließlich die nicht-dramatische Seite der Initiative.

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Abbreviations

ASE	Athens Stock Exchange ('*ATHEXGROUP*')
BG	Bank of Greece ('*Τράπεζα της Ελλάδος*')
BHL	Bondholder Law
BIT	Bilateral Investment Treaty
BoP	Balance of Payments
CAC	Collective Action Clause
COM	European Commission
EC	European Community
ECB	European Central Bank
ECJ	European Court of Justice
EFSM	European Financial Stability Mechanism
EFSF	European Financial Stability Facility
ELA	Emergency Liquidity Assistance
EMU	Economic and Monetary Union of the European Union
ESCB	European System of Central Banks
ESGP	European Stability and Growth Pact
ESM	European Stability Mechanism
EU	European Union
Eurostat	Statistical office of the European Union
FDI	Foreign Direct Investments
FER	Fixed Exchange Rate(s)
FSIA	Foreign Sovereign Immunities Act [US]
GDP	Gross Domestic Product

IMF International Monetary Fund

IR Interest Rate

JPY Japanese Yen

LM Lex monetae

M-S Member-State

NCB National Commercial Bank / National Central Bank

NSSG National Statistical Service of Greece

OCA Optimum Currency Area(s)

PC Paris Club

PDMA Public Debt Management Agency (*‘Ο.Δ.ΔΗ.Χ.’*)

PSI Private Sector Involvement

SIA State Immunity Act [UK]

SI.DAN.E.F. (*‘ΣΥ.ΔΑΝ.Ε.Φ.’)* Swiss Franc Borrowers' Association *(‘Σύλλογος Δανειοληπτών Ελβετικού Φράγκου’)*

Syriza (*‘Συ.Ριζ.Α.’*) Radical Left Coalition (*‘Συνασπισμός Ριζοσπαστικής Αριστεράς’*)

TEU Treaty of the European Union

TFEU Treaty on the Functioning of the European Union

UR Unemployment Rates

USD United States Dollar

VC Vienna Convention

WTO World Trade Organization

Introduction

In 2015, when Greece was struggling against an already six-year-old debt crisis, an informal proposal on behalf of German Finance Minister Wolfgang Schäuble was put forward. The German proposal suggested a temporary exit from the Eurozone for a period of five years undertaking a subsequent re-introduction of the national currency, the «*δραχμή*» ("drachmi" or "drachma"). Taking into account the specific statements therein, some analysts expressed themselves against the Schäuble proposal while others accentuated the potential successful outcome of the plan.

Our research is based on assessing the potential feasibility and viability of such a scenario given the 2015 context of Greece. By examining the spectrum of the Greek financial crisis as well as the economic, political, geostrategic, and socio-historical perspectives of the country, the research explores if and how the aforementioned temporary leave solution would be possible under the European Union's Constitutive Treaties. More specifically, importance is given to the legal question whether a Member-State of the European Union, and in our case Greece, can *legally* leave the Eurozone without leaving its Member-State status.

However, the *possibility* of the proposal should be assessed separately from the *viability* of the Schäuble hypothesis the latter constituting a crucial aspect of the Greek case. In this respect, we will also try to set forth the eventual consequences of such an option considering the financial, legal, political, and socio-historical context of the country.

Having said that, our first hypothesis supports the feasibility of the Schäuble solution under existing EU Treaties. Our second hypothesis suggests that an exit scenario for Greece in 2015 wouldn't be, in any case, a favorable alternative.

Throughout the research we utilize legal analysis and methodology as well as economic elements specifically focusing on the Theory of Optimum Currency Areas by Robert Mundell. In this light, legal analyses, scientific articles, journal articles, reports, and statistical data are the primary source of the present thesis.

The "Life-Cycle" of the 2015 Gr-exit scenario, starting by succinctly describing the financial situation in the country during the period 2008-2015, portrays the political and economic relationship between Greece and the European Union and its institutions. It parallelly attempts to shed some light on the recent willingness on behalf of certain EU Member-States to leave the Eurozone or even the Union as such. Undoubtedly, the Greek financial crisis is deemed to be a significant case study for the whole European economic structure as well as for the European integration model per se. Notably, the suggested analysis would maybe contribute to explaining the phenomena that take place within integration unions and international monetary and trade mechanisms all over the world.

The first part of our assessment comprises legal analysis on substantive EU law. The second part of the research examines the restructuring proposal by W. Schäuble regarding the Greek debt as well as the transition from the Euro currency to the "new" national currency. The third and final part brings forward the consequences of such a step under the particular economic, political, legal, and socio-historical perspectives. In this context, we will begin with a brief presentation on the existing literature.

Literature Review

It has been stated several times that a Member-State's exit from the Eurozone is an unconceivable and maybe an impossible idea. In this respect, Amadeu Altafaj i Tardio, spokesperson of economic affairs for the European Commission, mentioning the constitutive Treaties of the European Union, and specifically the Lisbon Treaty, had stated that neither a voluntary nor a non-voluntary exit would be legally possible. Legally speaking, the main problem arises when realizing that participation in the Eurozone is "irrevocable". Indeed, political actors as well as an important number of legal analysts in the European arena have repeatedly accentuated the irrevocability of the Eurozone membership. At the same time, the European Commission has held a similar position against arguments supporting the possibility of an EMU exit.

In accordance with Article 50 of the Treaty of the European Union, if a Member-state leaves the Union, then Treaties "shall cease to apply"; in this context, a significant part of legal scholars agrees that the Treaties structuring the EMU will no longer apply in the country in question. However, legal analysts have also accentuated the high levels of uncertainty pertaining to a Member-State's exit from the Economic and Monetary Union. A study conducted in 2009 on behalf of the European Central Bank argued, on the one hand, that a voluntary exit scenario seems quite an impossible attempt while, on the other hand, an "expulsion" is considered a more realistic option when examining EU Treaties. Quite logically, the paper highlighted that in case a country decides to voluntarily leave the single currency area the latter can only be possible with a simultaneous exit from the European Union. In addition, a Member's "expulsion" without its own will is legally and politically "next to impossible"; however, the aforementioned paper does not absolutely exclude the occurrence of such an event.

Interestingly, there is no extensive literature referring to the ways a Member-State can leave the Eurozone without having to "sacrifice" its EU membership; in fact, there is no clear-cut answer to that question from a Lisbon Treaty standpoint. While departure from the Eurozone remains quite an unclear chapter, we believe that an evaluation of the actual options that a Member-State has from an EU law perspective could prove to be significant for the Greek case as well as for regional and international integration union mechanisms close to the EU paradigm.

Under these circumstances, we will make an effort to “fill in the *legal* gaps” of the Gr-exit case and at the same time present the economic side of an eventual exit plan. It is important to note, that, although our topic is characterized as “life-cycle”, the analysis will follow from the point of implementing such an mechanism, excluding the period *ante*-proposal. The latter would be practically and theoretically complex for the present purposes due to the idiosyncrasy of the Greek case.

Part I: Options for a Member-State to leave the Eurozone without an EU-exit : The case of Greece in 2015

In this first part, we are going to assess the Eurozone exit phenomenon through the prism of European law and give an answer to the first research question. After a brief historical overview of Greece and its debt crisis, substantial provisions of the EU constitutive Treaties and relevant principles of international law will be the focus of the present chapter.

A. Brief historical, economic, and political overview of Greece until the crisis in 2008

Starting from the Protocol of Independence in 1830, the first government debts and loans from European banks under Otto of Greece (1832-1862) begun to appear. After the severe bankruptcy of 1893, Greece was put under the control of the International Financial Commission for Greece ('Commission Internationale Financière de la Grèce') while the Greco-Turkish war in 1897 had its own economic impact on the country's financial and political structure. As Nikolaos Barbas asserts (2020, 410) "the Greek State due to insufficient taxable base was unable to collect a proper amount of revenues in order to cover its public expenditure". Under these circumstances, the country often resorted to foreign borrowing.

The emergence of the Balkan Wars which resulted in an increase of territory and an enhanced Greek economy as well as the policy of Prime Minister E. Venizelos during the 1910-1915 period are important elements to be taken into account. In addition, the immigration of approximately 1 million refugees from Asia Minor, on the one hand, and the positive political consequences of World War I for the country, on the other hand, also played a significant role. However, in general, the emergence of the two World Wars as well as the global economic crisis of 1929 led to an increase of financial needs and, therefore, of public debt on behalf of the Greek State.

From then on, the international community begun discussions about a European Community structure promoting not only peace but also economic and trade integration and "in 1978 Chancellor Schmidt put forward a plan for a zone of monetary stability in Europe" (Swann 1981, 325). The European Monetary System was being created, although with some technical difficulties at the beginning, with an aim to maintain "exchange rate fluctuations within narrow limits" (Swann 1981, 326). At the same time, European actors soon realized that a European Monetary Fund should be established.

The application of Greece to join was lodged in June 1975 (Swann 1981, 330) and negotiations were initiated in July 1976. From a domestic perspective, the 1970s were a favorable period for the country since deficits were on average considerably low (Barbas 2020, 416). Under these circumstances, Greece becomes officially a member of the European Community in 1981 under Prime Minister K. Karamanlis accepting the *acquis communautaire*, i.e. primary and secondary legislation. Ten years later, in 1992, the Maastricht Treaties came into force; between the 1980s and 1990s, however, some early economic phenomena had already played their decisive role in leading the country towards the 2008 economic deadlock. Financial waste, disposal of funds from loans with a lack of transparency for the support of inefficient expenditures, the indirect increase of the general government debt originating from the central government, and the increase of the Greek public debt due to the accepted position of the Greek State as a 'guarantor' for loans concluded between public and/or private sector actors with banks constitute some characteristic examples of that period. Moreover, the depreciation of the national currency vis-à-vis foreign currencies also negatively affected the general financial situation. In this light, the State since September 26th of 1994 had been considered a "Member-State with a derogation" due to its excessive deficits.

Despite these challenges, Greece accessed the Eurozone in 2001 after the Council considered that the country had complied to its nominal and fiscal criteria, known as the Maastricht Criteria[1] [2]. To that end, the State had utilized the methods of 'creative accounting' - also applied by a number of other countries such as Germany, Italy, and Belgium - to present a sound financial situation while by 2007 Greece was no longer considered a State with excessive deficits. Nevertheless, the country was still struggling with the adoption of the strong fiscal measures included in the stability and development programs. In 2008, "the global sovereign debt crisis that followed the

[1] These comprised the following nominal and fiscal rules according to Article 1 of the Protocol No. 12 on the Excessive Deficit Procedure: "The reference values referred to in Article 126(2) of the Treaty on the Functioning of the European Union are: — 3 % for the ratio of the planned or actual government deficit to gross domestic product at market prices; — 60 % for the ratio of government debt to gross domestic product at market prices" (Barbas 2020, 416), the latter referring to the General Government.
[2] In more general terms, we may add here that the country throughout the procedure also had to pursue the financial independence of the Bank of Greece ('Τράπεζα της Ελλάδος').

collapse of the housing bubble in the United States"(Kalaitzidis and Zahariadis 2015) indicated that Greece was the most vulnerable economy of the Eurozone structure. As expected, Greek economy collapsed due to unsustainable fiscal policies while the succeeding governments started to borrow. Several years of economic recession followed.

In 2010, the IMF and the EU agreed to provide 110 billion euro loans for a period of three years. Subsequently, the Securities Market Program was launched allowing the ECB to "purchase government bonds of struggling sovereigns, like Greece, on the secondary market […]" (Council on Foreign Relations n.d.) while "finance ministers also agreed on rescue measures worth 750 billion euros for struggling Eurozone economies" (Council on Foreign Relations n.d.). In 2012, a second EU-IMF bailout for the country was approved by finance ministers together with a 53.5 percent "haircut" for private Greek bondholders. In return, a reduction of the debt-to-GDP ratio, from 160 percent to 120.5 percent by 2020, had to be implemented. On January 25th 2015, 'anti-austerity' Syriza party wins the elections and on June 30th 2015, the second bailout program ends with the Greek government "missing its 1.6 billion euro payment to the IMF" (Council on Foreign Relations n.d.).

Under these circumstances, the European Commission, the ECB, and the IMF set forth the third bailout program and relevant financial measures as solutions to the crisis. During the referendum of July 2015 initiated by Prime Minister A. Tsipras regarding whether Greece should accept the agreement plan of June 25th 2015, the question becomes finally evident: *Would Greece be better off outside the Eurozone?*.

Undeniably, Greece's accession to the Eurozone has positively affected its economy and has promoted political stability in terms of democratic values and principles. However, as Kalaitzidis and Zahariadis put it (2015), the Greek State, generally speaking, did not fully "profit" from the economic facilities the European model had offered; this is due to some elements inherent to the Greek political system, such as the "institutional divergency between Greece and its European partners", the absence of administrative capabilities as well as the non-realization on behalf of Greece of what Eurozone membership could mean for the future of the country (Kalaitzidis and Zahariadis 2015). Some critics further highlighted two other important factors intensifying the severe economic collapse, mainly, the nature of domestic policies at that time and the willingness to defend the law as such rather than the spirit of the law ('*l'esprit de la loi*'). Others underscored the particular type of politics exercised by the socialist party which tried to establish its political dominance within the State after the return of democracy in 1975. In any event, it is certain that the Greek economic crisis has unveiled once again the 'integration' discourses of the past decades concerning the structure of the EMU as such; interestingly, under the 2008 financial stalemate these discourses were being re-transformed into 'disintegration' arguments.

B. An assessment of the options provided under EU and public international law for a Member-State to leave the Eurozone without an EU-exit

On July 10th 2015 Wolfgang Schäuble, Germany's Finance Minister, presented his proposal through a position paper[3] which, as previously mentioned, was rejected by the Greek government. The proposal suggested either 1) "*a) [a] transfer of valuable Greek assets of [50 bn] Euros to an external fund like the Institution for Growth in Luxembourg, to be privatized over time and decrease debt; b) capacity-building and de-politicizing Greek administrative tasks under hospices of the COM for proper implementation of the program; [and] c) automatic spending cuts in case of missing deficit targets*" (Giegold 2015) together with some additional financial measures up until the first disbursement, or 2) "*a time-out from the Eurozone, with possible debt restructuring, if necessary, in a Paris Club - like format over at least the next 5 years*" (Giegold 2015). This section will focus on the first part of the second proposal (§2), namely the possibility under EU treaties to exit the Eurozone without leaving the European Union.

i. Voluntary exit versus "expulsion" – Some doctrinal considerations

It is crucial for our understanding to portray the differences, doctrinal as well as substantial, that occur when assessing a voluntary exit and an expulsion scenario. The options analyzed in this first sub-chapter maintain a character of uncertainty in terms of their applicability in a real-case scenario; on the contrary, the three hypothetical scenarios listed in the second sub-chapter (ii) below are deemed to be more consistent with the letter of EU law and, most important, with the political landscape of that specific time.

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[3] The position paper was also sent to other Eurozone Member-States on Saturday July 11th .

First of all, we need to bring forward the debate that has been thoroughly developed within the European Union. The main position of EU representatives, and especially of the European Commission, was that participation in the Euro is irrevocable. In this respect, EU economy spokesman A. Altafaj i Tardio, responding to the proposals on behalf of Germany and the Netherlands on the matter, supported the aforementioned opinion highlighting the Lisbon Treaty provisions. He remarked that no options exist neither for exit, aka for a voluntary exit, nor for an unvoluntary expulsion from the Eurozone (Phillips 2011).

On the other hand, legal experts and analysts tend to see the matter from a more practical perspective; a European Central Bank study from 2009[4] asserted that, on the one hand, a voluntary exit remains impossible under the current legal basis provided by the Treaties and that, on the other hand, an unvoluntary exit constitutes a possible scenario. The latter hypothesis is characterized as "conceivable" in case of a non-complying to its Stability and Growth Pact obligations Member-State as well as in the event of excessive budgetary deficits.

