



The European Crisis Without End: The Consequences of European Monetary Integration

Haytham Y.M. Ewaida¹

ABSTRACT

This study tackles the Euro-Zone sovereign debts through recognizing the crisis origins, reasons, and the stages it has gone through to decide on its financial and economic effects and the approaches to deal with these effects. The study concludes that there is a real crisis at the European monetary system mechanism besides a lack of any implementable mechanism regarding growth and convergence among the Euro-Zone countries. Add to that the absence of a united financial policy for these countries. The study has approached some recommendations among which: the necessity to expedite the adoption of a united financial policy for all the Euro-Zone countries, the necessity to activate the role of the European Central Bank, the necessity to create mechanisms that can confront any emerging crises in the future.

Keywords: Fiscal policy, macroeconomic policy coordination, monetary policy, sovereign debts crisis.

JEL Codes: H63, E52, E62, E610.

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1.0 INTRODUCTION

In the mid of 2007, the worldwide was shaken by a severe financial crisis that has strongly affected the economy of the developed countries. The crisis emerged as an estate mortgage in the U.S.A to spread then to all over the world economy (Laeven and Valencia 2012. P3). In autumn 2009, the world economic crisis turned into a crisis of sovereign debts in the Euro-Zone; starting with Greece first then heading to other countries most prominently: Ireland, Portugal, Spain, Cyprus, and Italy (Arghyrou and Kotnikas 2011. P2). The European economy started to witness the worst financial recession since the beginnings of the twentieth century.

The crisis forced the European politicians to take the measures to hold back the recession of the economic sectors of the affected countries and prevent the crisis from spreading. Accordingly, rescue

¹ Assistant Professor, Economics Department, An- Najah National University, Nablus, West Bank, Autonomous Palestinian Territories, Tel: +(970)-9-2679226, Cell:+970(599)666415, E-mail: haytham_owida@yahoo.com, haytham_owida@najah.edu

packages were approved for these countries. (Beker 2014. P.P 1-2). Moreover, mechanisms were put to stabilize the economy. Many countries started austerity campaigns and reformulated their economy. The crisis was rooted in the European economical and currency unity since the beginning of the 1990s when some investors believed that a convergence would be built between the Euro-zone countries; a belief which was reinforced by the political targets, the covenant rules of stability and growth, and the cash policies which would be managed by the European Central Bank. All these factors granted the Euro-zone countries more confidence to get cheap credit in a way that raised the credit debt (Chain and Frieden 2012. P1-2).

There were variant reasons for the crisis; starting with the economic contrast and the structural confusion among the countries of the region. There were also weakness points at the private level and shortcomings in the monetary system design adding to that the adoption of the new liberalism, and the exposure to the sovereign debt (Darvas 2012. P. 3-8) crisis has influenced many economic, financial, social, and political aspects in a way it has lowered the credit ratings of the governmental bonds (Kraemer 2013. P2). It has also cut down the Euro exchange rates. These countries started to suffer a cash liquidity, and the markets were severely affected by the unsuitability of some of the European countries (Fernandes and Mota 2011. P1). The overall economical variables also were affected in a way the total local outcome degenerated, the trade balance experienced a financial deficit, inflation increased, as well as unemployment rates raised up adding to that the deficit of the running account balance, budget, and general debts.

The crisis not only affected the financial, economical, and social fields but also the political ones that it has turned over most of the Euro-zone governments. It has divided the south from the north; a division based on the economical circumstances: a prosperous north, and an indebted south due to a high negative debt percentages, high profit, budget austerity, and a sever economical recession. The paper is organized as follows: Section.1 briefly reviews the underlying literature, Section.2 The Sovereign Euro-Zone Debt Crisis Reasons, Effects, Responsiveness; Section. 3 Conclusions and Recommendations.

2.0 THEORETICAL REVIEWS

The financial crisis has become so prominent in all over the world not only in the developed countries; it has become a characteristic scene in the developing countries too (Mishkin 1996. P.1). The opinions around the financial crisis have divided into two: the first is based on the analysis of two critics: Friedman and Schwartz (1963). They define it as the outrageousness or the anxious banking state. It is considered to be the most significant resource that cuts down the offered cash what results in an economical shrink and retraction (lack of cash liquidity results in a financial crisis). The other opinion is based on the analysis of the stages of the economic cycle. Veblen (1904) and Hawtrey (1926) considered the instability of loan as a reason for the instability of the economic vivacity. Others tackled the issue like Fisher (1933) in his theory about debt contraction, Hayman Minsky (1975) in his economical instability theory, and Kindleberger (1975).

The crisis may take different forms and patterns (Bussiere and Fratzscher 2002.P9) one of which is the currency crisis or the balance payment crisis or the foreign exchange currency crisis. (Sachs 1995.P1). There are two schools to explain the reasons for the initial exchange rate crisis; the first generation school is based on the incompatibility between the basics of the macro economics according to patterns Krugman (1979) Flood and Garber (1984), Salant and Henderson (1978). The second generation school believes that a crisis can happen even if there is compatibility in the basics of the economy and the exchange price.

Bank crises: they happen when the banks experience a sudden and high deposit recall rates. According to Diamond and Dybvig (1983), deposits are not stable by nature because the maturity structure between the inventories and the liabilities does not match) a long term fund for investments of short term deposit). Add to that the crises of the financial markets (the financial bubble), according to Blanchard and Watson (1982), the crisis occurs when the assets' price raise up exceeding their fair value

in an unjustified way. This happens when buying assets aims at price hedging. Debt crises happen when the country loses control over foreign debts' payment or when it becomes unable to get new loans from the outside. This forces the country to reschedule its debts or announce its financial deficit. There are different definitions for the government deficit to pay its debts within the period allowed in the debt contract. The other definition- according to the credit rating happens when the indebted announces the inability to payback and asks for a reformulation of debt in a way its profit gets lower than the original debt profit (Hatchondo, et al., 2010. P.P 163-164).

