

## **THE EURO AREA CRISIS**

**Luiza Loredana Năstase Ph. D Student**  
**University of Craiova**  
**Faculty of Economics and Business Administration**  
**Craiova, Romania**

**Abstract:** The present paper points out the fact that the potential economic growth of the euro area has been hindered by the crisis still existing within the economies of these states. In fact, we must specify that the current euro area crisis tends to become even more severe, especially due to the lack of political measures. Besides the economic-financial crisis, there is also a crisis of confidence, fueled by the negative forecast, with significant consequences on the global economy. The conclusion is that the survival of this area is dependent on the existence of public finance stabilization programs, budgetary commitments and most importantly, the achievement of a development plan of the European and Monetary Union.

**JEL classification:** E42, E52, E63.

**Key words:** EURO area, economic and financial crisis, geopolitical influence, responsibility, economic recession.

### **Acknowledgment**

„This work was supported by the strategic grant POSDRU/CPP107/DMI1.5/S/78421, Project ID 78421 (2010), co-financed by the European Social Fund – Investing in People, within the Sectoral Operational Programme Human Resources Development 2007 – 2013.”

### **1. INTRODUCTION**

The EURO area was created as a monetary area in 1999 by eleven member states of the European Union. At present, it consists of 17 countries from the EU (Austria, Belgium, Cyprus, Finland, Estonia, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Holland, Portugal, Spain, Slovenia, Slovakia), which have adopted the euro as a single currency. We must also point out the fact that alongside these states, other 4 "micro-states" are also attached to the euro area, through the monetary agreements concluded: Andorra, Monaco, San Marino and Vatican.

The economy of the EURO area is the second in the world, behind the economy of the USA; that is why, the current crisis is affecting many economies as well as the attempt to recover of both the emerging European and Asian states. The member states must understand that they cannot spend more than they are earning, and in order to solve the existing problems everyone should get involved, without expecting financing from the rest of the world.

### **2. THE EURO AREA CRISIS**

If at the beginning of the international economic-financial crisis the EURO area was not affected too much, between 2008 and 2009 it became the epicenter of the crisis.

The sovereign debt crisis in the EURO area is still considered to be a risk for the world economy, and the more it grows in intensity the more the markets are confronted with pressures. The financial turmoil has increased at the periphery of the EURO area, while the recession is making its presence felt more and more, hitting the neighboring countries as well. The current account deficits of the peripheral countries, which have appeared during the crisis, are a result of the large loans and large disparities between the levels of competition in the area. The creation of the euro meant that all problems that might appear, would not remain within the borders of a country, but they would spread through the whole monetary area; hence, a series of domestic instruments that could be used to solve problems, are useless under these circumstances. At the same time, some instruments necessary to solve transnational problems, they either haven't been developed or used.

**Tabel no.1: General government gross debt- percentage of GDP-**

| GEO/TIME    | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Belgium     | 107,8 | 106,5 | 103,4 | 98,4  | 94,0  | 92,0  | 88,0  | 84,1  | 89,3  | 95,8  | 96,0  | 98,0  |
| Germany     | 60,2  | 59,1  | 60,7  | 64,4  | 66,3  | 68,6  | 68,1  | 65,2  | 66,7  | 74,4  | 83,0  | 81,2  |
| Estonia     | 5,1   | 4,8   | 5,7   | 5,6   | 5,0   | 4,6   | 4,4   | 3,7   | 4,5   | 7,2   | 6,7   | 6,0   |
| Ireland     | 37,5  | 35,2  | 31,9  | 30,7  | 29,4  | 27,2  | 24,7  | 24,8  | 44,2  | 65,1  | 92,5  | 108,2 |
| Greece      | 103,4 | 103,7 | 101,7 | 97,4  | 98,6  | 100,0 | 106,1 | 107,4 | 113,0 | 129,4 | 145,0 | 165,3 |
| Spain       | 59,4  | 55,6  | 52,6  | 48,8  | 46,3  | 43,1  | 39,6  | 36,2  | 40,2  | 53,9  | 61,2  | 68,5  |
| France      | 57,3  | 56,9  | 58,8  | 62,9  | 64,9  | 66,4  | 63,7  | 64,2  | 68,2  | 79,2  | 82,3  | 85,8  |
| Italy       | 108,5 | 108,2 | 105,1 | 103,9 | 103,4 | 105,4 | 106,1 | 103,1 | 105,7 | 116,0 | 118,6 | 120,1 |
| Cyprus      | 59,6  | 61,2  | 65,1  | 69,7  | 70,9  | 69,4  | 64,7  | 58,8  | 48,9  | 58,5  | 61,5  | 71,6  |
| Luxembourg  | 6,2   | 6,3   | 6,3   | 6,1   | 6,3   | 6,1   | 6,7   | 6,7   | 13,7  | 14,8  | 19,1  | 18,2  |
| Malta       | 54,9  | 60,9  | 59,1  | 67,6  | 71,7  | 69,7  | 64,1  | 62,1  | 62,3  | 68,1  | 69,4  | 72,0  |
| Netherlands | 53,8  | 50,7  | 50,5  | 52,0  | 52,4  | 51,8  | 47,4  | 45,3  | 58,5  | 60,8  | 62,9  | 65,2  |
| Austria     | 66,2  | 66,8  | 66,2  | 65,3  | 64,7  | 64,2  | 62,3  | 60,2  | 63,8  | 69,5  | 71,9  | 72,2  |
| Portugal    | 48,5  | 51,2  | 53,8  | 55,9  | 57,6  | 62,8  | 63,9  | 68,3  | 71,6  | 83,1  | 93,3  | 107,8 |
| Slovenia    | 26,3  | 26,5  | 27,8  | 27,2  | 27,3  | 26,7  | 26,4  | 23,1  | 21,9  | 35,3  | 38,8  | 47,6  |
| Slovakia    | 50,3  | 48,9  | 43,4  | 42,4  | 41,5  | 34,2  | 30,5  | 29,6  | 27,9  | 35,6  | 41,1  | 43,3  |
| Finland     | 43,8  | 42,5  | 41,5  | 44,5  | 44,4  | 41,7  | 39,6  | 35,2  | 33,9  | 43,5  | 48,4  | 48,6  |