Certainly, not until the ratification of the Lisbon Treaty, the matter of withdrawal was met with silence. Some reasons for that relate, firstly, to the unwillingness of Europe to put into doubt the common commitments of the Member-States; secondly, to the premise that enabling such a clause would very likely result in its activation; and, thirdly, to the unknown and eventually critical implications of such a step. In general terms, there is a strong commitment on behalf of the Union to introduce an irreversible, stable, and lasting European Unification process. This underlying premise is reinforced by the fact, for instance, that the Treaties were concluded for "unlimited periods" (Athanassiou 2009, 11). Furthermore, the acceptance by new M-S of the acquis communautaire, the limitations in renegotiating accession agreements as well as the amending procedure itself being possible only under Article 48, are some further considerations explaining the "irrevocability" of the EU membership.

Analyzing the legal bases for a voluntary withdrawal from the Eurozone, the significance of public international law and, particularly, of the Vienna Convention is apparent; the latter specifically recognizes, albeit limited, a right of unilateral withdrawal. In this context, denunciation is possible either in case it was intended for the parties to recognize such a right or wherever the latter circumstance can be

[4] Phoebus Athanassiou (2009), *Withdrawal and Expulsion from the EU and EMU : Some Reflections*, Legal Working Paper Series, No. 10, December 2009, Frankfurt: European Central Bank, Eurosystem.

presumed from the treaty. Otherwise, another solution common to contract law would be the fundamental change of circumstances clause (*'la clause de circonstances exceptionnelles'* in accordance with Article 62 VC) within which certain particular circumstances, that are deemed essential for the contractual relationship among the concerned parties, irreversibly and completely alter the parties' obligations as well as the conditions under which these are being exercised. The first of these two alternatives remains quite questionable as the spirit of EU Treaties coincides with the irrevocability of EU/EMU membership as well as with the successful participation, in the long-run, of all M-S in the Currency Union. Nonetheless, other legal scholars tend to support the opposite opinion which implies that since other EU countries, among others, the United Kingdom[5], have opted-out from the EMU structure, the latter automatically signifies that "the clauses of the European Treaty linked to the EMU may be separated from the rest of the Treaty" (Dor 2011, 3). At the same time, an argument against the application of the exceptional circumstances clause would be the fear of provoking severe contractual instability to the international system of treaties. It is hereby important to mention that in accordance with the legal theory of contracts the phenomenon of "extremely serious and lasting infringements" retains a high level of *stricto sensu* interpretation; indeed, any utilization of this public international law principle is, *a priori*, restricted and delimitated. Generally speaking, another difficulty derives from the fact that "Member States, such as France, Malta, and Romania have not ratified the Vienna convention on the Law of Treaties" (Dor 2011, 3). Besides, ECJ case law has already pointed out that "[t]he European Economic Community constitutes a new legal order of international law, for the benefit of which the States have limited their sovereign rights, albeit within limited fields[6]" and that the practice of conferring specific national powers to the European Institutions is considered to bear a permanent limitation of state sovereignty[7]. In this light, it follows that Community law, representing a *different* and *unique* legal order, at times, distinct from the axioms and the respective legal alternatives present in public international law, is competing with the latter rather than promoting a relationship of *complementarity*.

Moreover, on the specific question of whether a M-S can exercise a right of withdrawal, "as a remedy or by way of relief" (Athanassiou 2009, 18), legal experts emphasize that there are still ways to support this scenario especially when another

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[5] The UK was a member of the European Union until January 31st 2020.
[6] *Van Gend en Loos*, Case 26/62 Van Gend en Loos v Administratie der Belastingen [1963] ECR 1.
[7] *Costa v ENEL* case, Case 6/64 Costa v ENEL [1964] ECR 585.

M-S continuously infringes treaty clauses, when European Institutions act *ultra vires*[8] or when a M-S is unable to comply with its obligations due to unforeseen circumstances. However, EU Treaties provide for some interesting alternatives to these hypotheses either through the intervention of the ECJ or via specific provisions such as Article 7(1) TEU in case of a "serious and persistent breach" on behalf of a M-S. In fact, Article 7 explicitly states that "*the Council may decide to suspend certain of the rights deriving from the application of the Treaties to the Member State in question, including the voting rights of the representative of the government of that Member State in the Council*" (European Union 2016, 19-20). The foregoing examples indicate that a unilateral voluntary withdrawal of a country from the EU was never intended as a legal measure potentially originating from the European Treaties. Again, as previously remarked, this alternative shall be considered only in the event of failure of all other treaty options and, therefore, as an instrument of last resort. Of course, the problematic context of Article 48 in a unilateral exit case[9] as well as the fact that analogous amendment procedures require ratification on behalf of all M-S are some additional challenging elements. Ultimately, in a commentary on draft Article 51 of the Vienna Convention (corresponding to Article 54 of the VC), it was emphasized that in the absence of any provision pertaining to withdrawal or termination of the Treaty *unanimity* by the signatories is justifiable and, thus, legally required. Therefore, an agreement ratified by all Member States might be the only "acceptable" itinerary when attempting to answer the question we set at the beginning[10]. Similarly, "other authors denied the possibility of a Member State withdrawing unilaterally, but pointed to the role of the EU Member States as 'masters of the Treaties', who could, in agreement, decide that a Member State can terminate its membership" (Poptcheva 2016, 2).

The other side of an EMU exit concerns the *expulsion* hypothesis, which, notwithstanding its questionable nature, can also be considered an existing legal argument. Under the present Lisbon Treaty there is no expulsion mechanism, fact that automatically places the above-mentioned argument "next to nil". Currently, there is no provision enabling the European Institutions to expel a M-S either from the EMU or from the EU. However, discussions about this idea were launched during the 2001-2003 Intergovernmental Conference responsible for drafting the Constitutional Treaty

[8] i.e. beyond their powers.
[9] According to the argument: "*a Member State's withdrawal entails an amendment of the Treaty; such amendment must be made by means of the Article 48 TEU procedure; therefore a unilateral withdrawal would be inconsistent with Article 48 TEU*" (Athanassiou 2009, 12).
[10] Please see option *c* of the second sub-chapter.

of Europe and reappeared in 2008 when “Irish voters rejected the Lisbon Treaty” (Athanassiou 2009, 31). This debate was of course also present during the discussions on substantive issues of the Lisbon Treaty. In this regard, from a legal standpoint, an expulsion would inevitably require an amendment of the existing Treaties since a unanimous consent on behalf of all Member-States is needed in accordance with Article 48 TEU. Moreover, introducing within the Treaties a right to expel a particular M-S would be at least politically troublesome as it would suppose, in any case, a forced and “unvoluntary” exit. Such a right would also be incompatible with existing EU sanctions concerning a continuous breach of obligations of the M-S since these same sanctions are exhaustively enumerated in the Treaties. Equally, the aforementioned situation is not deemed to be consistent with the spirit of EU law because the practice of “sanctions provided for in the treaties shows that their purpose is not to punish a Member State for failing to live up to the expectations of the other Member States, but to encourage it to comply with its treaty obligations” (Athanassiou 2009, 34-35). Consequently, as the legal working paper of the ECB concludes, a collective right of expulsion is both legally and politically complicated. Nevertheless, experts argue that it could be envisaged as a measure of *ultima ratio*.

A situation possibly pressing for an expulsion event would be the following; the ECB could have interrupted in 2015 the emergency liquidity assistance (ELA) towards Greek banks with a view to making a potential exit from the Eurozone with a parallel introduction of a new national currency a more approachable idea (Fuest 2018, 27). Of course, in reality, the ECB did not follow the aforementioned policy, making the Greek government at that time impose capital controls.

In any event, although EU Treaties do not explicitly provide for an expulsion clause, one could argue that the “enhanced cooperation procedure” is another worth mentioning element for the present purposes. The latter would imply, compatibly with Article 20 of the TEU, the participation of more than eight M-S to a cooperation instrument responsible for and willing to undertake a ‘complete’ European unification and integration. Nevertheless, the aforementioned provision would eventually bring forward several opposing views regarding its legal application as well as its substantial and procedural limitations of when and where such a clause should be used[11]. In parallel, there have been some discussions about ‘re-producing’ the existing Treaties

[11] It is worth recalling that, until today, the enhanced cooperation procedure has been utilized in several EU law domains such as patent law, divorce law, the Schengen acquis, the European Public Prosecutor mechanism etc..

and form a “New Union” thereby excluding one or more M-S. This model, once again, would result in a legal, political, and economic ‘competition’ between M-S themselves *and* between the ‘old’ and the ‘new’ Treaties as well. For that reason, the risk of division within the European Union would be considerably high. Additionally, the whole operation would entail a huge political effort in terms of convincing the traditional Member-States to leave the M-S in question out of the Eurozone; this discourse remained known as “*L’Europe à deux vitesses*”.

Therefore, as it has been analyzed, an ‘expulsion’, even on an informal basis, is still a possible, albeit complex and at times risky, scenario. What remains clear is the fact that a withdrawal, either voluntary or unvoluntary, from the Eurozone can only be feasible once combined with an exit from the European Union as a whole, an opinion also supported by Athanassiou (2009, 40) and Eric Dor (2011, 1). Interestingly, it has also been asserted that since European Treaties do not have any sanction mechanism aiming at forcing a particular M-S to follow Treaty provisions, it makes no sense to analyze the plausibility of exit scenarios in case of a country, member of the EMU, committed to leave.

In any case, in view of the Greek referendum regarding the bailout program, a ‘No’ vote would encourage the possibility of an expulsion, an eventuality that was immediately contested by the Greek Government which tried to seek “a court injunction against the EU institutions” (Pritchard Evans 2015). Following the ‘voluntary exit’ question, as previously put forward, since Wolfgang Schäuble’s proposal was oriented towards *persuading* the Greek government to voluntarily leave the Eurozone, an assessment of the possible options listed within the Lisbon Treaty will be analyzed in the section below.

ii. Three Hypothetical scenarios in a Gr-exit context

a. Treaty amendment: A way towards amending EU constitutive Treaties?

Although it has been repeatedly emphasized during the period before the Lisbon Treaty that an EU exit clause, as instituted nowadays in the Treaties, would be an unnecessary legislative move[12], in terms of a Eurozone exit, for which EU Treaties did not provide a legal instrument, scholars agree on the legal value of such a provision. Thus, the choice of implementing a Treaty amendment seems to be the most problematic but still a legally possible one among our hypothetical options; the difficulty here lies in the fact that consensus, politically, cannot be easily reached. Several experts and politicians in Europe have suggested that an option to leave the Eurozone should be included in the relevant treaties. Notwithstanding the fact that there have been negative replies on behalf of the European Commission, the debate is still a very interesting and contemporary one.

Clearly, EU Treaties do not have an EMU exit clause; that, of course, does not mean that in the future or under particular circumstances EU institutions might add a properly designed clause for that matter. It has been considered that such an addition would undermine the spirit of solidarity of the Treaties, EU cooperation, and the inherent objectives of the European initiative in its entirety. Equally, as Clemens Fuest puts it, this phenomenon might "lead to destructive uncertainty and conflict" (2018, 25). Analyzing the new feature of the Lisbon Treaty under Article 50 TEU, one may come to the conclusion that a procedure of exiting the EU is explicitly drawn up while, at the same time, a Eurozone exit procedure is not. Nevertheless, through Article 50 TEU (EU exit) automatically " [t]he Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement (…)" (European Union 2016, 44). This legislative preference underlines the irrevocability, as mentioned before, of the Eurozone dimension. Besides, Article 140(3) TFEU explicitly states that: "*If it is decided, in accordance with the procedure set out in paragraph 2, to abrogate a derogation, the Council shall, acting with the unanimity of the Member States whose currency is the euro and the Member State concerned, on a proposal from the Commission and after consulting the European Central Bank,* irrevocably *fix the rate at which the euro shall be substituted for the currency of the Member State concerned* (…)" (European Union 2016, 109-110). Needless to say, already in the Bretton Woods system, a change of the exchange rate in excess of 10 % required the formal approval of the International Monetary Fund which had to determine a BoP "fundamental disequilibrium" (Ghosh 2014).

In this respect, one first solution would imply the direct amendment of Article 50 TEU adding the option for member-countries to exit the Eurozone as well. In fact, it has

[12] It has been described by Christophe Hillion as "*fait superfétatoire*" (2016, 721).

been stressed that the "most secure and legal method for a country to leave the euro zone without leaving the EU is to negotiate an amendment on the EU treaty" (Dor 2011, 3). Nonetheless, as Eris Dor asserts, it might become a politically dangerous and quite "unrealistic" initiative (2011, 3) as the whole procedure would demand political consensus among M-S as well as time for ratification.

It is important to underscore here that, in general, Member-States not currently being part of the Eurozone are invited to enter the currency area as soon as they fulfil the requirements stated in the Treaties; this participation is mandatory except for those countries which opted-out through the derogation procedure (Commission des affaires européennes du Sénat 2010, 1). Hence, another significant legislative solution relates to the possibility of an 'expansion' of these specific rules which nowadays apply, for instance, in the UK[13] and Denmark with regard to their EU membership. Similarly, Sweden following a referendum which resulted in the non-adoption of the common currency constitutes another important example, although the Member-State does not enjoy the derogation provided by the Treaties via the aforementioned specific rules. Certainly, however, this 'expansion' method would constitute a permanent solution for the concerned country and, therefore, not the optimal one for the Greek case.

Lastly, a further alternative in terms of EU amendments would be the introduction of a specific Euro-exit procedure solely established for the Eurozone subject-matter. The new Euro-exit clause should be structured with a view to permitting leaving the Eurozone temporarily and only under serious circumstances; if a similar itinerary is to be followed then the two-year time span between the notification to leave and the actual exit date, as set out in an Article 50 scenario, would and should not be applied in order to preserve monetary stability in the Eurozone. In this light, capital controls as well as financial arrangements (Fuest 2018, 30) shall also be clearly defined in the new provision.

[13] We hereby refer to the UK for the sake of the example; the UK left the European Union officially on January 31st 2020.

b. Leaving and Rejoining the EU

Another option that has been proposed concerns an official exit of the country from the EU and simultaneously from the Eurozone, with a subsequent re-accession to the European Union.

To start with, Article 50 TEU does not substantially differ from the respective provision of the Constitution of Europe as it has been set out in 2005 (Athanassiou 2009, 23). In the current state of affairs, a secession of a M-S from the Union is a possible scenario under the Lisbon Treaty. With regard to the procedure, firstly, the M-S notifies the European Council of the decision while the Council produces guidelines with reference to the negotiation of the withdrawal agreement; the negotiation shall be realized in accordance with Article 218(3) TFEU. Subsequently, the Council, "acting by a qualified majority and after obtaining the consent of the European Parliament, will conclude the agreement on behalf of the EU" (Athanassiou 2009, 23). The date of withdrawal shall be either the date of the above-mentioned negotiated agreement or the one marking two years starting from the notification of the country's intention. In other words, the foregoing procedure would result, on the one hand, in a formal withdrawal of Greece and, on the other hand, in a parallel exit from the Eurozone since the Treaties would simply "cease to apply", using the Article's wording. Meanwhile, Greece would also re-initiate a re-accession procedure in conformity with Article 49 TEU to preserve its EU membership.

As it has been outlined, the Article 50 exit clause recognizes a *unilateral* right of withdrawal on behalf of the M-S; the facts that "[a]ny Member State may decide to withdraw from the Union in accordance with its own constitutional requirements" (European Union 2016, 43) and that the withdrawal does not depend on the conclusion of the negotiated agreement, reinforces the M-S to exercise its unilateral right. With that in mind, it is important to underscore here that "it is not the element of negotiation that would make a Member State's withdrawal consensual (as opposed to unilateral), it is the absence of restrictions on a Member State's right to withdraw that is decisive" (Athanassiou 2009, 24). At the same time, opponents of the provision have been arguing that a massive exit of countries from the EU would be problematic especially for the Council's role which would experience times of limited legitimacy. Another issue is related to the fact that, as previously explained, an exit from the Euro currency area is not explicitly treated by the same provision; quite on the contrary, it is *implied*. The information that Treaties simply cease to apply as well as the absence, throughout EU history, of any intention of withdrawing from the EMU justifies the silence of the Treaty. Incidentally, regardless of the 'irrevocability' argument pertaining to Articles 4(2), 118, and 123(4) EC and Protocol 24 on the Transition to the Third Stage of Monetary Union (Athanassiou 2009, 28), another problem consists in the subsequent complex procedure that would include both M-S and their NCBs upon the announcement of the EMU withdrawal. Whilst recognizing that the only legal solution to withdraw from the EMU is to principally leave the EU, the similar, *ex lege*, conditions that apply both in an EU *and* an EMU event have also been a concern. Of course, the argument that there exist two substantially different withdrawal procedures (EU/EMU) has to do with the premise that while an EU exit is not conditioned on a negotiating agreement, an EMU exit would indeed require negotiations (aka an agreed withdrawal from the Eurozone).