Accordingly, the debt crisis can be defined as the country's deficit to serve the debts' consequences of profits or fees regardless whether a private or public debt what yields in a sudden stop for the incoming capital flow what in turn affects negatively all aspects of economical life and generates many economical problems (Haytham Ewaida 2015.P12). The foreign sovereign debts have attracted economic literature and many economy historicists to study; for example, Lindert and Morton(1989), Taylor(2002), Bordo, Meissner and Redish (2003), Flandreau and Flores (2010), Eichengreen et al., (2011), and Weidemaier (2012), The internal domestic sovereign debt crisis on the other hand did not take much attention due to the lack of information in spite of the fact that these debts' effect is more than the external debt on the country economy. The reason for this lack of interest results¹ from the fact that there are no foreign creditors to notice or follow (Reinhart and Rogoff 2014. P.P1679-1680). There are different reasons for the sovereign debt crisis among which factors related to the financial integration, the institutional environment and political economy, the foreign capital flow, the moral danger, the rise of the profit of the foreign debt, the high profit, and the bad history of crediting (Classens and Kose. 2013)

2.1 BACKGROUND

Europe has experienced a long history of external debt crises. Spain has suffered since the 19th century from seven external debt crises; adding to that six more in the previous three centuries. France has suffered from eight crises in the period between 1500-1800; it was a semi periodical debt crisis². It wasn't a different case in the other European countries; in the period between 1300-1799 Austria and Portugal also suffered external debt crises (Austria 1796, Portugal 1560). Britain also went through the same crisis under the reign period of King Edward the third and Henry the second (Reinhart and Rogoff 2009.P.P86-87).

Table 1: The cumulative tally of default and rescheduling Europe since dependence or 1800 to 2008.

Country	Total number & Defaults and/or rescheduling	Country	Total number & Defaults and/or rescheduling	Country	Total number & Defaults and/or rescheduling
Austria	7	Hungary	7	Russia	5
Belgium	0	Italy	1	Spain	13
Denmark	0	Netherland	1	Sweden	0
Finland	0	Norway	0	Turkey	6
France	8	Poland	3	United	
Germany	8	Portugal	6	Kingdom	0
Greece	5	Romania	3		

Sources : Reinhart Carmen M. and Kenneth S. Rogoff, 2014. "Recovery from Financial Crises: Evidence from 100 Episodes," American Economic Review, American Economic Association, vol. 101(5), P55.

At the beginning of the nineteenth century, a big rise occurred at the debt crises all over the world. This rise was resulted from different reasons; profit low rates and liquidity low value in the markets because

¹ Other reasons for the disinterest in the internal debt are that the bulletins of the sovereign internal debts are always found at the margins of data schedule. Besides, all the patterns prove the government's commitment to its internal debts.

² The French prime minister (1765-1774) declared that the government has to announce each 100 years if it has not paid its debts; thus, its economy hits a balance, knowing that France has never suffered a debt crisis in the 19th or the 20th centuries.

of the investors' tendency to pick assets which had less liquidity and less risk. Greece has suffered five crises in the years (1826, 1829, 1842, 1860, and 1893), Portugal (1828, 1837, 1852, 1890), Austria and Hungary (1802, 1805). It wasn't different in the twentieth century as Table No.1 shows: Poland suffered four crises (1918, 1936, 1940, 1981), Germany (1932, and 1939), Austria (1938, and 1940) (Carmen M. Reinhart and Kenneth S. Rogoff 2009. PP. 86-92).

3.0 THE SOVEREIGN DEBT OF THE EURO-ZONE COUNTRIES

At the end of 2009, the new Greek government headed by George Papandreou's revealed the real numbers of the deficit of the budget and the general debt levels in the Greek economy (Sesric 2011.P2). The deficit of the general budget hit the 12% that it was 125% of the overall local outcome; the economical growth was of medium ranges. This reveal caused a panic in the international financial market; a fear of a long run financial solvency not only for Greece, but also other countries of high debt percentages like Spain, Italy, and Portugal. The crisis has caused various financial, economical, political, and social consequences. After four years of economical and financial crisis, the procedures followed to manage the crisis failed especially in south of Europe; some aspects got even worse (Friedrich Ebert-Stiftung 2013. P3).

3.1 ORIGINS OF CRISIS

The Euro-zone financial crisis is rooted to the nineties of the previous century. Its negative influence appeared after the world crisis emerged when these countries at the beginning of 1990 started taking the necessary measures to establish an economical monetary system. This was accomplished by signing the Maastricht treaty in 1992 which fostered the investors' belief that the convergence between the Euro-zone countries would happen. The one currency issued on January the first 1999 also expedited the changes that influenced the capital markets as a result for the integration of the zone bonds' market and the close returns of these bonds. This has affected the economical growth positively; the credit raised up highly but its growth was focused in the real estate, construction, and financial services. The increasing weakness of the macroeconomics resulted in the prosperity of the real estate market, the financial derivatives, and imports demand average (Anand et al. 2012. PP6-8).

In 2007-2008, the market capital was frozen and it became difficult to get market credit for governments as well as companies. The crisis caused an economical recession that raised the government payments and the taxes' revenues degenerated. the governments guaranteed the banking sector debts. The programs of protecting, reviving, and supporting the financial sector increased the debt accumulation. There was no concern regarding the value of the members' sovereign debt, but there was a tendency to face the crisis by cutting down the short term profits in an effort to stabilize the banking system.