Source: Table created using data from : <http://epp.eurostat.ec.europa.eu>

The current crisis jeopardizes the EU's negotiation position with the other global actors, especially because of a lack of confidence that can only be solved or at least improved only through a common, unitary action, capable of demonstrating that the member states act as a team. According to specialists, this common action should be oriented towards the creation of a stabilization fund. Thus, member states can give a share of their GDP to use it in case of regional economic crises. Germany is the one opposing this measure, because it doesn't agree that the money transfer should replace loans.

As we have mentioned before, the most important political priority is to solve the economic crisis in the EURO area, but also to come up with a mix of policies that would allow states to recover in a safe and friendly environment through the analysis of fiscal challenges and vulnerabilities in the financial field. And this fact, especially because many times political measures have aimed only at certain aspects of the

individual crisis, such as the salvation of the national banking system, as liquidity allows banks to buy governments' debts. For the states to recover, a lot of hard cash is needed, but the Central European Bank is not willing to print money in order to solve the debt crisis in the EURO area, considering that the most important thing is for the states in the EURO area to continue their consolidation reforms.

If initially it was considered that 2013 would mean a recovery for economies, the most recent forecasts are keen to say "You're wrong" and show us that next year will bring an insignificant growth or even a recession, which will compromise the stability of the financial system until the existing problems within the EURO area are solved.

As it concerns the real GDP for 2012, it is considered to register a drop of 0.5% within the EURO area, while 2013 should bring an increase of only 0.25%. For the developed countries, 2012 will be marked generally by increases of the real GDP, minus Holland, which will register a contraction because of the intensification of the fiscal consolidation measures. In the table below we can notice the annual percent changes of the GDP, registered by the member states of the EURO area between 2000 and 2011, but also the predictions for 2012 and 2013:

**Tabel no.2: The percentage changes in GDP in the euro area**

| YEAR/<br>COUNTRY | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009  | 2010 | 2011 | 2012 | 2013 |
|------------------|------|------|------|------|------|------|------|------|------|-------|------|------|------|------|
| Belgium          | 3,7  | 0,8  | 1,4  | 0,8  | 3,3  | 1,7  | 2,7  | 2,9  | 1,0  | -2,8  | 2,3  | 1,9  | 0,0  | 0,3  |
| Germany          | 3,1  | 1,5  | 0,0  | -0,4 | 1,2  | 0,7  | 3,7  | 3,3  | 1,1  | -5,1  | 3,7  | 3,0  | 0,9  | 0,9  |
| Estonia          | 9,7  | 6,3  | 6,6  | 7,8  | 6,3  | 8,9  | 10,1 | 7,5  | -3,7 | -14,3 | 2,3  | 7,6  | 2,4  | 3,5  |
| Ireland          | 9,3  | 4,8  | 5,9  | 4,2  | 4,5  | 5,3  | 5,3  | 5,2  | -3,0 | -7,0  | -0,4 | 0,7  | 0,4  | 1,4  |
| Greece           | 3,5  | 4,2  | 3,4  | 5,9  | 4,4  | 2,3  | 5,5  | 3,0  | -0,2 | -3,3  | -3,5 | -6,9 | -6,0 | -4,0 |
| Spain            | 5,0  | 3,7  | 2,7  | 3,1  | 3,3  | 3,6  | 4,1  | 3,5  | 0,9  | -3,7  | -0,1 | 0,7  | -1,5 | -1,3 |
| France           | 3,7  | 1,8  | 0,9  | 0,9  | 2,5  | 1,8  | 2,5  | 2,3  | -0,1 | -2,7  | 1,5  | 1,7  | 0,1  | 0,4  |
| Italy            | 3,7  | 1,9  | 0,5  | 0,0  | 1,7  | 0,9  | 2,2  | 1,7  | -1,2 | -5,5  | 1,8  | 0,4  | -2,3 | -0,7 |
| Cyprus           | 5,0  | 4,0  | 2,1  | 1,9  | 4,2  | 3,9  | 4,1  | 5,1  | 3,6  | -1,9  | 1,1  | 0,5  | -2,3 | -1,0 |
| Luxembourg       | 8,4  | 2,5  | 4,1  | 1,5  | 4,4  | 5,4  | 5,0  | 6,6  | 0,8  | -5,3  | 2,7  | 1,6  | 0,2  | 0,7  |
| Malta            | -    | -1,5 | 2,8  | 0,1  | -0,5 | 3,7  | 2,9  | 4,3  | 4,1  | -2,7  | 2,3  | 2,1  | 1,2  | 2,0  |
| Netherlands      | 3,9  | 1,9  | 0,1  | 0,3  | 2,2  | 2,0  | 3,4  | 3,9  | 1,8  | -3,5  | 1,7  | 1,2  | -0,5 | 0,4  |
| Austria          | 3,7  | 0,9  | 1,7  | 0,9  | 2,6  | 2,4  | 3,7  | 3,7  | 1,4  | -3,8  | 2,3  | 3,1  | 0,9  | 1,1  |
| Portugal         | 3,9  | 2,0  | 0,8  | -0,9 | 1,6  | 0,8  | 1,4  | 2,4  | 0,0  | -2,9  | 1,4  | -1,6 | -3,0 | -1,0 |
| Slovenia         | 4,3  | 2,9  | 3,8  | 2,9  | 4,4  | 4,0  | 5,8  | 6,9  | 3,6  | -8,0  | 1,4  | -0,2 | -2,2 | -0,4 |
| Slovakia         | 1,4  | 3,5  | 4,6  | 4,8  | 5,1  | 6,7  | 8,3  | 10,5 | 5,8  | -4,9  | 4,2  | 3,3  | 2,6  | 2,8  |
| Finland          | 5,3  | 2,3  | 1,8  | 2,0  | 4,1  | 2,9  | 4,4  | 5,3  | 0,3  | -8,4  | 3,7  | 2,9  | 0,2  | 1,3  |

Source: Table created using data from : <http://epp.eurostat.ec.europa.eu>

It is estimated that the HICP inflation in the euro area will be situated on average, between 2.3% and 2.5% in 2012, as a reflection of the pressures exerted by the high prices of the energetic products, the depreciation of the euro and the increase in indirect taxes. As the impact of high prices of raw materials will fade away, the inflation rate is foreseen to drop in 2013 to an average between 1.0% and 2.2%. So, the inflation, excluding aliments and energetic products, will be generally stable in 2012 and 2013, seeing that the anticipated increases in both the indirect taxes and

administered prices, should diminish pressures coming from the slowing of domestic demand and the moderate increase in labor costs (data supplied by “ECB staff macroeconomic projections for the euro area”, ECB, June 2012).

### 3. CONCLUSIONS

Following the presented facts, we can say that within the EURO area what we are dealing with is a debt crisis of governments and banks, but also a crisis of competition and economic growth. All this is affecting not only the EURO area but the whole European Union and its international position as global actor, seeing the lack of confidence on everyone's lips. Hence, the recent forecasts claim that the current crisis in the monetary area will not be solved too soon and especially without urgent unitary measures on the part of states acting as partners.

### REFERENCES

1. Arghyrou, M.G. The EMU sovereign-debt crisis: Fundamentals, expectations and contagion, Cardiff Economics Working Paper, N.E2010/9, 2010
2. De Santis, R.A. The Euro Area Sovereign debt crisis seif haven, credit rating agencies and the spread of the fever from Greece, Ireland and Portugal, European Central Bank, 2012
3. \*\*\* Proiecțiile macroeconomice pentru zona euro ale experților Eurosistemului, Banca Centrală Europeană, iunie 2012
4. \*\*\* Euro area international trade in goods surplus of 15.6 bn euro, newsrelease euroindicators, 133/2012, 17 september 2012
5. \*\*\* [www.imf.org](http://www.imf.org)
6. \*\*\* [www.ecb.europa.eu](http://www.ecb.europa.eu)
7. \*\*\* [www.bis.org](http://www.bis.org)