In any case, right after the foregoing procedure, the country should immediately reapply for the EU membership; after the expiration of the 5-year, at least, temporary exit period, Greece would have to also initiate the procedure of re-accession to the EMU. In this light, ratification by all M-S is required for an EU membership while, with regard to the monetary union, Greece shall prove, firstly, that the macroeconomic conditions permit the EMU re-accession and, secondly, that the country will respect its obligations, i.e. the nominal and fiscal criteria of the monetary union, as set out in the Maastricht Treaties.

It shall also be accentuated that during the negotiating procedure for the withdrawal agreement the country withdrawing is not entitled to participate in the discussions as well as the decisions pertaining to that matter. However, the Member-State has the right to take part "in the adoption of any other EU act during the period between its giving formal notice under Article 50 and the date of its actual withdrawal from the EU" (Poptcheva 2016, 4). It is, therefore, presupposed that the State remains subjected to EU law until the effective date of withdrawal. Thus, even if it is deemed an actual unilateral right, it is not an *absolute* right with immediate effect (Hillion 2016, 721).

c. Council Agreement through Article 352 TFEU

As discussed in the first sub-chapter of this part, an ‘agreement’ on behalf of all Member-States would be, according to several legal scholars, the best acceptable option. Indeed, in case of an urgent pressure, a political agreement at the Council “followed by the issue of a simple European regulation” (Dor 2011, 4) could be reached. Nevertheless, the initiative could trigger a number of complaints before courts (Dor 2011, 11). Furthermore, this process would require unanimity on behalf of all Member-States concerned and, therefore, such a solution would again bear a huge political weight.

Most probably, this alternative would entail the application of Article 352 TFEU or it would be simply based on the legal principle that any decision can be “retracted by the authority that instituted the earlier decision” (van der Sluis 2013), in this case, by the Council. The latter statement usually demands an explicit provision which in our case does not exist. With regard to the applicability of Article 352 TFEU, on June 2000, the Council adopted resolution 2000/427 stating that Greece was not a Member-State with a derogation in terms of Article 139 TFEU[14]; similarly, on November 2000, the Council of the Member States which participated at that time in the Euro adopted Regulation 2596/2000 under which Greece acceded the Eurozone. According to legal scholars, the Council Regulation 2596/2000[15] could be ‘repealable’ by *actus contrarius* by the Council, unanimously, under the “flexibility clause” as set out in Article 352 TFEU. Equally, Resolution 2000/427 could also be repealable by another actus contrarius emanating from the Council of the Member States which participate in the Euro. Notably, as stated in Article 352 TFEU, “[i]*f action by the Union should prove necessary, within the framework of the policies defined in the Treaties, to attain one of the objectives set out in the Treaties*[16]*, and the Treaties have not provided the necessary powers, the Council, acting unanimously on a proposal from the Commission and after obtaining the consent of the European Parliament, shall adopt the appropriate measures*” (European Union 2016, 196). In our scenario, Article 139 TFEU

[14] For further information please visit: 2000/427/EC: Council Decision of 19 June 2000 in accordance with Article 122(2) of the Treaty on the adoption by Greece of the single currency on 1 January 2001 - Publications Office of the EU (europa.eu), https://op.europa.eu/en/publication-detail/-/publication/692b2538-c72b-4db5-99b6-1cd54ea2ba9d.

[15] For further information please visit: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32000R2596.

[16] These objectives are enumerated in Article 3(1) and (4) TEU.

would subsequently apply in the case of Greece and, therefore, the aforementioned Council would adopt the "resulting amendments to the Euro Introduction Regulation in accordance with Article 140 TFEU" (Rinze 2015). In this spectrum, Greece would become a Member-State with a derogation as the country would not be considered to have fulfilled "the necessary conditions for the adoption of the euro" (European Union 2016, 107).

Regarding the context of the "flexibility clause", the latter was employed in setting up a loan facility with a view to providing financial assistance to Member-States that would encounter BoP difficulties (European Commission n.d., 1). In this light, the *Pringle case* of the European Court of Justice[17] brought forward the argument that Article 352 could support the establishment of a financial aid mechanism – the European Stability Mechanism – in order to assist Eurozone members in financial deadlock. Therefore, the foregoing provision constitutes a pivotal legal instrument that can promote European objectives as set out in the Treaties especially in an EMU context. Notwithstanding the specificity of the flexibility clause, some legal elements are still required; the appropriate measures shall be oriented towards the "framework of policies defined in the Treaties" (European Commission n.d., 2) while a Regulation following Article 352 shall not be used with an aim to avoid the specific EU amendment procedures. In fact, it has been asserted that the "flexibility clause" was created in order to 'fill in the gaps' of EU law rather than to implement an alternative which would extend the EU's scopes and objectives. Moreover, examining the whole procedure per se, a Commission proposal[18] together with a unanimous vote by the Council, as well as the consent of the European Parliament, are mandatory steps. Furthermore, the role of national parliaments in the procedure shall not be disregarded since a number of Member-States currently demand a previous "approval of an act to be adopted on the basis of the flexibility clause procedure" (European Commission n.d., 3)[19]. Additionally, the European Commission, "[u]sing the procedure

[17] Case C-370/12, *Pringle*, EU:C:2012:756, paragraph 67.

[18] The latter will be introduced in conformity with a special legislative procedure (European Commission n.d., 3).

[19] More specifically, "The German Constitutional Court held in its Lisbon Judgment that the formal agreement of the German Bundestag and Bundesrat was required in order for the German representative in the Council to express its approval of an act to be adopted on the basis of Article 352 TFEU. This would also be the case for the UK under the European Union Act of 2011. Regarding Article 352 TFEU, the Polish Cooperation Act also foresees specific guarantees, as was considered by the Polish Constitutional Court in its Lisbon Judgment. By contrast, the Czech Constitutional Court and the French Constitutional Court have interpreted the flexibility clause as covered by the original ratification instrument. Other Member States such as Denmark, Sweden, Finland, Austria or Spain have provisions

for monitoring the subsidiarity principle referred to in Article 5(3) of the Treaty on European Union, shall draw national Parliaments' attention to proposals based on this Article" (European Union 2016, 196). Incidentally, it shall be emphasized *during* the procedure either that the foreseen exit would not jeopardize European objectives, Treaties, the Eurozone as a system, and EU principles, or that the M-S itself would have to experience a dangerous, financially and politically, situation in case a Euro-exit does not happen.

Ultimately, the ECB in response to the question about whether a Eurozone exit is possible still supports the irrevocability of the Euro membership stating through the words of Mario Draghi that "the Treaties provide that, at the time of the abrogation of the derogation of a Member State, the Council shall irrevocably fix the rate at which the euro shall be substituted for the currency of the Member State concerned" (Draghi 2012). However, according to legal experts, provision 140 TFEU "seems to apply only to the phase of the transition to the euro and not to any new currency that MS might introduce" (van der Sluis 2013).

Under these circumstances, the previously analyzed solution would be rather difficult to attain especially because of its political character and the legal requirements under Article 352 TFEU[20]. Of course, it is worth mentioning that this decision would probably not be blocked by the ECJ; however, most important, the general situation that would follow right after this third scenario is deemed, at least, to be unknown and extremely insecure in terms of its legal and political consequences.

– in general and not specifically for Article 352 TFEU – enabling their parliaments to require ministers to discuss their positions before Council meetings" (European Commission n.d., 3).

[20] For our better understanding, Article 352 TFEU "may only be used as a legal basis when the following conditions are met: a) the action envisaged is 'necessary to attain, in the context of the policies defined by the treaties (with the exception of the common foreign and security policy), one of the Union's objectives'; b) no provision in the treaty provides for action to attain the ´objective`; c) the envisaged action must not lead to the EU's competences being extended beyond those provided for by the treaties" (EUR-Lex n.d.).

Part II: The Debt Obligations

In this second part of the research, special attention will be given to the Greek sovereign debt issue and how the latter would be affected by an eventual exit from the monetary union.

Preliminary Overview on relevant EU provisions

According to the core principles of budgetary theory, all outstanding loans of a country constitute its sovereign debt. Public debt increases to the extent that the government deficits of a State accumulate, i.e. the deficits of each annual government budget. With regard to the sovereign debt issue in Greece, the second part of the Schäuble proposal, as discussed, set forth the following: "*Greece should be offered swift negotiations on a time-out from the Eurozone, with possible debt restructuring, if necessary, in a Paris Club - like format over at least the next 5 years. Only this way forward could allow for sufficient debt restructuring, which would not be in line with the membership in a monetary union* (Art. 125 TFEU)" (Giegold 2015). The procedure includes measures pertaining to growth enhancing as well as humanitarian and technical assistance throughout the 5-year time span. From an EU law standpoint, in order to tackle financial deficiencies and preserve the stability of the monetary union, Articles 123[21], 124, and 125 TFEU were introduced in the Maastricht Treaty. Their principal objective was to eliminate certain 'privileges' European countries eventually had in terms of loan revenues prior to entering the Eurozone. More specifically, Article 125 TFEU[22] reflects the willingness of the EU to maintain a sound financial situation as

[21] Another debt restructuring would be impossible under Article 123 TFEU: "In relation to a further debt restructuring a major legal issue will be whether such debt restructuring would infringe Article 123 of the TFEU which prohibits a state financing through the ECB or the NCBs. In that respect it needs to be noted that the German Constitutional Court (*Bundesverfassungsgericht*) proposed in its OMT decision of 14 January 2014 – which […] contains statements of general application – that a haircut of Member State debt owed to the Eurosystem would infringe Article 123 of TFEU. Whether the ECJ will take the same point of view in its judgement in those proceedings, expected to be rendered on 16 June 2015, remains to be seen" (Rinze 2015).

[22] Article 125(1) TFEU states that: "1*. The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or*

well as Euro stability within the Eurozone. Hence, it is crucial not to exceed budgetary levels and to protect the Euro from inflationary pressures (Barbas 2020, 361-362). In this respect, Article 125 was instituted with a view to introducing the "no bail out clause", in other words, the immunity of the Community and of other Member-States concerning the obligations taken over by the general public sector of one or more Member-States. If a similar provision had not been added, then M-S governments would have extended their debt commitments with the future hope that debts would be repaid by other 'stronger' financially Member-States (Barbas 2020, 362); this situation refers to the phenomenon of "moral hazard", as set out by economists. Of course, the above-mentioned Article does not preclude the application of debt instruments by M-S provided that such transactions are carried out following market and not preferential conditions; thus, the provision of financial assistance to a Member-State which is still liable towards its creditors and "where conditions associated with such an assistance are such as to cause that State to implement a sound fiscal policy[23]" (Barbas 2020, 362) is not prohibited.

As previously stated, Article 126 TFEU puts forward the rules of budgetary discipline for both 'candidate' and current Eurozone M-S. The foregoing provision sets out the criteria of low deficit and reduced public debt. Taking into consideration the huge amount of debt on behalf of the Greek State, a very important point consists in analyzing the inherent debt obligations and in explaining how a temporary exit would eventually transform these obligations. According to legal scholars, for instance, a unilateral withdrawal under Article 50 TEU would be a breach of the EU Treaty as well as a legally insecure option since the country would be forced to face "legal recourses in trying to convert its debts denominated in Euros into the new national currency" (Dor 2011, 4). The debt restructuring and the conversion of the Euro currency to the new *drachma* currency are of particular interest for the present research.

public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project" (European Union 2016, 99).

[23] *Pringle case*, Case C-370/12, *Pringle*, EU:C:2012:756, paragraph 137.

A. The restructuring program: A Paris Club style restructuring?

It is worth outlining some significant European instruments that have been designed to strengthen the Euro as well as the field of debt restructuring. Notably, in 1997 the Stability and Growth Pact, launched by the German government, was introduced with the aim to create an effective mechanism of suppression of excessive deficits; the Stability and Growth Pact was considered to be more of a political nature. In 2010, the "European Semester" was instituted within the spectrum of the ECOFIN Council in view of coordinating economic policies of Member-States. More specifically, the European Semester is included in the ensemble of the "Six-Pack" rules which were established for ensuring fiscal coordination and specialization of monitoring of medium-term objectives of each Member-State by synchronizing and aligning their respective economic objectives with EU policies. In view of the 2011 global financial situation and the general fear of instability of the Euro currency, the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* of March 12, 2012, also known as the 'fiscal compact', was concluded so to "reinforce the budget discipline of euro area governments following the sovereign debt crisis that started in 2010" (European Union 2013). Additionally, the European Fiscal Board, as set up by the Commission on October 21st 2015, constitutes another body in charge of evaluating the implementation of EU fiscal policy and of enhancing financial supervision (European Commission 2015).

Within the cluster of European financial support mechanisms the EFSM and EFSF instruments assumed a fundamental role; however, both mechanisms were affected by the economic crisis and, therefore, as these were designed for a temporary period, a new permanent instrument had to be formed. Thus, the European Stability Mechanism (ESM) entered into force on January 2013 through the amendment of EU Treaties obtaining the status of an international financial body. Its objectives are linked with the financial assistance of countries (members of the Euro currency) experiencing financial distress via the provision of emergency loans; of course, the respective countries from their side shall proceed with the relevant reform programs (ESM 2021a). Following the expiration of the EFSF program in June 2015 and the failure of Greece to repay the IMF, a new ESM loan for the country as a member of the Eurozone was agreed. Among others, it is important to note that the ESM comprises a number of lending instruments in its "toolkit": "Loans within a macroeconomic adjustment program", "Primary market purchases", "Secondary market purchases", "Precautionary credit line", "Loans for indirect bank recapitalization", and "Direct recapitalization of institutions" (ESM 2021b). On a practical level, ESM loans can "only be disbursed to a eurozone state if it appears insolvent and it has agreed to a debt sustainability plan with the Commission and the IMF which must involve both an economic and fiscal adjustment program and a comprehensive restructuring of creditor claims" (Alexander 2011, 321).

The aforementioned mechanisms are part of a European approach of financial assistance and, therefore, can only be implemented on Euro area M-S. In the event a country leaves the Euro – something in reality was avoided due to the financial intervention of the ESM and joint European cooperation – the foregoing 'privileges' of financial assistance cannot be utilized.

In this respect, W. Schäuble suggested a temporary exit and a subsequent debt restructuring under the auspices of a "Paris Club-style" institution; eventually, an informal group of creditors initially having no legal basis or status (Club de Paris n.d.) would bring forward sustainable debt settlement solutions and, most important, a new 'debt treatment'. The *Paris Club* has 22 permanent members, several other ad hoc members, and a number of international organizations and institutions acting as observers. It mainly serves debts "issued or guaranteed by a sovereign creditor to a sovereign borrower including those guaranteed by a sovereign debtor" (Imam 2018). Moreover, private sector debts towards *PC* creditors are not subject to a *PC* treatment while, generally, only medium or long-term debts are considered for the above-mentioned treatment[24]. Parallelly, such a treatment usually doesn't consider post-cutoff-date debt restructuring but, rather, pre-cutoff-date debts. Typically, the Paris Club setting "starts with not previously rescheduled debt (NPRD) [while it includes] previously renegotiated debt (PRD) [only] if necessary to close the financing gap" (Imam 2018). Whilst following specific principles and rules, the foregoing institution settles debt restructuring issues either by a "debt relief by postponement" or, in the case of concessional rescheduling, by "a reduction in debt service obligations during a defined period (flow treatment) or as of a set date (stock treatment)" (Club de Paris n.d.).