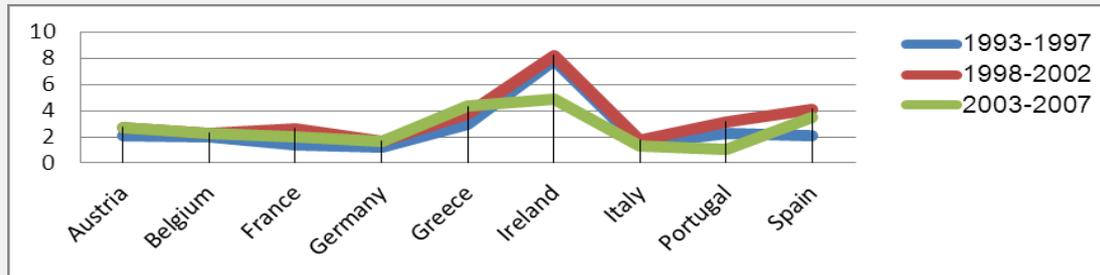
At the end of 2009, the Euro-zone sovereign debt crisis entered a new stage; many countries said that they have high levels of budget deficit over the expected; debt levels cannot be accepted. The financial markets responded to the crisis; the prices of these countries' assets degenerated, the loss of the bank sector increased due to its exposure to the sovereign debts, recession got worse accordingly in a way that pushed these countries to ask for rescue packages from the Euro-zone countries and the international monetary fund.

3.2 REASONS OF CRISIS

Many analysts agree that the crisis yielded from a group of common reasons which confronted the Euro zone countries adding to that some special factors for each member of the monetary union. Each country on its own participated in the debt accumulation. Greece was accused of a general financial mal management; Portugal suffered lack of competitive ability. Spain had a low general debt; still, the flow of the capital enriched the unsustainable real estate bubble. Italy had a long history of debt levels that exceeded the 100%.The Macroeconomics indicators shows that the flow of capital enriched the

domestic demand and increased the economical growth levels in different percentages according to the Euro-zone as the following chart below.

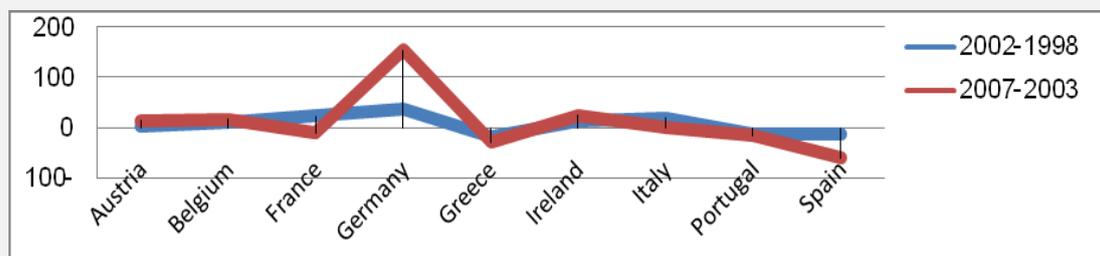
Figure 1: Gross domestic product at market price, Annual growth rate, Average 1993-2007.



Sources: OCED, 2015." Annual growth rate." Statistical Data, Available at <http://www.oecd.org>, Visit date 10/12/2015. Author Estimation.

These countries had the highest growth levels in the period between (1998-2002) at the beginning of the monetary union; Ireland, Greece, Spain, and Portugal hit the highest levels of economical growth, on the other hand, growth increased inflation. In light of the low local competitive ability, these countries started to suffer a deficit in the trade balance especially between 2003-2007 when the deficit grew to the 360% in Spain trade balance, 81% in Greece, and 68% in Portugal trade balance. On the other hand, the overflow raised up in Germany to 145% and in Austria to 132%. This is to say, the commercial overflow transferred to Germany and other countries which were stronger at the competitive level, as the following chart below.

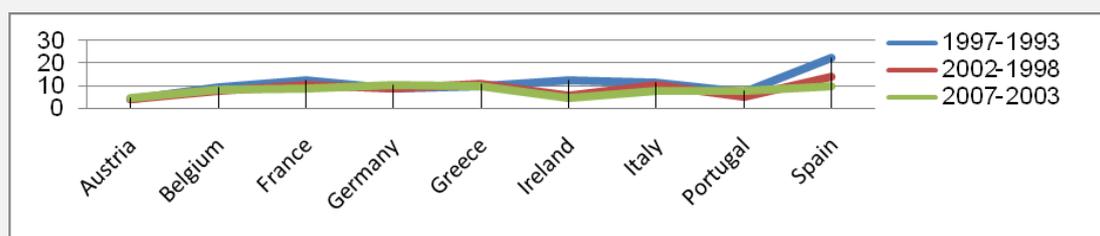
Figure 2. Trade balances for goods and services \$ billion, national accounts basis, Average(1998-2007)



Sources: OCED.2015." Trade balances for goods and services \$ billion." Statistical Data, Available at <http://www.oecd.org>, Visit date 15/12/2015. Author Estimation.

Many members of the Euro-zone suffered a competitive ability because of the high salaries over productivity. In a study (Uri Dadush et al, 2010. P.13), the per capita of the working individual has raised up to 5.9% annually in the (GIIPS) countries in the period between 1997- 2007 while his/her productivity raised 1.3% annually only. The degeneration of the labor unit cost in Germany and other countries in the Euro-zone, as shown in Figure No.3, has lowered the competitive ability for these countries the (GIIPS) compared to other countries who have witnessed a cut down in the labor unit cost.

