THE GLOBAL ECONOMIC CRISIS IMPACT ON THE EURO AREA COUNTRIES

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Abstract: This paper tries to highlight the impact of the current economic and financial crisis on the Euro Area Countries since the outbreak of the Greek sovereign debt crisis, showing also, the positive developments in Europe and lower financing costs for euro zone periphery states, that encouraged Greece, the epicenter of the debt crisis four years ago, to try on this year to attract funding markets to avoid a new bailout. The European financial markets continue its upward trend in 2013 with a wave of confidence, increasing the value of stocks, bonds and euro market, facilitating the return of the euro area that have been forced to seek bailout package. Most banks of the states from the "periphery" euro zone borrowing costs at record lows and major Western European stock exchanges indexes are lately the highest level since May 2008, while the euro is close to the maximum last four years against the dollar. Companies from the Euro Area Countries are features by return of markets, managed more easily to find funding and even investors. Also, heavily indebted companies have won more time to implement restructuring programs.

*Keyword**s:** euro-zone crisis, euro area debt.*

JEL Classification: E42, F01, G01

INTRODUCTION

The current economic and financial crisis that peaked in 2008 highlighted the necessity to strengthen economic governance in the European Union and euro area. Faulty governance allowed in some countries, to reach unsustainable levels of public debt and deficit. This situation led the sovereign debt crisis that affecting some Member States and forcing them to apply now tough deficit reduction policies. In a restless world on financial terms, the European Union remained united as a major economic bloc, thus showing that it can weather the storm and that can help countries which, without his support, would be more vulnerable.

The crisis has revealed quite large differences between the economies of the euro area countries which is why some of them have been very difficult to respond effectively. Divergence occurred in areas such as labor productivity and global economic competitiveness. That is why macroeconomic imbalances procedure and the Euro Plus Pact provisions are so important. They extend supervision at European Union level on all aspects of national economies and monitor the occurrence and magnitude these difference.

Serious chronic economic imbalances accumulated over time are also among the causes of the economic crisis triggers. They not only gave rise to serious problems for the Member States, but also had huge repercussions on the economic stability of the euro area and the European Union as a whole. This highlighted the degree of interdependence of the economies of the euro area and the European Union.

ORIGINS OF THE CRISIS

The economic crisis does not break out overnight but is the result of a process that lasted several years. It is true that it started in the United State of America, trough the mortgage bubble that culminated in the collapse of Lehman Brothers in September 2008. The causes of the current crisis were the *cheap money policy* pursued by the Fed after the phenomenon of September 11, 2001, and the corporate behavior of financial institutions lack of responsibility and morality. Exacerbate the securitization of receivables created a real *food chain*. The loan brokers have placed more customers subprime to the banks, attracted by the lure of commissions based on sales. Banks, in turn, accepted their lending to low and fixed interest rates in the first years, with the idea that there is the possibility of refinancing later and in the context of cleaning possibility of such portfolio assets by giving loans to specialized financial vehicles. The last one, after securitization of receivables purchased, sold new securities on secondary markets specialized to institutional investors: pension funds, insurance company, investment banks etc – the first institutions that were hit by the crisis.

The easy access line of credit for purchase a residential property has led to unprecedented inflammation of their prices. Reversal trend in interest rates has led some customers unable to repay their loans, that estate collateral performance and degrease their market value. Many of them have seen their properties valued at prices well below those of the remaining loan balance, no longer having the opportunity to refinance. The phenomenon of "credit fail" has grown and, thus, created the beginning of the early disaster to come.

Euro zone imbalances accumulated before the crisis - accumulation in some Member States of massive public deficits and debt, economic imbalances, to which were added increasing differences in competitiveness - have done that for some countries States, the financial crisis and the debt crisis, arising at the same time be very difficult to manage. In this situation, many European banks have faced serious problems. This created a vicious circle in which banks ceased to lend each other, leading to a shortage of officers and, further, to a crisis of confidence among banks.

Many European governments had to provide emergency financial support for major banks to save them from bankruptcy. Between late 2009 and early 2010, some euro zone countries are beginning to have problems to finance debts and had to provide investors with interest rates rising (so-called sovereign debt crisis). Faced with the worst crisis occurred in one generation, governments and European Union institutions have collaborated to make immediate challenge posed by the sovereign debt crisis (inability Ireland, Greece and Portugal to access bond markets) and to establish measures to prevent similar crises . It is clear that without a stable banking sector and without controlling public debt are unlikely to restore economic growth.