Interestingly, a balanced treatment (*comparability of treatment*) in respect of other creditors, non-members of the Agreed Minutes, constitutes a considerable 'Paris Club' principle. In simple words, the bilateral treatments between the indebted country and

[24] Short-term debts, i.e. with a maturity of one year or even less are, thus, excluded (Imam 2018).

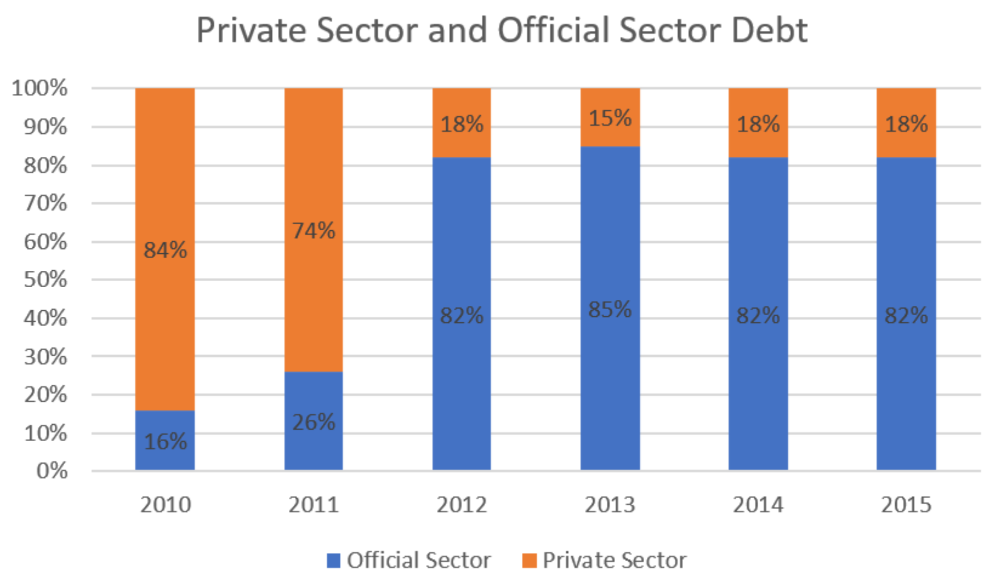
the other creditors shall not be less favorable or, at least, shall be "comparable" with the ones agreed in the informal PC group.

In the case of Greece, after reaching an agreement with the International Monetary Fund, in accordance with the principle of *Conditionality*, the country shall manifestly demonstrate its difficult economic situation in terms of its external obligations; it is, thus, invited to initiate negotiations with creditor countries. In a successful scenario, a non-binding document called *the Agreed Minutes* is agreed and signed by the debtor country and its creditors. The Agreed Minutes, as guidelines, "constitute a recommendation to the governments of Paris Club creditors and of the debtor country to conclude bilateral agreements implementing the provisions of these Agreed Minutes" (Club de Paris n.d.); hence, these bilateral agreements, which also settle the applicable interest rates, will give a legal effect to the document in question[25].

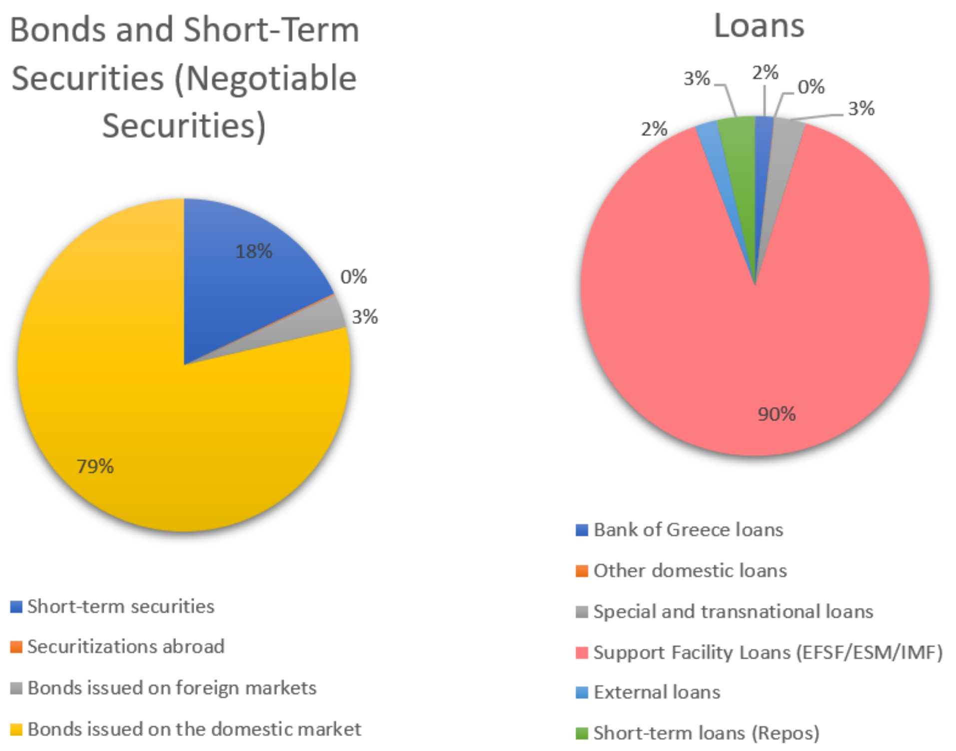
Therefore, given that the central government debt in December 2014 was 324,1 billion euro marking an increase of 2,8 billion euro against 321,3 billion euro in June 2015 (Naftemporiki 2016)[26], the whole procedure would have settled approximately 82 % of the government debt, mainly, the official sector comprising other EU Member-States as well as international institutions. The remaining part of the debt (18 % - 81 billion euro) concerns the private sector (Ministry of Finance 2015, 8) and, more specifically, short-term securities (*'βραχυπρόθεσμοι τίτλοι'* – 14.5 billion) and long-term securities (*'μακροπρόθεσμοι τίτλοι - ομόλογα'*- 66.5 billion), in other words, bonds.

[25] Most Paris Club treatments fall under the following pre-defined categories, listed below by increased degree of concessionality: "Classic terms" (for standard treatment), "Houston terms" (for highly-indebted lower-middle-income countries), "Naples terms" (for highly-indebted poor countries), "Cologne terms" (for countries eligible to the HIPC initiative) (Club de Paris n.d.).

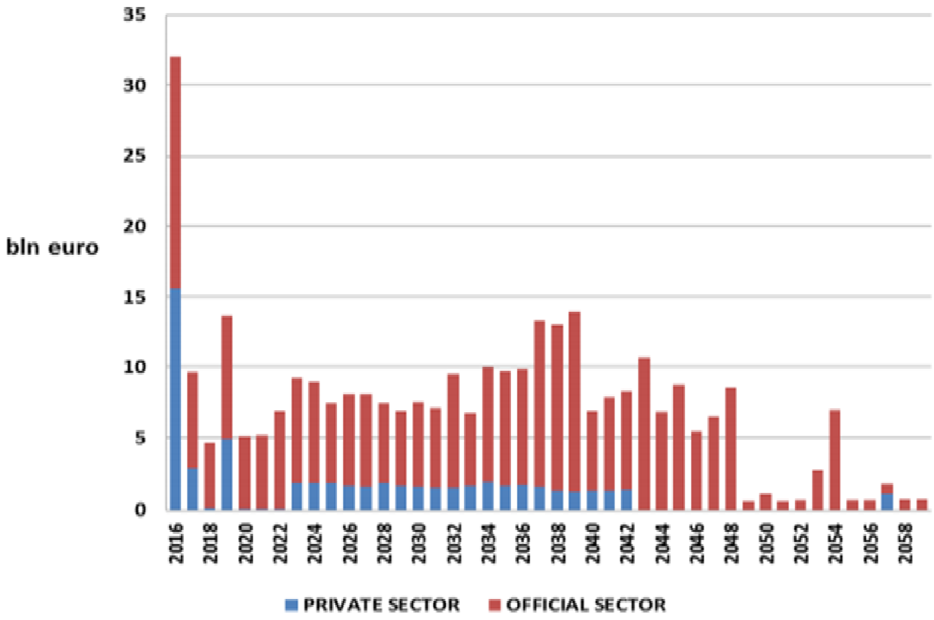
[26] According to the Public Debt Management Agency (P.D.M.A. – *'Ο.Δ.ΔΗ.Χ.'*) on April 30th 2015, the public debt reached 312, 6 billion euro.



1 Private Sector and Official Sector Debt (Ministry of Finance 2015, 9). The structure of the government debt by category of creditors as established by the end of 2015 in %.



2 The Greek Sovereign Debt as at December 2014 in % (P.D.M.A. 2014, 2).



3 Maturity Profiles of Central Government debt (Ministry of Finance 2015, 9), as at December 31st 2015.

As shown in the tables above, 14.528 billion euro are short-term debt securities, i.e. treasury bills, usually with a maturity of 3, 6 or 12 months; by definition, they are low-risk sovereign debt instruments which have little or no possibility of bankruptcy in terms of the issuer's obligations (Euretirio 2021a). Most important, as negotiable securities these can be sold under emergency situations by the investor on the secondary market at any bank or the Athens Stock Exchange (ASE). Furthermore, 66.559 billion represent bonds issued by the Greek State and as long-term securities these are used to lend funds from the investment public. Undoubtedly, bonds, having the advantage of adding significant liquidity to the market, albeit their risky nature, still maintain their attractiveness (Euretirio 2021b).

B. The 'Transformation' of the debt in view of the new currency, the drachma

The main problem, also from a legal perspective, lies in the nature of the debt itself; in fact, an important part of the legal community confirms that public debt relating to loans governed by Greek law can be converted to drachma in the event of a compromise while loans governed by British law cannot be converted to the new currency. The latter category comprises loans on behalf of the European Stability Mechanism before 2015 representing a total of 82 % of the general government debt in late 2014 (243 billion euro in 2014 with a slight change in 2015, i.e. 246.7 billion euro). Thereupon, for a Member-State wishing to exit the currency union, following the procedure of Article 50 TEU or through an amendment or agreement of other EMU Member-States, the conditions regarding its departure with respect to the contractual obligations shall be clearly determined.

Taking into account the well-known theory of contract law, the answer lies within the contract itself. Therefore, the *lex monetae*[27] that the parties mentioned therein is the law that shall be examined. This international law principle highlights the fact that the State is the principal entity to run and govern all procedures relating to the issuance (printing, use, and disposal) of (eventually) the new drachma currency. To illustrate an example, in 1999 Germany replaced its national currency, the mark, with the new currency, the euro, making it impossible for English Courts to challenge that any contract under English law concluded before 1999 and establishing payment in marks implied the aforementioned payments in the Euro currency. Hence, contractual law, in this case British law, cannot "govern the issue of the replacement of the mark by the euro" (Dor 2011, 9)[28]. The recognition of the new currency by other States and jurisdictions constitutes, in general, an intangible factor. Having said that, citizens or institutions may repay their debts – along with the relevant interests - concluded in euro in their new national currency by seeking to be given permission by their creditors. The creditors, from their part, may try to challenge this fact under domestic or foreign jurisdictions which will examine which *lex monetae* governs the contract[29], or at least which is implied from the 'spirit' of the contract. On a general basis, judges will thus assess what *lex monetae* the parties wanted to refer to at the time of the conclusion of the contract.

Nonetheless, there are certain specific cases that automatically imply that reference is made to the secessionist's country *LM*; these are, among others, "a sovereign bond that had been issued in euro by the departing country, directed towards local investors, not to be traded on a foreign market and payable in the country" (Dor 2011, 10), and "a private or sovereign bond that had been issued in euro and that was traded from the start on the secondary market of the country wanting to quit" (Dor 2011, 10). Only in these - relevant to our case - circumstances the courts would recognize the right of the debtors to pay back in the national currency even if the contract itself

[27] According to Eric Dor, "[t]he right of a Sovereign country to regulate the status of its currency is managed by the "lex monetae" in international law" (2011, 9).
[28] As it has been argued, "a contract governed by the law of a State but expressed in the currency of another State is governed by the "lex monetae" of this other State for anything that concerns the properties of the contract that are related to the currency" (Dor 2011, 9).
[29] The *lex monetae* of the departing State or that of another M-S of the EMU.

would be stipulating the amount of debt due in euro. From a European law standpoint, if Greece proceeded with an EMU exit through a Treaty amendment or through an agreement of EMU countries, then both domestic and international courts would recognize the foregoing right[30]. It is no longer the same for a unilateral withdrawal of Greece, considered a 'breach' of EU Treaties, where, eventually, only domestic courts would recognize any reimbursement in drachma. This observation brings forward some cases that demand payment only in the Euro currency and not in any new national currency; indeed, for instance, "a sovereign bond that had been issued in euro by the departing country and that was directed to international investors, that is traded on foreign markets or is payable abroad" (Dor 2011, 11), remains payable in euro.

Considering all of the above, the Greek government debt corresponding to the official sector would be payable in euro, since that specific part of the debt is related to loans established under English law, while private sector debts, in principle, would be payable in drachma under Greek law (See Table 2). As a matter of fact, in terms of bonds, usually, the applicable law is English or New York law. In this context, the EU system utilizes English law because the latter is well known to the financial world and is considered a "public utility" (Allen & Overy 2012, 22). Considerably, the corresponding 2014 treasury bills constitute approximately 4 % of the general government debt and 17 % of the private sector's debt and are governed by Greek law. Private sector's bonds (66,6 billion euro and approx. 75 % of private sector's debt) issued within the country, and normally under Greek law, could be payable in the new currency.

From a natural person's (citizen's) perspective a debt that was agreed in euro through a foreign bank, inside or outside the Eurozone, and whose contract mentioned that repayments and relevant interests shall be paid to a subsidiary of that bank in the debtor's territory, then reference is made to the country's LM. Moreover, a loan concluded in euro between a bank and a debtor of the country willing to quit is again payable in the departing country's new currency. Another considerable example constitutes the fact that whenever within a debt contract the law of the departing country, LM, is recognized as applicable, or in case the debt shall be reimbursed in the debtor's country in form of a '*dette quérable*'[31], payments shall be made in the new currency. Through these examples emanating from case law and IL principles, one can

[30] Since EU law has primacy over domestic law.
[31] A debt payable upon summons.

realize the fundamental element of sovereignty in contractual law with regard to a country's choice to establish a new currency.

C. The significance of the law governing the New Bondholder Law

At this point, one could support the well-founded argument that the aforementioned 66,6 billion euro private bonds issued in Greece would *normally* be payable in the new currency. Nevertheless, we shall point out that the 2012 restructuring of the Greek debt drastically and totally changed, one could say, the legal environment of bonds, particularly since the law governing this part of bonds, until then, was the national law of the country, i.e. Greek law[32]. Interestingly, the restructuring of the debt via the Private Sector Involvement (PSI) mechanism taking place in 2012 was established with the enactment of law n. 4046/2012 and law 4050/2012 which, among others, stipulated that new government bonds would be issued under English law for a maturity period between 2023 and 2042 together with GDP-linked securities[33]. Several legal scholars highlighted the importance of the law of PSI bonds and invoked some of its problematic perspectives. Many complexities regarding the potential restructuring of the latter have been reported if a return to the old currency materializes. There were multiple legal reasons why during the period 2011-2012 legal scholars were arguing against the subordination of Greek law bonds to new issued English law bonds. More specifically, experts remained unsatisfied by the general domestic legislation system of the new bond issuing process, while arguments regarding a "disproportionate and unfair impact on private persons holding Greek Government bonds" (Skylakakis 2014) as well as the mandatory character of the procedure per se soon appeared on legal analyses.

Concerning the domestic legal order, the Hellenic Parliament retroactively modified the terms of issuance (i.e. maturity, repayments, interests, etc.) of bonds governed by Greek law. However, English law bonds might bring severe inconsistencies in terms of debt restructuring and legal effects; first of all, an eventual debt restructuring of the latter becomes non advisable and almost impossible; secondly, any effort of debt

[32] "At the moment of the exchange there were 117 eligible securities with a total nominal amount of €205.6 billion (of which €9.8 billion in 36 securities were the guaranteed ones). Of these €177.3 billion were Greek-law directly issued GGBs, €6.7 billion were Greek-law guaranteed, €19.9 billion English-law directly issued and guaranteed, with the balance of €1.7 billion being governed by Italian, Swiss or Japanese law" (Manuelides 2017).