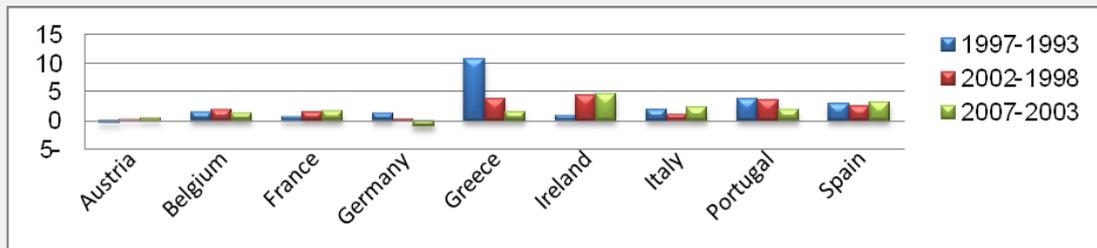
Figure 4. Unemployment rate by sex and age groups – annual%Average (1993-2007)



Sources: OCED.2015." Unemployment rate by sex and age groups "Statistical Data, Available at <http://www.oecd.org>, Visit date 22/12/2015. Author Estimation

Many members of the Euro-zone suffered an economical incapability to create work opportunities what raised the levels of unemployment as shown in Figure No.4, especially in the period between (1993-1997); the unemployment average reached 22.5% in Spain, 12.5% in Ireland, 12.5% in France, and %11.5 in Greece. The unemployment average went down by (2003-2007) in some countries due to the increasing employment in the public sector, or due to the lack of accurate data provided by those countries like Greece for example.

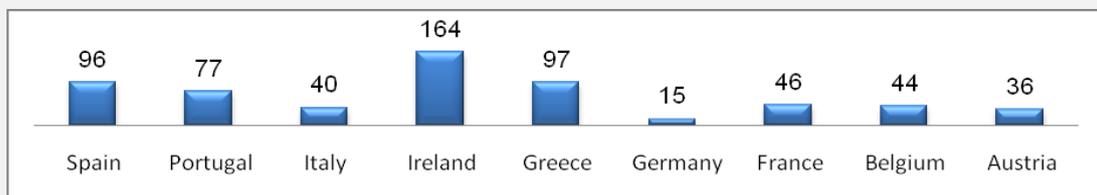
Figure 4: Unit Labour cost Annual growth rate, Average (1993-2007).



Sources: OCED.2015." Unit Labour cost Annual growth rate."Statistical Data, Available at <http://www.oecd.org>, Visit date 20/12/2015. Author Estimation.

Euro area states suffered from the absence of unified financial policy. When interest rates (borrowing cost) has been dropped off, and local demand which is partially funded by foreign borrowing especially countries such as Ireland, Spain, and Greece has been improved, local expenditure increased. Governmental expenditure was largely expanded. Between (1997-2007), governmental expenditure in Ireland increased by 164%, in Greece 97%, in Spain 96%, in Portugal 77%, as shown in Figure No.5, affected by rising financial growth levels (European Commission 2011. PP54-62).

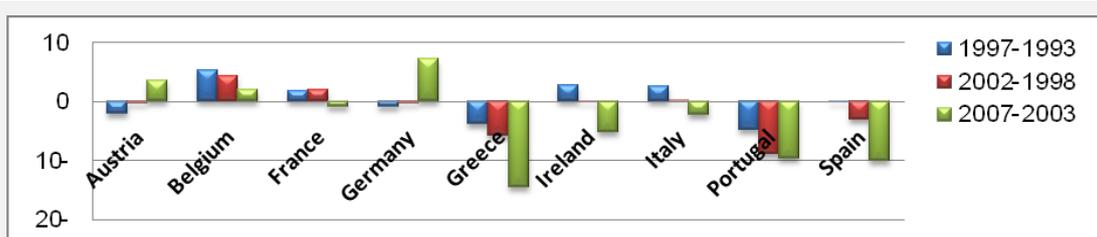
Figure 5: Annual Growth of government Expenditure, Percentage growth (1997-2007)



Sources: Eurostat, 2015."Annual Growth of government Expenditure"Eurostat data Base, Available at <http://ec.europa.eu/eurostat/data/database>. Visit date 24/12/2015. Author Estimation.

This was accompanied by deterioration of current account budget (Uri Dahush et al.,2010.P15) as a result of high deficit in trade balance that resulted from regression of the above mentioned countries' competition. Those high levels of current account budget deficit (which reached between 2003 -2007 in Greece -14.5%, in Spain -10%, Portugal -9.7% as a percentage of gross domestic product) as shown in Figure No.6, and the associated high local expenditure levels for those countries Contributed largely to increasing deficit in budgets.

Figure 6: Current account as a % of GDP, USD s.a. Average (1993-2007).



Sources: OCED.2015." Current account as a % of GDP "Statistical Data, Available at <http://www.oecd.org> Visit date 26/12/2015. Author Estimation.

In spite of financial policies controls in area countries, percentages of deficit and public debt exceeded permissible limits. Between (1997-2007), public debt has grown in Greece by 19%, in Portugal by 9%, in Germany by 43%, in France by 42%. Common factors which faced Euro area countries, New liberalism that embarked from Britain by ex-prime minister Thatcher, helped in liberating capital markets. At the end of the twentieth century, economic growth started depending on the financial sector (financial services). Consequently, financial assets rose as a percentage of a gross domestic product largely. In 2007 it reached the equivalent of 600% of gross domestic product in Euro area. 700% in France and the United Kingdom, and 900% in Ireland (Overbeek 2012.P36). This big inflation in financial assets is a result of emergence of new financial tools (financial derivatives) whose cost in the international bonds market reached in 2007, 596 trillion dollars, 56.2 trillion dollars of them are in exchange market, and almost 393 trillion dollars in interest rates and about 57.9 trillion is swap contracts. Palley (2013) showed that the neoliberal model which has been adopted in European economies is the main reason for the crisis as indicated by Reinhart and Rogoff (2013), which suggested that financial liberalism without restraints leads into crisis.

Starting using the unified currency Euro on 1st of January 1999, allowed the countries in the area especially GIIPS countries to access capital markets with low cost, helped by the closeness between Euro area countries bonds revenues, and closeness of credit classification of those bonds. This cheap credit (low interest rates) was not exploited to develop invested capital to generate monetary inflow that helps in retiring the debt in the future. Instead, it was used in unproductive activities which led into accumulating public debt into high levels. International financial crisis 2008/2009 Crisis led into bankruptcy and losses for several giant financial institutions in Europe. In Germany (AG IKB Deutsche Industriebank & AG Hypo Real Estate Holding), in France (Dexia Bank & Bnp Paribas Bank), in Britain (Northern Rock Bank, Bradford & Bingley bank & Royal Bank of Scotland.) in Luxemburg (Fortis Bank) in Holland (BW Bank). Iceland three biggest banks (Kaupthing, Landsbankinn, Glitnir) also suffered the danger of bankruptcy due to their inability to retire real-estate mortgage (Hodson and Quaglia 2009. PP 939- 953).

Crisis also led into the collapse of financial markets. FTSE euro 300 index - the main index for big company's stocks in Europe- decreased from 1119.94 points in 15 December 2008 to 733.69 points on 31 March 2009. FTSE 100 decreased from 5204.20 points in 15 December 2008, to 3926.14 points in 31 March 2009. French index CAC 40 dropped from 4168.97 on 15 September 2008 to 2807.31 at the end of March 2009. In Austria Guinean stock market had to stop working on 11 October 2008 due to stock price decrease by 80%. As a result of losses and bankruptcy of bank- financial institutions during the crisis, banks who survived bankruptcy put constraints on borrowing. That created a liquidity crisis in the market (credit crisis) which required the intervention of European central bank to inject cash into the artery of European economy. (European Commission 2009. P8), Table No.2 shows increase in severity of credit, which was estimated in 2008 at 65%, and by 64% in 2009.

Table 2: Tentative Easing in Credit Conditions (End of the period).

Euro Area	2007:Q1	2008:Q4	2009 March
Three-Month LIBOR-OIS Spread (Basis Points)	6	160	82
Commercial Paper Issuance (Billions of U.S. Dollars)	756	647	687
Lending Survey (Percent Tightening)	0	65	64
Investment-grade Corporate OAS (Basis Points)	47	397	413

Sources: IMF.2009." Responding to the Financial Crisis and Measuring Systemic Risks." Global Financial Stability Report, International Monetary Fund, Washington, DC :USA, P41.

The financial crisis also led to decrease in economic growth for Euro area countries. Economic growth decreased to 0.4% in 2008, before it decreased more to - 4.5 in 2009 under crisis pressure. This decrease in economic growth resulted from a regression of international trade index, which witnessed a regress due to a new credit crisis (European Commission 2009. PP 9-10).

International trade in European Union area₂₇ countries regressed from 6186.04 billion dollars in 2008 to 4657.54 billion dollars in 2009 (World Trade Organization 2011.P206). That resulted in regression of excess of trade balance for Euro area from 183.1 billion dollars in 2008 to 128 billion dollars in 2009. Also, the growth of actual local demand regressed in Euro area from 1.9% in 2007 to 1.3% in 2008 and to -2.6 in 2009. Consumption growth of euro area regressed from 1.6% in 2007 to 0.3% in 2008, and -1.2% in 2009. General consumption of Euro area regressed from 2.2% to 3.2% to 2.5% for the same period. Consequently, final demand regressed from 2.3% to -1% to -2.9% respectively for the same period (IMF 2011.P.P180-181).

Regression of trade and industrial activity, which was resulted from the crisis in Euro area led into production reduction in industrial institutions. The production index for Euro area regressed from 111.7 in 2007 to reach 93.2 in 2009. This reduction in production resulted in laying off several workers. So unemployment increased in Euro area from 7.6% in 2008 to 9.6% in 2009. Moreover, the crisis led into increasing deficit in general budgets, and higher public debt, bearing in mind that deficit rose in Euro area from -0.7% of gross domestic product in 2007 to reach -6.4% in 2009. Public debt rose from 66.2% in 2007 to reach 80% in 2009 under crisis pressure. This is a result of economic growth regression, and the increasing cost of bail outs conducted by those countries for healing their different economies resulted from international crisis, as shown in Table No.3. The European Union at the end of December 2008 announced economic stimulus packages with a value of 256 billion dollars, and Germany announced 65 billion dollars.

Table 3: Announced and planned or proposed stimulus packages.

Date Announced	Country	\$ in billions
12-Dec-08	European Union	256
13-Jan-09	Germany	65
5-Nov-08	France	33
16-Nov-08	Italy	52
22-Nov-08	Netherlands	7.5
11-Dec-08	Belgium	2.6
27-Dec-08	Spain	14.3
14-Jan-09	Portugal	2.89
22-Nov-08	Netherlands	7.5

Sources :James K. Jackson.2009." The Financial Crisis: Impact on and Response by The European Union" CRS Report for Congress R40415, Congressional Research Service, Available at <http://www.crs.gov/>. P22

3.3 CRISIS EFFECTS

Sovereign credit ratings in Euro area contributed to destabilizing finance because those ratings are original item in a varied group of rules and regulations (IMF2010.P1) credit ratings for 12 countries out of 17 member states in Euro area has dropped as a result of the crisis. Three members (Portugal, Greece, Cyprus) of Non Investment grade rating joined in 2013; i.e., three years after the crisis. Between 31 December 2009 and 31, December 2012 credit rating for Austria and France decreased from +AAA to AAA with negativity, whereas credit rating of Belgium decreased of +AAA to AA with negativity. Estonia dropped from AA to A stable, Slovakia from AA to A with a negative outlook, Malta from +A to +BBB, Spain from +AA to -BBB, Portugal from A to BB, Cyprus from +A to +CCC, Greece from +BBB to -B all with a negative view. The situation didn't differ a lot in 2014. Rating of Finland, Italy, Slovenia remained negative, however, for Cyprus, and Ireland there was a positive outlook (Kramer 2014.P1-9).