[33] The latter would be callable at any time after January 1st 2020 (Darrow and Hans 2012).

restructuring would eventually require additional physical collateral on behalf of the country; thirdly, the selection of English law could result in a number of future disputes between private persons (citizens/permanent residents) and Greece due to the fact that English law does not recognize the right of extraterritorial action of the Greek State, which, of course, would have the effect of court rulings against Greece. Between the period 2011-2012 legal scholars had argued that it could be possible through enforcement procedures to seize property belonging to the so-called 'private property of the State' as well as to serve garnishee orders concerning financial claims of the Greek State[34] (Varoufakis 2020). Therefore, even in the event of bankruptcy, the Greek debt would be payable *only* in the Euro currency, despite the fact that an eventual return to a new currency would mean an important devaluation of the latter[35].

The New Bondholder Law of 2012 contained a CAC "imposing" the participation of non-tendering bondholders under Greek law to the exchange. With regard, however, to the specific case of foreign law bonds, for instance New York law bonds, outside the exchange program of 2012, bondholders had the possibility of resorting either to litigation proceedings or to extensive negotiations that would potentially result in a better post-PSI agreement (Darrow and Hans 2012), both quite risky scenarios. Interestingly though, holders of English law bonds who did not participate in the program had some worth-mentioning advantages. In particular, once the minimum percentage required by the relevant CAC would be satisfied, the foregoing bondholders could upon acceleration of these bonds bring legal action against Greece with a view to seek an enforced right to payment. This action could be brought before London or U.S. Federal Courts while the same right is conditioned upon proving the applicability of specified legal exceptions under the Foreign Sovereign Immunities Act (FSIA). These legal 'privileges' have become the 'fear' of lawyers and sceptics of the new reformed BHL since the Greek government converted Greek law bonds into English law bonds.

In order to better understand the legal environment of English law bonds, some important points shall be highlighted. In general terms, extraterritorial action signifies the non-subjection of a foreign State to domestic courts of another State, in accordance with customary international law. Such immunity concerns persons directly linked with the functioning of a State and, more specifically, with its external action, as well as acts held in the name and on behalf of the State itself. At first, the

[34] Taxes, fees, duties, proceeds from privatization etc.
[35] More about the legal and financial consequences in Part III.

Anglo-Saxon legal order was applying the system of absolute immunity; however, as soon as the distinction between *jure imperii*[36] and *jure gestionis*[37] came to apply that specific system was soon adopted by both the US and the UK. The *State Immunity Act* (SIA) of 1978 enacted by the UK as well as the *Foreign Sovereign Immunities Act* (FSIA) of 1976 enacted by the US firmly established the way forward in terms of State Immunity. Currently, there is a strong legal argument according to which whenever a State gets involved in a certain market and carries out legal acts which within open economies enjoy judicial protection, then the foreign State is subject to the domestic Judge. In this respect, legal scholars emphasize the limitation that occurred in this well-known IL principle since nowadays this subordination to the domestic Judge does not even take into consideration the aforementioned distinction of acts. This theory is known as the *Market Place Doctrine* and tends to be more and more applied. Of course, it shall be noted here that for domestic courts it is one thing to consider actions against foreign states (*Immunity from jurisdiction*) and another to implement measures against a foreign national (*Immunity from Execution*), namely the enforcement of a judgment of domestic courts[38] [39].

As outlined, both the United Kingdom and the US have adopted the previously analyzed form of State immunity; hence, a foreign sovereign State does not enjoy immunity before UK courts from claims arising from commercial activities. The SIA of 1978 explicitly stipulates that bond offers are deemed to be commercial activities for the disputes of which UK's courts are competent[40].

As a result, Greece would be bound to repay its debt in euro despite the fact that it would have returned to a new currency. Incidentally, the characterization of the Greek

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[36] The law of Public Authority Acts.

[37] The law of acts that can be carried out by private persons.

[38] In the Greek domestic order, immunity from enforcement is expressly provided for in Article 923 of the Code of Civil Procedure, which states that 'enforcement against a foreign national may not be carried out without the prior authorization of the Minister for Justice'.

[39] European efforts on the topic of State Immunity englobe the "European Convention on State Immunity" of 1972 as an applicable international Treaty without having, however, the appropriate legally binding effect. Similarly, another worth-mentioning example constitutes the "United Nations Convention on Jurisdictional Immunities of States and their Property" adopted in 2004, but still not having reached the number of ratifications needed. At the same time, a considerable novelty in view of enforcing foreign judgements by circumventing any eventual intermediate proceedings also involves the "European Enforcement Order" introduced with EU Regulation 805/2004 on behalf of the EU Parliament and the EU Council of 21st April 2004. Moreover, Council Regulation n. 44/2001 on "jurisdiction and the recognition and enforcement of judgments in civil and commercial matters", which replaced the Brussels Convention, is another important development.

[40] Please consult State Immunity Act §3: https://www.legislation.gov.uk/ukpga/1978/33/section/3.

debt as a *commercial* act would generate the applicability of the SIA and would launch litigation proceedings between creditors (private persons) and the Greek State; this situation would, therefore, trigger judicial rulings against the country. At the same time, these rulings could be enforced in the territory of the Greek State in accordance with the respective EU Regulations 44/2001 and 805/2004[41]. The enforcement of claims could concern movable and immovable property of the State as well as monetary claims on behalf of the latter. As previously observed, the latter possibility has to do with the authorization to serve a garnishee order (‘*saisie-arrêt conservatoire*‘) in terms of eventual State claims on citizens, such as taxes or duties.

To recapitulate the points that have been discussed, bonds governed by English law present a number of issues to be taken into account: firstly, Greece would reimburse its sovereign debt only in the Euro currency; secondly, there would be potential divergencies with the seizure of public property[42] as well as with the initiation of troublesome, domestically, litigation proceedings for Greek citizens; and, thirdly, the impossibility of initiating another debt restructuring program equally constitutes another argument against the whole plan. In any case, the issue of English law bonds was and still is today of great significance for the current state of affairs in the country.

D. Applying the appropriate Lex monetae to the Gr-exit scenario

We argued that government debt corresponding to the official sector would be payable in euro, since that specific part of the debt is related to loans established under English law. However, this might not be the case if a Gr-exit was to be implemented by applying other possible legal methods. It is asserted that the scenario of Greece quitting the Eurozone would make sense only if the Greek sovereign debt would be payable in the new national currency; hence, a Parliamentary Act, eventually taking place in 2015, would settle the matter of conversion of the euro to the drachma currency and would govern and manage only contracts and instruments bound by Greek law making a potential change in English law contracts impossible. This is the general situation with regard to EU financial instruments governed by English law, as previously stated.

[41] See Footnote n. 39.

[42] In this definition the so-called private property of the Greek State is included.

Nevertheless, if in a Gr-exit hypothesis the "redenomination of Euro currency debt into drachma denominated debt" (Rinze 2015) would be implemented through EU legislation, i.e. an EU Council Regulation[43], then the foregoing Regulation would be automatically applicable in all M-S via the principle of primacy of EU law over domestic laws. In this context, bonds, contracts, and financial instruments previously governed by British law would be serviced in the new currency. Such a circumstance is deemed to be a very interesting one.

Another alternative borrows some fundamental elements from the theory of *lex monetae*, as explained above; however, this scenario would be possible only if the Parliamentary Acts previously enacted would not indicate English law as the law governing the bonds. With regard to this alternative, Solicitor Gilles Thieffry (2011) asserts that whenever the Greek State issues a bond, the latter is governed by Greek law and, therefore, is payable in the national currency that exists at that particular time on Greek territory. If Greece's departure from the Eurozone materializes, the country would have to initiate the issuance of the drachma and determine the exchange rate with the Euro currency through Parliamentary Act. In that case, Greece has the right to adopt, if it wishes, a mandatory exchange rate of 1 drachma for 1000 euro; in fact, instead of doing a currency devaluation, Greece would implement a *revaluation*. The consequences of this step from a debt standpoint are apparent: the Greek State could reimburse, for instance, 1 million drachma for 1 billion euro and the remaining debt would be the bonds governed by English law. Historically, this pattern was used in France in 1960[44] as well as in Germany and Austria right after the Second World War as a means to reduce sovereign debt.

As one can observe, domestic courts' rulings would not have any other alternative than to apply Greek law in case of claims on behalf of bondholders; bondholders filing a claim against Greece before international courts would encounter similar legal obstacles. In this regard, case law from Serbia and Brazil after the Second World War can obviously serve as useful examples. Having said that, after the effective debt 'reimbursement', as described above, Greece would have permitted the liberalization of the exchange rate (free fluctuation) which in return would have brought a depreciation of the new currency and an increase in competitiveness. The legal and economic effects of the Gr-exit hypothesis will be discussed in the third part of the research.

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[43] Please consult: Part I, option *c*.

[44] France during the 1960s issued the new franc at a conversion rate 1 franc = 100 old francs.

Part III: Consequences of a Gr-exit hypothesis

A departing Greece from the Euro area was considered a promise and a good solution to tackle an event of bankruptcy. The devaluation of the new currency would bring in the long-run economic stability and would promote FDI and trade. Supporters of this idea argued that the country would suffer for a short period of time but, shortly afterwards, recovery signs would be soon visible. On the contrary, critics emphasized that the aforementioned plan would affect Greece's economic situation due to lower living standards and the inherent challenges of the transitionary period. Throughout the third chapter an analysis will follow on the positive and negative aspects of the scenario under assessment, taking into consideration the hypothetical effects on the banking system, on the economy, as well as on the country in general. Robert Mundell's Optimum Currency Area theory as well as monetary integration perspectives will be given special attention with reference to the economics of the Gr-exit plan. Although the OCA theory examines whether for a 'candidate' country the idea of joining a currency area presents favorable consequences, the model will be utilized to set forth the eventual hypothetical consequences of a Gr-exit.

A. Consequences on the Greek Banking System and the return of monetary sovereignty to Greece's NCB

i. The EMU-exit Procedure

Generally speaking, for the conversion plan to be finalized, a period of 5 to 8 months would be needed in order for technical issues to be settled; during this period of time promissory notes could be utilized as money. Under these circumstances, Euro reserve accounts of the domestic banks at the Bank of Greece (except from the part that corresponds to bank deposits of non-residents) would be frozen and the conversion of the Euro currency to the new drachma currency at the initial rate of 1:1[45] would apply. Residents' Euro accounts would be converted into drachma[46]. Equally, all transactions including electronic ones would be held in the new currency right after

[45] Where: 1 Drachma = 1 Euro.
[46] For non-residents, the currency would remain the same, i.e. Euro currency, which would be treated as foreign currency within the new banking system.

the government announcement. At the same time, saving accounts would be frozen with a view to circumventing any 'bank-run' or huge flight of capital. Nonetheless, until the finalization of the printing of the new banknotes, Euro banknotes could still be utilized but only as banknotes representing the face value of the drachma currency which would be for that matter 'stamped' in order to certify their lawful circulation. Regarding which banknotes would be converted, a logical answer would imply the banknotes issued by the national central bank of Greece; nevertheless, in the present case this cannot be true since the Bank of Greece is not the actual 'issuer' of the Euro banknotes, Greece being a Member of the Eurozone and the Euro freely circulating throughout the EMU for a period of 14 years (as at 2015). In this light, citizens would be able to get their banknotes stamped by authorized service offices regardless of the NCB that issued them[47]. Once the printing of the new banknotes is completed, citizens would be able to substitute previously stamped banknotes with the new printed drachma banknotes.

Loans granted on behalf of the BG to domestic banks would be converted into the new currency. All due debts[48] would also be converted into drachmas. At this stage, a new domestic law would set forth a new schema for the country's monetary policy authorizing the BG to provide liquidity in the drachma currency. Of course, the foregoing policy would be different from the one established under the ECB; that means that former Eurozone rules, being previously binding on the Greek banking system, would no longer apply and, therefore, the NCB of Greece (BG) would be able to directly lend money to the government as well as "purchase sovereign bonds on the primary market" (Dor 2011, 5). Furthermore, policy interest rates would be established outside the ECB framework.

For a certain period of time transfer of balances between citizens' accounts running in the new currency to new bank accounts that would still operate in the Euro currency would not be possible. The same would apply between residents' bank accounts denominated in drachma and non-residents' accounts denominated in Euro. As soon as the new national currency enters the international currency market, it is supported that, at first, a depreciation of the new currency would be observed. Due to the exit of the country from the Eurozone, the 'EU-free-movement-of-capital' axiom would be negatively affected as the government would set measures - eventually of a

[47] Interestingly, "when considering the perspectives of devaluation of the new local currency, many residents of the country asking to quit the euro zone would prefer their stock of euro banknotes not to be stamped so that they can sell them later and get a better exchange rate" (Dor 2011, 6).
[48] Rents, private contracts, bills, salaries etc.

temporary character – domestically monitoring capital circulation. It is worth mentioning that in terms of EU law imposing capital circulation controls would go against Article 63 TFEU which explicitly stipulates that "[W]ithin the framework of the provisions set out in this Chapter, all restrictions on the movement of capital between Member States and between Member States and third countries shall be prohibited" (European Union 2016, 71).

Undoubtedly, on the one hand, there is a fear of strong depreciation of the new currency against the Euro while, on the other hand, the conversion of the Greek debt to drachmas – wherever that is possible – would have negative consequences for the respective NCBs of other Member-States.

Regarding the issue of NCB's shares within the Euro-system, these could be bought back by the same institution, decreasing the ECB's capital, or purchased by other Members of the Eurozone (Dor 2011, 7) which, from their part, would proportionately increase their shares[49]. Alternatively, these could simply be kept by the NCB of Greece, the latter maintaining its position both as an ECB shareholder and ESCB participant[50] since the case under examination assesses the hypothesis of Greece continuing to be a member of the European Union. Another solution would be for the ECB to return the reserves that had been transferred as assets[51] on behalf of the NCB of Greece "against claims on the former" (Dor 2011, 7), which would be, of course, expressed in the Euro currency. While the claims on the ECB would be substituted with the foreign reserves in the balance sheet of the NCB of Greece, ECB foreign reserves would, in this respect, decline. However, the ECB could also maintain the foregoing reserves and, since Greece would exit the Eurozone, the claims on the balance sheet would be recognized as foreign reserves of the former M-S. This option presents two positive aspects: firstly, the departing NCB would have at its disposal reserves denominated in the Euro currency and, secondly, ECB reserves would not diminish.

Since some Euro banknotes would still remain in circulation in the Eurozone (the ones that have not been stamped), on the balance sheet of Greece's NCB the liabilities sections "Banknotes" and "Claims or liabilities related to the allocation of euro banknotes within the Eurosystem (net)" (Dor 2011, 8) would be substituted by a "New banknotes" section as well as another section indicating the banknotes that fall under

[49] For these actions to happen the condition would be a Council decision.
[50] European System of Central Banks.
[51] Assets transferred as *USD* or *JPY*.

the former categorization of non-withdrawn banknotes. This part would express the decrease of Euro reserves on behalf of the NBC of Greece.

Lastly, it has been asserted that "balance sheets of the national central banks of the distressed countries of the euro zone include a huge liability to the Euro-system, which reflects the disequilibrium in the «Net liabilities related to transactions with the ESCB» balances[52]" (Dor 2011, 8). This balance item is formed due to capital flights towards other countries. Within this system, the claim of the German NCB on the ECB represents a huge part; hence, it is argued, any State wishing to exit the EMU would not be able to repay the aforementioned liability. The issue would be exacerbated in case of an appreciation of the Euro currency which would result in shared losses between Members of the EMU. It is supported that in order to avoid such a phenomenon, the ECB could grant a "loan of the same amount in euro to the departing central bank, despite its location out of the Eurozone, and renew it indefinitely, or spread the reimbursement over a very long time period" (Dor 2011, 8). In this spectrum, unsecured debts, and more specifically high *TARGET 2* balances, could present an imminent risk of instability within the EMU (Sinn 2014).

ii. Short-term (Immediate) and Long-term Hypothetical Consequences: More Gains than Losses?