Crisis effects were negative on financial markets. A study by Fernandes and Mota (2011) showed how much the financial markets were affected by the crisis. Most of the indicators regressed in response to the credit ratings, and risks of sovereign debts of area countries. It also resulted in raising the risks of high sovereign credit in monetary economies especially those most affected by the crisis. Revenue

discrepancies outbreak expanded in some high debt economies which are in danger (IMF 2010.P2). International financial markets indexes have regressed as a result of the crisis. A study by Stracca (2013) indicated that one of the most important effects of the crisis is the low revenues of stocks in the financial sector, where European market index (Dow Jones EURO STOXX 50) decreased between November/ December 2009 by 4.4370 point. In 2013 the index improved partially to reach 70.3301 points at the end of the year, another rise happened to reach 184.54 at the end of September 2014. However, till now the index is not able to reach half of its value in June/2007 which is 439.8309 point.

In the second quarter of 2010 the American index (S&P500) decreased by 11.9%, (FTSE-100) index, and (CAC 40) decreased by 13.4%, as well as (Nikkei) index regressed about 15.4%. (Msci) Index for East Europe countries has registered regression by 24%. The latter also regressed in Latin American markets and Asia markets by 12.7%, and 5.9% respectively (Arab Monetary Fund 2010.P8). In the second quarter of 2012 (CAC 40), (S&P 500), (FTSE-100), (Nikkei) indexes witnessed regress ranged between 3%-12%. On the level of emerging markets, Msci Index of East Europe and Latin American countries decreased by 15% and 14.3% respectively (Arab Monetary Fund 2012.P8). In the second quarter of 2014, (Nikkei), (S&P500), (FTSE-100), (CAC40) witnessed increase by 5.5%, 3.2%, 1.9%, 3% respectively. This shows a partial recovery for financial markets from crisis effects (Arab Monetary Fund 2014.P8). Trickle (down effects) between sovereign entities and banking system led into increasing risks of market and liquidity. Therefore banks have limited reciprocal lending between banks into those with the shortest date of maturity (IMF 2010.P2). Credit loans decreased by 487 Billion Euro between the mid of 2010-2011 (Allen and Moessner 2013. P7).

Credit tightening came as a result of bank losses which resulted from exposure to Euro area sovereign debts. Bank losses were estimated by 200 Billion Euro in the second quarter of 2010 (Oxford Economics 2010. PP 6-7). As a result of the private sector- granted credit shrinking, European central bank tried at the beginning of 2012 to intervene through injecting gross liquidity of 529 Billion Euro for three years, but credit crisis continued severely. In 2014 in spite of the tangible improvement in market feelings towards banks and sovereign entities, credit conditions in Euro exhausted economies are still hard due to the suspense of restructuring company sector which is over loaded with debts, and due to un-finalizing healing the defects in public credit balance sheet (IMF 2014. P2).

Disturbances in sovereign debt markets caused regression of economic activity all over Euro area countries. A study conducted by Li Na and Wen (2012) suggested that international economic growth decelerated severely between 2010-2012. Gross domestic product decreased by 65%; international unemployment rose up by 1.8%; annual international trade levels decreased by 1.14%. According to World Economic Outlook Update for 2014, international growth anticipations for 2014 were reduced by 0.3% to be 3.4%, as a reflection of weak growth legacy during the first quarter of the year; especially that international financial crisis, sovereign debt crisis, and some political turmoil are still evident and affect global economic growth.

Some Euro area economies suffered inflation in its economies, especially between (2011-2012), Consumer index prices in euro area was 1.9% in 2010 to reach 2.7% in 2011, and 2.5% in 2013 before it continued decreasing in 2013 to reach 1.3%, and it is expected to reach 0.5% in 2014. Deficit in trade balance rose in Euro area especially in France, where it rose from -58.1 billion dollars in 2010 to -82.1 billion in 2011 before it partially regressed in 2013 to -54.1 billion, Whereas, deficit partially decreased in Greece, Portugal, Italy, Spain, Ireland, when most of these countries achieved excess in trade balance. That excess is a result of income value regress for some items such as goods and services. Domestic demand for euro area regressed by -3.9% in 2009 to improve partially into 3.1% in 2010 before it re-decreased due to crisis effects into 1.7% in 2011, and to 1% in 2012, 1.1% in 2013. It is expected to reach 2% in 2014, and 2.18% in 2015. Amidst economic growth deceleration, austerity programs, and restructuring, levels of unemployment increased in debt -overloaded euro area economies into recorded figures, where it exceeded 20% in Spain and Greece.

Crisis led into rising deficit in current account balance in Euro area due to deceleration of economic growth, regression of trade indexes for Euro area, and trade balance deficit rise. Greece registered the highest deficit parentage with -10.5% as a percentage of gross domestic product in 2010, followed by Portugal with -9.9%; Cyprus came in the third place with -7.7%. 2013 witnessed a partial regress in deficit due to regress in trade balance deficit. In spite of overall deficit regress in Euro area from -6.2% as a percentage of gross domestic product in 2010 to reach -3% in 2013, several area countries still suffer from high deficit percentages. Ireland registered a record with -30.6% in 2010 due to bail out programs for its financial institutions before it started regressing to -7.2% in 2013. In Greece budget deficit was -10.9% in 2010, and increased in 2013 to -12.7%. Ireland, Spain, Croatia, Cyprus, Greece, and Slovenia started the year 2014 with more than 3% deficit as a percentage of gross domestic product. Public debt is still rising because of economic stagnation crisis in the area. Public debt as a percentage of gross domestic product was 85.5% in 2010, and it continued rising to reach a new record which was 95.2% in 2013. Crisis also led into fluctuations in Euro exchange rates against other currencies. Between 2010-2014, Euro rate exchange decreased against American Dollar by 4%, against Chinese Yen by 15%, against Pound sterling by 6%.