First of all, it is important to comprehend that for the European Union, and especially the Euro area, it is quite challenging to portray the immediate effects of a Gr-exit plan due to the political, historical, and legal 'unpreparedness' of the parties concerned. Therefore, the analysis that follows is based on certain immediate hypothetical consequences that we find relevant for the present discussion.

During the difficult period of June 2015, drachma proponents often highlighted the positive economic impact that a huge devaluation of the currency would have on competition, liquidity, and debt management. Greece could freely set at a lower level its interest rates or even let the currency depreciate 20 to 30 %. Nonetheless, experts argued that aiming at competition with no strong international trade relations would be impossible. Some direct consequences would be hyperinflation, high interest rates, high depreciation of the new currency as well as huge degradation of the standard of living. Moreover, regarding the argument that depreciation would have favorable

[52] Known as *TARGET 2* balances.

economic effects for the 2015 context, it was reported that after constant depreciations of the drachma during the period of the 1980s in Greece[53], competition was not better off; in fact, during that particular time exports decreased and growth was decelerating. This leads us to support the view that a devaluation could have positive effects only under specific economic conditions that Greece did not fulfil at that specific time (June – July 2015). Most probably, certain parties might convert the new currency back into Euro so to avoid future discrepancies while the drachma would continue its declining trends.

With regard to deposits converted into drachma, these would be proportionately affected by inflationary trends and devaluation which in turn would impact purchasing power. At the same time, a scenario of a 'haircut' of deposits cannot be ruled out due to insolvent banks. With regard to debts governed by foreign law, these would be reimbursed in foreign currency while both the public debt[54] and the IR[55] would increase concomitantly with the depreciation of the new currency. Furthermore, the so-called in Greece private 'red loans' would massively augment because of the lack of revenue on behalf of private persons, i.e. private enterprises. As currency depreciation would continue to grow, import prices would go up. Multiple sectors as well as every private enterprise depending on foreign sources would be negatively affected (Stoupas 2011) and, eventually, shortage of food and basic commodities would be another negative consequence. In this respect, bankruptcy for the private sector cannot be excluded. Incidentally, unless it is followed by radical reforms and a strong macroeconomic policy, a competitive Greek economy would be a temporary only phenomenon emanating from cheap labor, jeopardizing the perspectives of openness and extroversion[56]. A significant advantage of the initiative would be, however, the declining prices with reference to hospitality services and immovables while, simultaneously, Greece would become an attractive place for investments[57]. Nevertheless, it shall be pointed out that the overall effects of these elements would be limited; for instance, austerity measures would not cease to apply. And, of course, this scenario could be conceivable only under the condition that banks would have

[53] In 1983 and 1985 respectively.
[54] We would just like to add here that the real value of external debt would increase even more complicating its reimbursement. Furthermore, the phenomenon of having a non-executed or written-down debt governed by English law is characterized as 'impossible'.
[55] Interest rates would increase hampering business activities and the prospect of investments.
[56] It was believed that inflationary trends in salaries and prices would have as an effect to alleviate the phenomenon of non-competitiveness.
[57] It was also believed that investments under the Euro currency would be deemed a more attractive phenomenon for the country.

survived through recapitalization plans. What's more, analysts have asserted that the country's economy would not be viable enough without financial assistance on behalf of the EU, fact that questions the overall scope, in the end, of the Gr-exit hypothesis. In this respect, it is considered that huge political efforts as well as very high levels of preparedness, organization, and regulatory mechanisms are required on behalf of the country for the program to be successful.

Whilst the country would necessitate a program of financial assistance from EU institutions, the situation would still be dramatic[58]; yet, according to proponents of the initiative (IEFIMERIDA 2016), in the course of a maximum period of two years Greece would have totally recovered. Another interesting argument is that through this approach the European Union could directly confront the Greek problem without having to make future 'acquaintances' with the sovereign debt issue.

As outlined before, for Finance Minister Schäuble a 'timeout' from the Eurozone was considered necessary in order for the country to devalue its currency and become more competitive (Christoforou 2019). Austrian economist, Gabriel Felbermayr, had affirmed that an eventual exit of the country might be better for creditors, Greece as well as German banks; a massive 'haircut' would eventually be a better option. He had also supported the view that a temporary return to the 'old' currency, the drachma, would 're-orient' Greece's policy with a view to reaching a more viable growth program. What is also crucial for the country concerned is to approach a stable political system without domestic divergencies. Moreover, after a program of financial assistance Greece could avoid high unemployment and shortage of commodities, such as petroleum oil and pharmaceutical products, on which Greece is very much dependent. Of course, for private banks, the ECB as well as the *Bundesbank* the previously analyzed plan would result in huge losses too.

Incidentally, let us not forget the very pivotal point concerning English-Law governed loans that the high eventuality of capital controls under a Gr-exit case might render "the borrower's obligations unenforceable in some circumstances" (Clifford Chance 2015, 3); in this light, repayment would be possible in Euro currency only after an 'exchange control consent' on behalf of Greek authorities, i.e. Bank of Greece or the Greek Ministry of Finance[59].

[58] As it will be mentioned further below, with regard to EU financial support regarding agricultural production and R&D activities, opportunities that fall within the mandate of the European Union, would not cease to exist for the country.

[59] With reference to Swiss Franc loans, responding to opponents who advocated against the return of the drachma and supported that housing loans governed by Swiss law would become unmanageable

What is certain, therefore, is that in order for the plan to 'succeed' political preparedness, a rigid and radical reform system, high-added-value activities, and a well-organized public sector will be required as crucial factors for the country in order to overcome the challenges set out above. In fact, Greece does not follow a model of Keynesian economics that through its fixed nominal terms would turn the 'negative into positive' making depreciation a constant driver for competitiveness. In this context, the main idea behind a temporary exit would be to offer a country, member of both the Eurozone and the European Union, the opportunity to opt-out from the Euro area with a view to restabilizing its economic situation at sound economic levels and to return after some years to the EMU. This 'plan' would thus become only a provisional alternative and, of course, not the permanent solution for every Euro-related financial deadlock. After the formal exit, Greece would have to establish specifically required reforms while it will have to go through a period of financial surveillance and careful planning. Furthermore, if opponents of the idea expressed the view that austerity measures would continue to exist, proponents of an exit, such as economist Felbermayr, argue that this might not be the case; the government might simply not follow the foregoing policy since the low exchange rates of the new currency would most likely bring economic recovery. This 'GR-ecovery' through the return of the old currency might positively affect FDI as well. In fact, through a devaluation model investments would immediately increase.

As a concluding remark we could argue that the event of an official withdrawal of the country from the Euro area implementing a subsequent devaluation of the drachma currency englobes both negative as well as positive elements to be considered. As brought forward, Finance Minister Schäuble and economist Felbermayr firmly support the Gr-exit scenario; at the same time, several other analysts portray the different problems that may arise, fact that accentuates even more the economic and political uncertainty that would follow.

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due to the intangibility of the debt and the huge fluctuations of the new national currency, experts observed that their argument remains unfounded. In particular, Article 388 of the Greek Civil Code stipulates that under exceptional circumstances, by which the debt has become too onerous, the court, in absence of a new law, may decide the revision or even the termination of the contract (Alambasis n.d.).

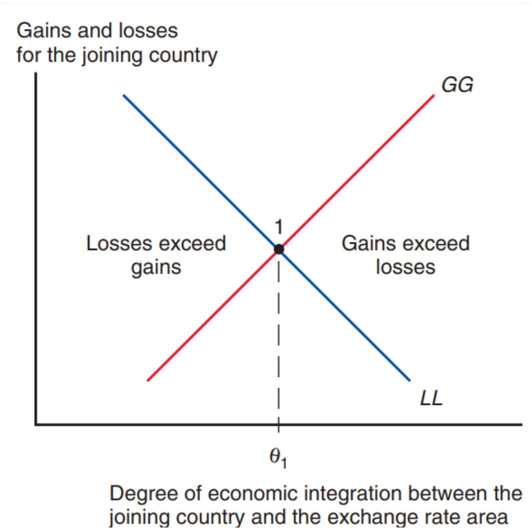
B. Mundell's model: Benefits and Costs and the concept of Monetary Integration

i. Optimum Currency Area and Monetary Integration

The Optimum Currency Area theory from Robert A. Mundell (1961) has been the core model for the formation and the development of the European Monetary Integration concept. The model relies on the potential benefits a certain country can acquire upon accession to a currency area; in this respect, "Optimum currency areas are groups of regions with economies closely linked by trade in goods and services and by factor mobility" (Krugman, Obstfeld, and Melitz 2015, 372). In case the gains of having a single currency area exceed the costs of it, then the initiative of accession is advantageous. A FER[60] is a good option when trade and output levels remain high between the economies that seek for integration. In this regard, the level of integration plays a major role for our understanding; if a number of countries joins a single currency, then the level of integration can be measured through labor mobility and trade (Mundell 1961, 661). Whenever the levels of trade and labor mobility are high, the level of integration also increases. According to Robert A. Mundell, both gains and losses of a single currency depend on the level of integration. Therefore, the costs of joining a single currency decrease whenever the level of integration is high. Equally important for considering joining a monetary union is the level of similarity of shocks among interested countries. In this light, if shocks are symmetric (and not asymmetric) then there are strong incentives to join a Common Currency Area since the exchange rate adjustments would be the same for all countries concerned. At the same time, higher integration means that the 'candidate' country is less likely to be hit by asymmetric shocks. In case that happens, the phenomenon can be mitigated, for instance, by labor mobility which would play the role of a 'buffer' against real asymmetric shocks. Under these circumstances, if economies are similar in structure, then the losses (L) of the currency are lower. Furthermore, in case a currency has a strong federal authority with a strong federal government providing money in case of crisis then the central federal authority could again serve as a 'buffer'. In any case, the fact that bilateral trade represents a high share in the respective GDP of interested countries bolsters the argument for a common currency as well as for a FER. Indeed, large volumes of trade mean lower economic stability loss.

[60] Fixed Exchange Rate.

In this respect, Robert A. Mundell (1961) identified factor mobility as the key characteristic of an OCA; indeed, a system of floating exchange rates[61] is preferable whenever large asymmetric shocks are a usual phenomenon and the criteria for an Optimum Currency Area are not met. Concerning the aforementioned criteria these are, in accordance with Mundell's theory, increased labor mobility, capital mobility with a view to restraining the effects of shocks by way of distribution, similar business cycles as well as a fiscal mechanism that would ensure the transfer of money from countries with high surpluses towards countries struggling with economic challenges. Further criteria have been proposed at a later stage by economic research, mainly, aligned policies between the countries concerned as well as diversified production and limited specialization.



4 Optimum Currency Area graph (Krugman, Obstfeld, and Melitz 2015, 371).

In order to better analyze the monetary integration perspective it is important to highlight some of the potential benefits for a country. In the above graph, the *GG* schedule shows the level of trading links of the newly-joining country with the Euro region, in our case. In general, FER offer predictability; but, at the same time, "the monetary efficiency gain from joining the fixed exchange rate system equals the joiner's savings from avoiding the uncertainty, confusion, and calculation and transaction costs that arise when exchange rates float" (Krugman, Obstfeld, and

[61] "A floating exchange rate has an advantage over a fixed rate: It automatically cushions the economy's output and employment by allowing an immediate change in the relative price of domestic and foreign goods" (Krugman, Obstfeld, and Melitz 2015, 368).

Melitz 2015, 366). That 'gain' will be undoubtedly higher if the country trades a lot with other eurozone countries; a fixed drachma/Euro exchange rate clearly yields a greater monetary efficiency gain with regard to Greek, in our case, traders (Krugman, Obstfeld, and Melitz 2015, 366). Additionally, higher gains can be achieved when factors of production freely migrate between Greece and the Euro area. It would be easier for Greeks, for instance, to invest in the EU area in order to predict their returns (and vice versa for other Member-States). In simple words, the higher the trade and the factor movements, the higher the gain; similarly, the higher the economic integration, the higher the monetary efficiency. In fact, as capital markets among countries become more and more interlinked, the efficiency gain augments. Parallelly, another positive argument for a country to join a currency area relies on the fact that the country in question may wish to peg its "exchange rate to an area of price stability to import the anti-inflationary resolve of the area's monetary authorities[62]" (Krugman, Obstfeld, and Melitz 2015, 368). In this regard, it has been emphasized that the maintenance of anti-inflationary policies may be achieved in a more efficient manner when 'investing' in a more credible monetary system intended to keep prices stable. If that scenario happens, "output losses should be reduced because private expectations of inflation will be favorably affected, as will nominal interest rates and wage rates" (Robson 2002, 196). However, it has also been argued that, especially for countries having high credibility monetary policies on behalf of their governments, costs for entering a single currency union may be even higher.

Interestingly, as outlined by P. Robson (2002), monetary integration presents several positive elements with respect to entrepreneurs. First of all, the facts that free market is guaranteed and that trade restrictions, ER adjustments as well as obstacles to trade in general are minimized enhance long-term entrepreneurial confidence. Secondly, concerning financial markets, the removal of any kind of controls over FDI is a considerable aspect of monetary integration. Thirdly, economies of scale may be effectively utilized while new financial instruments with better terms of risk and duration may be made available. Simultaneously, higher benefits can be obtained through "increased intra-union trade in securities as a result of a tendency for returns on different kinds of capital to come closer together in the member countries" (Robson 2002, 195). Other positive elements constitute the lower financial

[62] "[W]hen the economy of the pegging country is well integrated with that of the low-inflation area, (…) , low domestic inflation is easier to achieve. The reason is that close economic integration leads to international price convergence and therefore lessens the scope for independent variation in the pegging country's price level" (Krugman, Obstfeld, and Melitz 2015, 368).

management and transaction costs as well as the increased benefits in case payments with countries outside the union were made in the single currency. Furthermore, once a common pool of foreign exchange is implemented within a common currency area, tied economies "in holdings of foreign exchange reserves should be possible for two reasons: (1) if members are structurally diverse, any payments imbalances may be offsetting, and the pooling of reserves should enable the minimum level to be reduced; and (2) foreign exchange will no longer be needed to finance intra-union trade" (Robson 2002, 195). In this way, the remaining reserves can be utilized in different ways parallelly compensating for the introduction of the new currency.

Turning to the disadvantages of monetary integration generally, we shall point out, first of all, that monetary integration is established at the cost of the countries' loss of monetary policy coordination (Robson 2002, 212). At the same time, in case the monetary integration mechanism, for a certain reason, no longer exists then multiple discrepancies and conflicts might occur. In addition, any measures directed towards coordinating expenditure[63] cannot be considered conceivable within a common monetary system. Equally, taxation of wages with a view to utilizing the "proceeds to subsidize the prices of domestic production" (Robson 2002, 199) seems not to be feasible within monetary unions. What's more, in a currency union the only possible and permissible way to implement an adjustment in competitiveness would be to domestically modify prices and wages. However, altering the nominal exchange rate is much easier than attending the thousands (at least) prices and wages to be revised.

Continuing the discussion, countries, which may have selected an optimal combination of unemployment and wage rate in order to maintain an internal balance, might be compelled to depart from their 'optimal' positions; in this way, some countries might be obliged to accept higher unemployment while others higher inflation. Another disadvantage concerning monetary unions is related to the 'gap' between monetary union policy and national economic policy. Additionally, whilst deficits and surpluses in foreign currency would not need to be settled individually from members of the union, this is not true for intra-union deficits and surpluses which would still need to be settled. Moreover, a fall in prices and wages constitutes the only possible solution when dealing with a member state in deficit[64].

[63] These would take the form of discriminatory restrictions.

[64] Other solutions, as previously highlighted, are the redistribution of financial assets within the monetary union as well as the intervention of fiscal transfers in the event the level of fiscal integration is significantly high.