3.4 DEFECTS IN DESIGNING MONETARY SYSTEM

Crisis revealed defects in monetary system design, which could be summarized as follow: Failure of stability and growth convention, Most of rules were violated, Between 2001-2006 one third of member states violated stability and growth convention, and deficit in those countries exceeded 3%, public debt 60% as percentage of gross domestic product. Lack of crisis resolving mechanism: crisis revealed the absence of crisis resolving mechanism in Euro area states, Greek crisis was not responded to in due time amidst defects in designing rules that control monetary system in Euro area (Mistral 2010.P9), and agreements have not been reached except after long months of negotiation; that complicated the crisis and contributed to its spread. The absence of last resort lender in Euro area, European Central Bank was not able to play the role of last resort lender through printing money, or purchasing governmental bonds as American, Japanese or English Central Banks did, due to its work rules (Daravs 2012. P7).

The absence of financial policy for the Union crisis revealed the absence of institution which is responsible for management of overall financial situation for Euro area. Currency union without a federal management for debt and without a central federal management which has power over tax management led into public and private sector debt growth (Anand et al., 2012.P13). Most of the member states apply the policy that fits their economies, and subjects to European financial controls. Nevertheless, decentralized financial policies pushed into a financial crisis (Guraziu and zeqo 2012. P17).

3.5 CRISIS CONFRONTING METHODS

During previous years, European institutions applied some measures to stop or contain the crisis. Those measures depended on providing countries and banks which suffer from the crisis with financial aid. In August 2010, a facility for temporary financial stability was established (EFSF) with financial capacity of 440 billion dollars Euro (Minescu 2011.P101). Then, it was replaced in 2012 with a permanent financial stability mechanism (EFSM) with financial capacity of 500 billion Euro. Loans were offered for governments of Greece, Ireland, Portugal, and Cyprus in addition to financial aid which was provided by the international monetary fund. Moreover, financial assistance was provided for Spanish banks (Glencross 2013.P10). Table No.4 shows the financial commitments to be provided for affected countries.

In March 2013, a-15 billion euro- bail outs package was provided to Cyprus by the European Union, and International Monetary Fund. Consequently, it becomes the fifth member of the union that receives bail outs (Roland et al., 2013. P1). Bail outs provided by the European Union and International Monetary Fund to countries were conditioned with their commitment to criteria of financial austerity and

structural reforms, which started in Greece in 2010 when the government agreed to follow a 5-year structure reform program until realizing the targeted deficit 3% in 2014. This should be done through increasing revenues by 5% as a percentage of gross domestic product until 2014, so revenues will form 42.6% of the gross domestic product, and decreasing expenditure by 8.9% till 2014 to form 36.5% of gross domestic product (Ewaida 2015.P268). Ireland also started a special austerity program in 2009 for controlling government financial situation, where reductions were 5.5% of gross domestic product in 2008, 2.4% of gross domestic product in 2010. Despite that, Ireland needed a bail out with 67.5 Billion Euro conditioned with: restructuring the Irish banks, increasing taxes, reducing governmental expenditure, reducing governmental borrowing with 15 billion along the four next years (Taylor 2011.PP48-52).

Table 4: Financial assistance packages for eurozone governments and banks

	Date Agreed	European Commitment	IMF Commitment	Total Financial Commitment
Greece's government	May 2010 & March 2012 (Sum of two Packages)	€198 billion (about \$257 billion)	€48 billion (about \$62 billion)	€246 billion (about \$320 billion)
Ireland's government	December 2010	€45 billion (about \$58 billion)	€22.5 billion (about \$29 billion)	€67.5 billion (about \$88 billion)
Portugal's government	May 2011	€52 billion (about \$68 billion)	€26 billion (about \$34 billion)	€78 billion (about \$101 billion)
Spain's banks	July 2012	Up to €100 billion (about \$130 billion)	—	Up to €100 billion (about \$130 billion)

Sources: Rebecca M. Nelson, Paul Belkin, Derek E. Mix and Martin A. Weiss.2012." The Euro zone Crisis: Overview and Issues for Congress." CRS Report for Congress R42377, Congressional Research Service, Available at <http://www.crs.gov/>.P20.

Portugal committed to structural reforms and applying comprehensive austerity plan to realize a target deficit percentage of 2.5% in 2014 (Mamede 2012.P44). The plan included public sector wages decrease by (3.5% -12%), cancelling summer and celebrations expenditures, agreement also stipulated freezing country participation in rail ways projects, reevaluation of 20 partnership project between public and private sector by International Monetary Fund and European group, as well as country withdrawal of electricity power sector, and of Portuguese Air lines (Freire et al., 2014. P6).Spain declared an austerity plan on March 31, 2010, of 26 billion dollars through reducing ministry's budgets, decreasing public sector wages. On 12 July 2012, a new austerity plan was declared to secure 65 billion before the end of 2014. It included decreasing added value tax by 3%, reducing unemployment assistance, cancelling Christmas allowances of public employees, deducting expenditures of the general administration to reach less than 3% deficit in 2014.

According to the agreement, Cyprus has to increase taxes, decreasing the number of employees in the public sector, privatization of public companies, increasing taxes imposed on companies by (10%- 12.5%), Winding up the second biggest bank in the country (Laiki Bank), and restructuring the first bank (Bank of Cyprus). In general, austerity plan calls for reducing expenditures by 80% and increasing taxes by 20%. Italy adopted a 30 -billion Euro austerity plan in 2013, which aimed at reducing governmental expenditures, reforming salary system for saving 20 billion Euro during the next three years through rationalization of expenditure. Other 10 billion Euro could be saved through imposing a new tax on money transfer by 1.5%, and taxes on some complementary goods.

Central Bank has taken steps to enhance liquidity for the banking system in Euro area; starting from May 2010 central bank started buying governmental bonds of Euro area countries in secondary markets in an attempt to achieve stability in bonds revenues. In August 2012 a similar program for purchasing bonds of the countries that received economic bail outs was announced, the bank also showed high flexibility in short term re-finance processes during the crisis. In December 2011 and February 2012, central bank offered 3-year loans with low cost for area banks, and called for long term refinance process, which resulted in injecting more than 1 trillion euros in the economy (Rebecca M.Nelson et al.,2012. P6).

3.6 METHODS SUITABILITY TO REALITY

Bail outs which were directed to (Greece, Ireland, Portugal, Spain, and Cyprus) economy didn't help much in re-stabilizing those economies. Macro- economic indexes showed that bail outs didn't have big effects, and austerity plans deepened economic stagnation amidst high unemployment (Trigo 2013.P1). Also, deficit levels and public debt didn't regress as required. A study by Bush et al., in (2013) revealed that austerity policies are not able to solve debt problem; on the contrary, they led into economic stagnation. Structural reform and austerity programs led into negative reactions by people towards governments who endorsed them. Governments of Greece, Ireland, Italy, Spain, Holland, Slovenia, and Slovakia, were changed under crisis pressures, and some required the intervention of the constitutional court to stop austerity programs as happened in Portugal on 12 June 2013.

Polls in several countries showed regress of euro area popularity as well as their European national feelings. In 2011, (38%-40%) of surveyed people in Greece had a negative opinion towards the European Union, 40% had a negative opinion towards (Euro) currency, 98% of the surveyed attributed the first reason of debt crisis to Greek government. In Ireland, 95% of the surveyed Irish were unsatisfied with their government (Sara F.Taylor 2011. P.P32-42).In Portugal, trust in the government regressed from 44.5% in 2008 to 13.6% in 2012. Trust in the European Union regressed from 64.7% in 2008 to 42.6% in 2012 (Freire et al.,. 2014. P7). A poll at the beginning of 2014 showed that 79% of Europeans see that their economic conditions didn't improve during the last year and that 10% or less have faith that their governments will fix the conditions.

3.7 LESSONS LEARNED FROM CRISIS

The crisis showed that arrangements of fixed exchange rates, including currency union, are subjected to the crisis if countries are not able to control their economies. A Foreign adaptation of economy through exchange rate will lead to impairment of competitive capacity, the deficit in the current account balance, and the crisis in the balance of payments also take in consideration that European crisis revealed that financial integration would not lead to effective privatization for capital as expected from new classical theory. What happened is that integration without financial constrains in euro area contributed to developing unbearable defects into bubbles. It is necessary to accelerate economic restructuring for countries that suffer from a high deficit and public debt. Crisis showed that Debt is always more than seen through the eyes. Risks of debt should be deeply diagnosed and understood, foreign and domestic debt should be identified, and they (foreign and domestic debt) should not be created at the same period so Preventing crisis and decision-making mechanism should be done before the next crisis because it is not easy to set up a mechanism for crisis settlement during the crisis.

4.0 CONCLUSIONS AND RECOMMENDATIONS

The most salient results of the study that Euro area Debt crisis effects was not limited to the area countries, it was transmitted through trade channel and financial channel into several world countries. The extent of crisis influence differs according to the extent of country's association and integration in Euro area economies. Where different degree of influence of the crisis countries depending on the degree of association and integration into the economies of the euro area, results show that there are

defects in European monetary system design, such as (failure of stability and growth convention, lack of crisis solving mechanism, absence of last resort lender, and absence of financial policy of the union). As also the way the European Union tackled the crisis increased its cost. Investors know that indebted country will not be able or willing to retire the debt on this level of debt or interest. So incentives should be provided for the debtor to relinquish a part of the debt. Moreover, restructuring should be developed within a short time. Crisis unveiled failure of European central bank in dealing with the crisis due to the absence of several necessary tools for facing the crisis which resulted from legal and regulative constrains.

Results showed that bail outs and economic adaptation programs didn't help much in regaining stability for affected economies. A lot of capital was expended against little effects, moreover financing during budget deficit, which resulted from increasing public and private expenditure, that cause increasing consumptions models leads to accumulation of debts and creates future crisis, the crisis made the gap between people in northern countries and those in southern countries increased after the crisis, and trust degree in euro area reached its lowest in southern countries.

This Study concluded the following recommendations: a quick adoption of the financial union for euro area countries. Reactivating stability and growth convention through revising it and activating its role in improving financial and economic stability. Establishing European national government that helps in realization of stability in the area. Increasing trust between area governments and their people so economic reforms could be implemented.

Recommends too, there is need for activating the role of European central bank as last resort lender during crisis to providing a mechanism for facing crisis in the future and designing early crisis alarm system, being selective is important; selecting the policies that would be used in treating crisis because most of those policies didn't contribute to solving the crisis.

No matter how easy is getting that finance Economic development and growth should not depend on borrowing and excess finance from others, to enhance economic growth design and implement economic policies which can limit unemployment rates. As well as depending on attracting investments for economic sectors, increasing goods export, and any other steps that could increase efficiency and effectiveness of actual economy

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