Meanwhile, same inflation levels between all member countries does not result in the same real wage growth among them especially in the event of different productivity growth rates. Besides, for certain countries it might be politically necessary not only to attain a high degree of economic integration but also to have a similar level of balanced growth together with all the other members of the union; if that is the case, then the variation rate of nominal and real wages among countries shall be harmonized. A fiscal transfer by means of a wage tax from the member with high productivity growth towards the member with low productivity growth represents an appropriate solution. Another alternative in achieving a 'monetary union convergence', although characterized as not successful enough, concerns the introduction of monetary union-level policies with a view to equalizing growth rates of productivity. Needless to say that balanced income growth within a union may not mean equalization of unemployment rates for all countries involved.

Lastly, costs in terms of the common rate of inflation and in terms of other eventual shocks and perturbations are some further elements to be taken into account. Especially for the latter category of costs, the magnitude of asymmetrical shocks is conditioned on several factors such as their size, the adjustment speed of expectations as well as their respective institutional and contractual rigidities (Robson 2002, 211); either way, both supply and demand shocks require higher flexibility in respect of markets in general and, particularly, in terms of the labor market. Incidentally, one of the dangers that might occur in monetary unions can be attributed to the phenomenon of unsustainable debts which can be monitored either by adopting a rigid system on standards and limitations for deficit and public debt (as the fiscal and nominal criteria of Maastricht) or by designing a mechanism of 'fiscal surveillance' (Robson 2002, 214). In this context, the coordination of policies within the union has a considerable impact regarding the spillover effects of domestic fiscal policies towards other member countries (Robson 2002, 214).

ii. Exploring Gr-exit and Krugman's Criticism

In the present part, we will not discuss about whether it should be preferable for Greece to enter the Eurozone, since Greece has been a Member-State of both the EU and the Eurozone for several years; our research here centers on whether departing from the Euro currency area would be an appropriate solution for the country within the 2015 context.

The Greek debt crisis brought forward the argument that the EMU might not actually be a true example of an OCA; according to economists, the Greek sovereign debt greatly challenged the essence and, almost, the existence of Eurozone itself. Initially, although the 'no-bailout' concept was soon abandoned[65] in view of the crisis, the European Stability and Growth Pact (ESGP) had included a 'no-bailout clause' restricting fiscal transfers, a crucial component of currency areas. Moreover, the criterion of similarity of economic structures has to be further examined since members of the Euro area may present significant levels of trade in similar commodities. However, as previously noted, significant differences can also be observed, especially, with reference to the existing 'gap' between the better endowed factors of Northern Europe's capital and skilled labor and Southern Europe's low-skill labor, as reported for instance in Greece. Notably, the different trade export schemata between Northern and Southern European countries 'open the gates' for asymmetric shocks. Furthermore, in accordance with Krugman's views, fiscal federalism within the Eurozone seems to be a 'dream' that has not yet been realized. Equally important for our research is the factor of a single-shared central bank involving supervision, resolution, a uniform banking regulation as well as cross-border capital movements (Krugman, Obstfeld, and Melitz 2015, 373) [66].

One of the main arguments for accessing the Eurozone was to aim at an increased trade relation with other member countries, something that was partly achieved since the launch of the new Euro currency in the late 1990s. In fact, there was an increase of imports and exports among EU countries, however, according to several economic researches, intra-EU trade remains low and is considered 'not enough' in comparison to intra-US trade (Krugman, Obstfeld, and Melitz 2015, 374). Incidentally, a recent study by Richard Baldwin[67] reveals that the Euro currency enhanced intra-EU trade by only 9 % "with most of the effect taking place in the euro's first year, 1999". The study goes on indicating that countries that did not adopt the Euro experienced an increase in their trade relations with Eurozone countries by 7 %; hence, the aforementioned countries would have gained 'a little more' by adopting the Euro. Additionally, for

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[65] An interesting Working Paper on behalf of Pavlos Eleftheriadis (Bank of Greece) regarding the topic: https://www.bankofgreece.gr/Publications/Paper2018256.pdf.

[66] In this respect: "*Regarding fiscal federalism, it is quite limited in the EU, which has no substantial centralized fiscal capacity. Country-specific shocks therefore are not offset by any inflows of budgetary resources from currency-union partners. Finally, regarding financial stability policy, the Maastricht Treaty left virtually all powers at the national level, giving the Eurosystem no explicit authority to oversee financial markets*." (Krugman, Obstfeld, and Melitz 2015, 377).

[67] Geneva's Graduate Institute of International and Development Studies (Krugman, Obstfeld, and Melitz 2015, 374).

certain commodities, such as electronic products, price convergence has been achieved throughout the EU, but, the same cannot be supported when measuring other products. Price divergencies in Europe were indeed reduced during the 1990s, according to economists Charles Engel and John Rogers[68]; nonetheless, there are no signs of further price convergence after the introduction of the Euro currency.

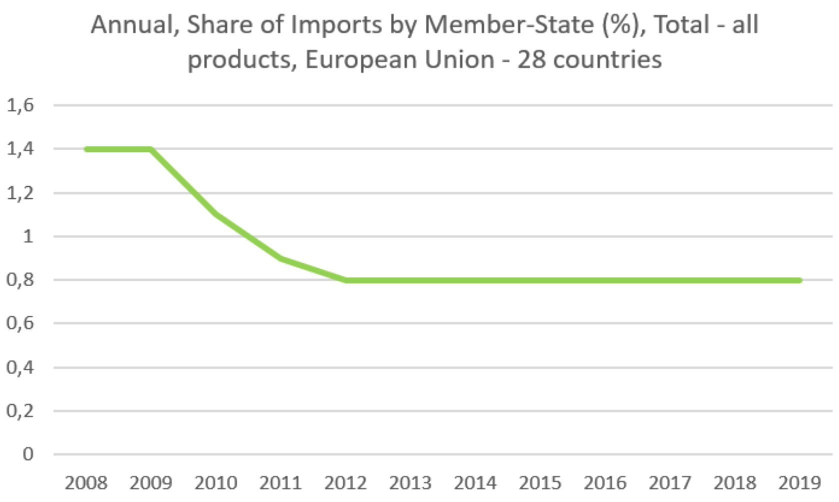
Following from the previous analysis, we assume that if Greece leaves the Euro area, this 9 % of increase concerning intra-EU trade, as explained by Richard Baldwin, will be no longer relevant. We also assume that, as with EU countries outside the Euro area, intra-EU trade levels of approximately 7 % could be reported among Greece and other Eurozone members, for at least a period of five years or for as long as the Gr-exit plan applies and EU membership is maintained. Under these circumstances, *a contrario*, Greece during this 'trial' period would lose 'a little less' of its intra-EU trade.

It is important to underscore that Greece, a member of the Eurozone since 2001, has increased the volume of its import-export sectors, but, the respective value, one may observe, has not been 'sufficient enough'. Imports between Greece and other Eurozone members have not given extraordinary results; quite on the contrary, these present some negative trends, especially since 2008. According to the WTO database, between the period 2008 and 2015, in general terms, an average of 25-30 % decrease in several intra-EU trade domains with other Euro currency partners is reported in both imports and exports. It shall be noted that the foregoing decline reaches even 50 % in some trade sectors[69] (WTO 2021). Similarly, although the period 1995-2015 shows an enhanced position of the country vis-à-vis its world trade partners, for the specific period 2008-2015 the reported slight decline is approximately analogous with the fall reported in intra-EU trade in accordance with the National Statistical Service of Greece[70] (NSSG 2021). Parallelly, as shown in Table 5, the imports' share regarding EU trade partners has been declining since the outbreak of the crisis from approximately 1.40 % in 2009 to 0.8 % in 2015 (within European Union borders) while the foregoing share remains the same for the years ahead (Eurostat 2021).

[68] Economists Charles Engel of the University of Wisconsin and John Rogers of the Federal Reserve (Krugman, Obstfeld, and Melitz 2015, 374).

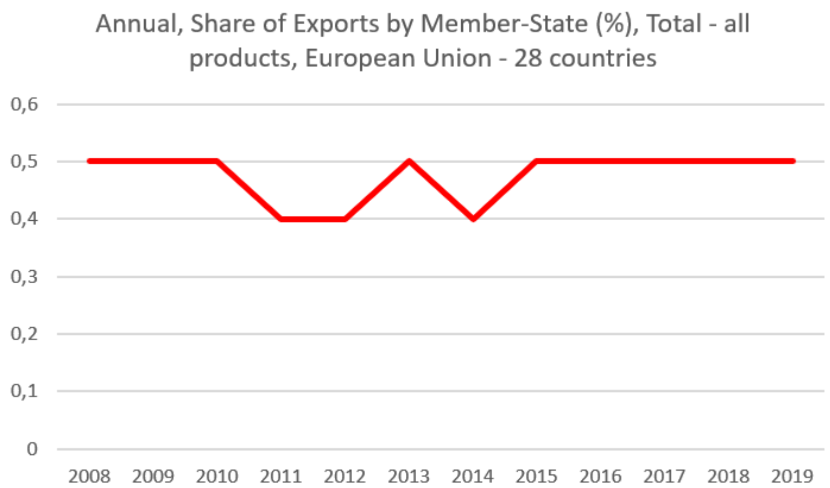
[69] For further information please visit: https://data.wto.org/?idSavedQuery=eac1dfdd-7db6-4b0b-8270-628df7b38358.

[70] The same conclusion can be drawn from the WTO database [Greece - World]: https://data.wto.org/?idSavedQuery=be148c19-0d89-417b-8827-a4bb733b2d7e.



5 Annual share of Imports (M) in Greece for the period 2008-2019 (%) : Intra-EU Trade by Member-State - Total Product – based on data from Eurostat (2021).

Equally, Table 6 demonstrates the share of Greek exports towards EU partners, with the latter ranging between 0.4 - 0.5 % for the time period 2010-2014 while remaining stable at 0.5 % after 2015 (Eurostat 2021).



6 Annual share of Exports (X) in Greece for the period 2008-2019 (%): Intra-EU Trade by Member-State - Total Product - based on data from Eurostat (2021).

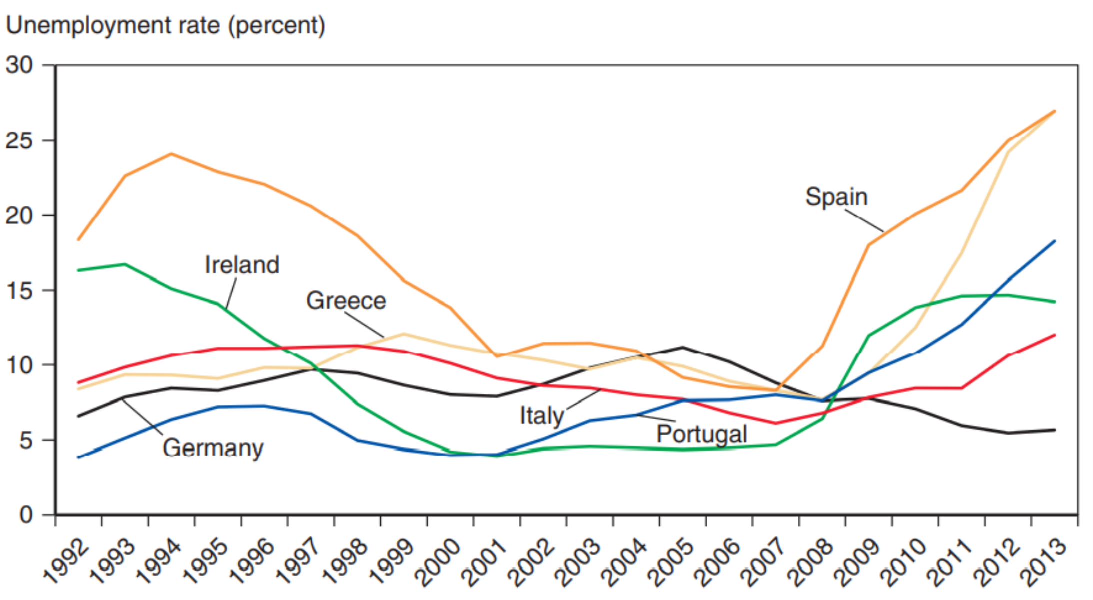
A very interesting element refers to the fact that from the available *WTO Trade Profiles* for the period 2006-2020, European partners hold first place in terms of merchandise trade and trade in commercial services concerning Greece; in the importing and exporting domains the EU is the first trading partner of the country[71] maintaining a share of approximately 50 % every year in merchandise trade. With regard to that particular group of trade services[72], the latter comprises "Agricultural products", "Fuels and mining products" as well as "Manufactures" (WTO 2020, 3). Incidentally, the dynamic of foreign direct investments shall not be set aside; the main FDI partners of the country are Eurozone members, such as Germany, France, Luxembourg, the Netherlands, Italy, and Belgium (Nordea 2021). FDI on behalf of Euro members reaches 75-80 % of total inflows per year (Nordea 2021) and, on a general basis, investments made on Greek soil are highly related to trade, communication and technology services, transport, real estate as well as the electricity sector.

In this context, whilst investments might arise because, most probably, a devaluation would take place stimulating the economy, the fear of an exit from the Eurozone might contribute to the fact that, on the contrary, investments might suffer a steep decline[73]. Without any doubt, the consequences of these factors has divided researchers and economists in Greece while much depends on political strategies and how exactly the Gr-exit plan shall be implemented. Euro membership has undeniably strengthened both FDI in the country and trade relations with European partners; nevertheless, although under the plan we are examining Greece would generally 'lose', for the particular trade and FDI perspectives we cannot predict the way investors and markets would react to the 5-year 'rescue' plan and to the parallel re-introduction of the Euro currency after 5 or more years.

The foregoing trade estimations take into account that the Gr-exit scenario would concern only an exit from the Eurozone and not from the EU; more specifically, provisions concerning the internal market and, in this light, the "free movement of goods, persons, services, and capital" (European Union 2016, 59) would still apply[74]. Therefore, turning to the labor movements' factor in line with Mundell's model, border controls would continue not to constitute an issue within the EU. Historically, in this regard, a certain harmonization of unemployment rates has been achieved among Euro area countries but, nonetheless, differences in the aforementioned

[71] For further *WTO Trade Profiles* data on Greece and the EU: Trade Profiles 2006_E.indd (wto.org) [2006], untitled (wto.org) [2007], untitled (wto.org) [2008], untitled (wto.org) [2009], untitled (wto.org) [2010], trade_profiles11_e.pdf (wto.org) [2011], trade_profiles12_e.pdf (wto.org) [2012], Trade Profiles 2013 (wto.org) [2013], trade_profiles14_e.pdf (wto.org) [2014].
[72] In accordance with the categorization provided by the *WTO Trade Profiles*.
[73] See Footnote n. 57.
[74] Ideally, because we previously stated that capital controls and restrictions might be imposed by the Greek government for a certain period of time generating a 'temporary' breach of EU law.

unemployment rates, as previously assessed, are bigger and more persistent after the outbreak of the economic crisis in 2008. Table 7 shows how UR in Greece and other Eurozone members developed during the years after 1992.



7 Source: International Monetary Fund, World Economic Outlook database, April 2013. [Numbers for 2013 are IMF forecasts] (Krugman, Obstfeld, and Melitz 2015, 375).

Generally speaking, labor movements seem to be in a decline partly because of domestic regulations requiring, for instance, the issuance of residence permits in order to receive unemployment benefits from EU countries (Krugman, Obstfeld, and Melitz 2015, 376). At the same time, whilst persons close to retirement tend to remain in Greece, Greek workers tend to be more mobile and thus select European destinations for professional reasons. Interestingly, contrary to Mundell's theory, Krugman, Obstfeld, and Melitz consider that this migration model aggravates the economic situation of the country as the needed tax base to stimulate pensions and health benefits shrinks.

In any event, as analyzed above, all benefits with regard to monetary integration will no longer apply in view of the country's exit from the single currency area. Moreover, all trade and investment advantages acquired through the years, we suppose, will be considerably reduced. Of course, costs of monetary integration such as the monitoring of asymmetric shocks, the different employment and growth rates, divergencies in production factors among the countries concerned, the coordination of national policies regarding inflation, and so on, would not constitute relevant concerns any more. As outlined before, it is essentially important to underscore that, in accordance with our three hypothetical options[75], EU Treaties concerning EU membership as well as the Common Market provisions would not cease to be applicable in Greece. Nevertheless, exploring Krugman, Obstfeld, and Melitz's application of the Optimum Currency Area Theory to the Eurozone example, it follows that, because the volume of trade and factor movements may not have attained satisfactory levels throughout the years, integration may be considered 'not enough'; therefore, the whole argument for a 'EU – OCA' sets forth questions and ambiguities about its own structure[76].

Our efforts in the present assessment do not involve the examination of whether the EMU fully constitutes an OCA in Mundell's logic or whether accessing the Eurozone was a good idea after all. It shall be recalled, however, that the Nobel Prize economist, Paul Krugman, had presented his own reasons in terms of which an exit from the EMU might have been a better option for the country during June 2015: "[W]ith the banks temporarily closed and the government having imposed capital controls there's not that much more damage to be done" (*New York Times*, June 29, 2015) while he had argued that the problem lies within Eurozone itself and its problematic structure. As previously stressed, "it seems unlikely that the combination of Single European Act reforms and the single currency has yet turned the euro zone into an optimum currency area" (Krugman, Obstfeld, and Melitz 2015, 375). Although these questions extend the Euro debate into other dimensions and may completely alter the present discussion, these same questions reveal some other conditions and effects to be taken into account in a currency exit event. These thoughts might generally imply that for Greece it might be better not only to agree to a 5-year 'quarantine' plan but to consider exiting the currency area irreversibly and by sovereign right. Under this 'no-way-back' policy, things are certainly unclear; without any doubt, this demands further political and economic assessments. At the same time, assuming that the EMU has not entirely reached high levels of integration, suddenly a Gr-exit and a re-accession both seem quite problematic ideas; the question of how much the country would lose in case of an exit has not anymore a clear-cut answer. Furthermore, with respect to EMU re-accession, how much sense would have for a former EMU member to re-access a partly or not integrated currency union represents another important chapter. On the one hand, it may be that the negative circumstances may be

[75] As set out in the first part of the research.

[76] In this light, Constantinos Colmer, a Greek lawyer and economist, had repeatedly argued against Greece's option to enter the Eurozone back in 2001 mentioning the detrimental effects on national economy and employment.

somewhat ‘less felt’ by the departing country from the perspectives of factor movements and trade. On the other hand, the crucial question concerns whether it would be worth to return to a ‘not-integrated enough’ Euro area after 5 years or more, especially in the event Greece’s economy would have indeed ameliorated and the debt restructuring together with the drachma currency would have boosted the economy instead of totally destroying it. Regardless of the answers, we support that a Gr-exit would entail (higher or lower) *costs* with regard to trade and European integration in general; in a Gr-exit case, the country would lose the level of integration and therefore the efficiency gain it acquired during the previous years. Moreover, EMU re-accession, provided that Mundell’s criteria are fulfilled and that there are still trade and labor mobility incentives, may stimulate Greece’s integration and, thus, trade and labor. In this respect, we cannot portray the exact consequences as well as the political incentives and decisions on behalf of the country and the EU institutions. For sure, it is significant to understand that, once the decision is taken, everyone concerned shall know a priori the specific elements, conditions, and results that would lead to a successful or not Gr-exit scenario.

C. Legal and Political issues regarding specific areas

i. Legal consequences and Debt issues

The present sub-chapter brings forward the argument that the burdensome exit procedures with regard to EU Treaties together with the uncertain legal and economic effects of the initiative could constitute crucial reasons for not considering a Gr-exit.

The country might suffer a long period of challenges due to the legal aspects of an exit, the issue of debt restructuring, and the economic climate that would follow. We have already argued, first of all, that EU membership officially ends two years after the notification in accordance with Article 50 TEU. Notwithstanding the fact that the foregoing provision does not constitute per se a lawful exit from the Euro area, initiating exit procedures under this Article and announcing the departure from the EMU two years before the ‘real’ exit would cause huge capital flight and several disturbances. Legal scholars agree with the view that a number of *immediate* decisions and measures shall be implemented. What’s more, regarding the scenario of Greece re-accessing the EU[77], it is important to highlight that for many EU countries the required period of time for an EU re-accession took from a few years to ten years.

Analyzing the actual consequences of a Euro exit through an EU re-accession, firstly, EU law with respect to the EMU structure would cease to apply in the country. Any secondary law transposed within the Greek legal order would continue to apply except if the Parliament decides to amend these legislative acts. A discussion arises when envisaging the future relationship between the country and the European Union itself because the general situation would imply that a 'complete disentanglement' would not be possible. Along with the fact that primary law would not be applicable in the State concerned for the period after the EU exit and before the eventual EU re-accession[78], international EU treaties would equally not be applicable in Greece[79].

In general, since the Gr-exit plan, regardless of the exit options we analyzed, aims at keeping EU membership, Greek citizens would still maintain EU citizenship as an additional citizenship on the premise that Greece would have to confront a Euro-exit and not an EU-exit, as in the case of Great Britain. Incidentally, concerning contracts that expire at a later date (after the Euro exit), the withdrawal agreement should try to address issues pertaining to the rights of the respective contractual parties. The composition of Eurozone institutions would need to change while seats in all other EU institutions would remain relatively the same as well as the composition of the EU Parliament.

In accordance with option *a*[80], renegotiations over Article 50 would take a lot of time and this is the primary reason why such an amendment should leave no space for any ambiguities. In this light, legal insecurities as well as the costs of an exit could be adjusted by designing a specific framework for the relevant rights and obligations of parties concerned (Huysmans and Crombez 2016).

As with the concept of expulsion, it is deemed that a rather complex political procedure would gain less recognition; in the case of Greece, expulsion, albeit a legally almost conceivable option, remains a political challenge also because the aforementioned 'sanction' would have to be consistent with the spirit of the sanctions already stipulated by the Treaties. Usually, the initiation of infringement proceedings or an ECJ ruling against the country would, normally, suffice (Athanassiou, 2009, 36).

[77] Please see Part I, Option *b*.
[78] Except of course if EU member-States agree upon an expedited EU accession procedure for that specific case.
[79] At least for the period between EU exit and EU re-accession.
[80] Amendment of Article 50 TEU (Part I, option *a*).

Additionally, the idea of constructing a 'Union within the Union' would require an immense political, again, endeavor, not to mention the need for a new 'Treaty'.

If a M-S decides to voluntarily exit the EU then disentanglement from the ESCB as well as the Euro area is one of the consequences; however, in case of a temporary exit the NCB's membership within the ESCB would continue to be relevant as Greece would have opted to stay in the EU. It is true that, with respect to the debt obligations, a very close cooperation between the departing country and the M-S concerned is key in order to circumvent potential legal uncertainties[81].

In the event of a Council Regulation[82], the latter would stipulate, among others, the redenomination of debt into the new currency, which would involve "any private or public debtor which is resident in Greece, including the Hellenic Republic, Greek banks, branches of EU/non-EU banks in Greece, Greek companies, Greek public entities, Greek private persons, Greek pension schemes, etc." (Rinze 2015), as well as the freezing of all debts owned for a certain period of time until the redenomination and the determination of the exchange rate are finalized. As discussed, this EU Council Regulation, which, most important, could provide that the Greek debt governed by English law would be repaid in drachmas, would have acquired legal primacy due to its supranational character. From a legal standpoint, in fact, this EU Regulation would not have the same legal effect in States outside the Union[83]. Finally, another question that has been raised is related to the effects of such a Regulation on 40 Bilateral Investment Treaties to which Greece is a party (Rinze 2015).

ii. Political considerations and Consequences on the domestic level and the external relations of the country

It has been previously stated that in a Gr-exit case there would be incentives to also exit the European Union since the country would have to apply measures that would run counter to the way the Common Market operates, such as controls in capital circulation and the movement of goods and persons. The foregoing breach of EU Treaties would imply, therefore, the eventuality of an EU exit. Notwithstanding the severity of these measures, we believe lots of things would rely upon the way Greece

[81] With regard to debt contracts among debtors within the country and their respective creditors.
[82] Part I, option *c*.
[83] An EU Regulation would be binding upon the national legal orders concerning the Member-States of the European Union.

would consider exiting the Eurozone. A voluntary exit scenario, assuming a breach of EU Treaties, might pave the way to incentives and pressures for such an event. If the country were to leave in accordance with the procedures of an amended text or a unanimous agreement of Member-States concerned, EU membership per se would not be eventually questioned. In any case, much depends on the withdrawal agreement and, more specifically, on the provisions regulating the outcome and the future relationship with the former Eurozone member. At the same time, a withdrawal under a climate of disagreement and contention, similar to the challenging 2015 period, could reinforce the EU-exit argument; on the contrary, a consensual withdrawal would eventually generate an environment of understanding and acquiescence.

An important dimension of the Greek case touches on the territorial security issue from an geopolitical standpoint. Scholars have asserted that a currency exit might jeopardize Greece's national security since participation in EU institutions was deemed to assure the preservation of national security strategies and interests. The importance of such a consideration shall not be disregarded, specifically, in view of the country's geostrategic position also representing the borders of the EU. Greece, given its position in the Mediterranean, is spending approximately 2 % of GDP each year in supporting its national security while another 2 % refers to public safety and order. In this light, after 2011 Greece spends on average 3 to 4 billion every year for its national defense. The foregoing discussion brings forward the argument with reference to Greece's entrance in the EC during the 80s for national security and defense reasons; one major rationale was indeed to provide for a stable framework of international cooperation and dialogue in the aforementioned domains.

It is worth recalling that European 'privileges', as set out in the respective EU Treaties and *acquis communautaire*, such as the membership in the Schengen Area, EU citizenship, the applicability of the Charter of Fundamental Rights of the European Union, the applicability of the Statute of the Court of Justice of the European Union (Article 251 TFEU), judicial cooperation and civil and criminal issues, and so forth[84], would still prevail with respect to the country's EU membership. In addition, except from Eurozone affairs which are provided in Articles 136, 137, and 138 TFEU respectively, provisions with reference to Agriculture & Fisheries (Article 38 TFEU), the

[84] Other examples would be the following: The enhanced cooperation initiative within the EU framework (Article 20 TEU), the European initiative for a Defense Agency in accordance with Articles 42, 43, 44, 45, and 46 TEU on the Common Security and Defense Policy, membership within the European Atomic Energy Community.

movement of Capital (Article 63 TFEU), the promotion of Direct Investments (Article 64 TFEU), employment policy (Article 154 and so forth TFEU), social policy (Article 151 and so forth TFEU), the European Social Fund (Articles 162, 163, and 164 TFEU), and so on[85] would still be applicable in Greece.

Lastly, assessing the domestic political context of Greece in 2015, the public perception spectrum is of great importance. Statistical data of that period were indicating that Greek people not only were supporting the idea of remaining in the Eurozone but were also "feeling" part of the European Union and its institutions. Therefore, a Eurozone exit would not be so much 'welcome' in the 2015 Greek reality and would for sure trigger several different internal political disputes and rivalries; the procedural challenges together with the uncertain economic stabilization of the country could result in a generalized distress among citizens. As a matter of fact, the referendum of July 2015 with the citizens voting "No" to the joint proposal of the IMF, the EU, and the ECB revealed the willingness of Greek citizens not to align with Schäuble's policy, and, thus, with an 'implied' exit from the currency union. In fact, the referendum was domestically interpreted as a way to question Greece's existence in the European structure; henceforth, the answer involved either a *European* Greece or an '*autonomous*' Greece. On a general basis, we shall also observe that the timing for an exit plays a crucial role in policy and strategy. The EU constitutes a structure promoting strong integration of its Member-States, in almost all critical fields, an integration process that historically required both domestically and internationally high levels of political effort in every step. For Greece, therefore, maybe that 'EMU-exit' timing has passed since an 'ideal' Gr-exit would be successfully implemented only back in 2010, before the 2012 restructuring, as some economists support up until today.

[85] Other areas would include: Education, Youth and Sport (Article 165 and 166 TFEU), the Trans-European Network in the areas of telecommunications, transport, and energy infrastructures (Article 170-172 TFEU), industrial policy (Article 173 TFEU), the 'Research, Technological Development and Space" field (Article 179 TFEU), environmental and energy policies, "Cooperation with Third Countries and Humanitarian Aid", International Agreements as well as the EU's relations with International Organizations and third countries.

Discussion

We stressed in the first place the complexity of European law with reference to the EMU-exit procedure; the irrevocability argument expressed as a ‘commitment to an irrevocable community of law’ represents the central part of the discussion. Whilst it is very likely that, in general terms, an EMU exit would be considered a breach of European law, an explicit exit procedure within EU Treaties would be necessary. A procedure specifically initiated, for instance, through Article 352 TFEU or through Article 2(1) TFEU (another method that has also been suggested by experts) would be deemed an abuse eventually involving a Treaty amendment. While we cannot exclude the fact that there may be several other legal options for a Member-State to leave the Euro area, we introduced some useful cases that might be consistent with the general logic of a Gr-exit. Furthermore, the discussion about the debt management in a post-exit reality is critical and might orient the whole essence of the Greek scenario. The consequences on the banking system and the economic effects concerning intra-EU economic relations play their own part especially when assessing the theory of Optimum Currency Areas. We believe that the legal complexities and formalities of an exit together with its economic effects do not give a clear-cut answer as regards the viability of the Gr-exit case. On the one hand, proponents of the exit plan (Former Finance Minister W. Schäuble, Gabriel Felbermayr, Greek experts etc.) agree that a temporary ‘divorce’ from the Eurozone would boost the economy and result in important economic and political reforms for the country. On the other hand, opponents emphasize the existence of an ‘exhausted’ country, of lengthy legal processes, and of a chaotic post-exit era. In this light, the political perspectives of the initiative would also play a major role for the outcome; as Sidney J. Wells had rightly expressed in view of the European Community structure, “it is not so much a question of economics but of political will” (1977, 324).

For sure, on a general basis, monetary integration has enhanced Greece’s economy and ‘re-directed’ its economic ties with foreign partners. Therefore, potential negative elements may incite a country to stay in the Euro, since a real exit might politically endanger the European structure as well. Nowadays, we believe that the discussions about an EMU exit have not disappeared since a currency exit procedure has not yet been clearly instituted and economic struggles continue to be an issue.

Conclusion

Our first research question was whether an EMU exit could be possible without an EU exit under existing EU Treaties. Starting from the obvious, an explicit provision under EU law is missing; hence, the three options we provided in our analysis unfold some interesting hypothetical mechanisms for that matter. The *feasibility* of the initiative, at least form a legal perspective, is evident. Firstly, an EU amendment, secondly, an EU-exit with a simultaneous EMU exit, and, thirdly, a Council agreement represent some of the options hereby analyzed. Undoubtedly, all options inherently pose some issues; combining the pros and cons of each scenario, it seems that an amendment as well as a Council agreement would require high political efforts while an accession/re-accession case would entail massive procedural technicalities in terms of EU law.

In this context, the discourse about the debt restructuring shall be given special importance since the majority of the sovereign debt is governed by English law; therefore, a debt repayable in the new drachma currency would be conceivable only through a Council agreement or an EU amendment. An agreement, for instance, indicating that the debt shall be repayable in the new national currency, would make the latter condition part of EU law gaining supremacy within EU national jurisdictions.

An analysis on the consequences (‘*viability’*) of the initiative could not be set aside; its essence explores whether such an option would be a wise idea after all. Economists in Greece have been expressing diverging opinions in terms of whether an exit would ameliorate the country’s economy and make it more competitive towards the rest of the world. The positive effects of devaluation are certainly a point for a Gr-exit; however, from an Optimum Currency Area perspective, an already integrated country with regard to trade and labor factors would mean that Greece would ‘lose’ with reference to these areas, at least partly. From our part, we cannot neglect the argument that an exit scenario could result in, domestically, severe political repercussions, social distress, legal uncertainty, and ‘unknown economics’; but, nonetheless, these phenomena might refer to only a limited period of time. Moreover, the fact that the present assessment regards an EMU-exit rather than an EU-exit eventually uncovers the non-dramatic side of the initiative.

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