To reform and strengthen the financial sector in the European Union has created new pan-European authority to oversee stricter financial institutions in the European Union. To ensure that banks do not have a solid case suffered from subsidies to ailing banks, the European Commission has overseen massive bank rescue measures taken by Member States and checked the granting of state aid. In turn, the European Banking Authority has overseen annual crisis simulations to assess the ability of a total of 90 major banks in 21 countries to withstand potential financial shocks.

THE ECONOMIC SITUATION IN THE EURO AREA

Global economy is heading towards to a positive trend, compared to the 2013, when GDP growth worldwide has experienced a decline due to the repercussions that came both from the sovereign debt crisis in the euro area and from other regions. Although advanced economies enjoying positive growth however, expected to remain moderate.

Table 1: Euro area economy: GDP, inflation, unemployment rate (%)

	Real GDP			**Inflation**			**Unemployment rate**		
	2012	**2013**	**2014**	**2012**	**2013**	**2014**	**2012**	**2013**	**2014**
Belgium	-0.2	0.2	1.5	2.6	1.6	1.5	7.3	7.7	7.7
Germany	0.7	0.5	2.0	2.1	1.8	1.7	5.5	5.7	5.6
Estonia	3.2	3.0	4.0	4.2	3.6	3.2	10.0	9.8	9.0
Latvia	5.3	3.8	4.1	2.3	1.9	2.2	14.9	13.7	12.2
Ireland	0.7	1.1	2.2	1.9	1.3	1.3	14.8	14.6	14.1
Greece	-6.4	-4.4	0.6	1.0	-0.8	-0.4	24.7	27.0	25.7
Spain	-1.4	-1.4	0.8	2.4	1.7	1.0	25.0	26.9	26.6
France	0.0	0.1	1.2	2.2	1.6	1.5	10.3	10.7	11.0
Italy	-2.2	-1.0	0.8	3.3	2.0	1.7	10.6	11.6	12.0
Cyprus	-2.3	-3.5	-1.3	3.1	1.5	1.4	12.1	13.7	14.2
Luxemburg	0.2	0.5	1.6	2.9	1.7	1.6	5.0	5.4	5.7
Malta	1.0	1.5	2.0	3.2	2.2	2.2	6.5	6.4	6.2
Netherlands	-0.9	-0.6	1.1	2.8	2.6	1.4	5.3	6.3	6.5
Austria	0.7	0.7	1.9	2.6	2.2	1.9	4.4	4.5	4.2
Portugal	-3.2	-1.9	0.8	2.8	0.6	1.2	15.7	17.3	16.8
Slovenia	-2.0	-2.0	0.7	2.8	2.2	1.5	9.0	9.8	10.0
Slovakia	2.0	1.1	2.9	3.7	1.9	2.0	14.0	14.0	13.6
Finland	-0.1	0.3	1.2	3.2	2.5	2.2	7.7	8.0	7.9
Euro area	***-0.6***	***-0.3***	***1.4***	***2.5***	***1.8***	***1.5***	***11.4***	***12.2***	***12.1***
European	***-0.3***	***0.1***	***1.6***	***2.6***	***2.0***	***1.7***	***10.5***	***11.1***	***11.0***

Source:European Comission, Winter 2013

Table 1 presents an overview of euro-area economy: GDP, inflation and unemployment rate. Compared with 2012, in 2013 the GDP in the euro area increased with 0.3 %, from -0.6 % in 2012 to -0.3 % in 2013 and in 2014 is expected to contract by ¼%. Even if the GDP in the euro area has experienced an increase, in economic activity, it is expected to have a negative impact on labour markets with unemployment rates increasing further this year to 12% in the euro area. HICP inflation is projected to decrease to 1.8% in the euro area in 2014.

To avoid a new soaring sovereign-debt crisis and to blur the vicious circles that could lead to a rapid worsening of current economic and financial crisis in the euro area have been adopted since the summer of 2012 a series of important policy measures: constitutional and financial reorganization at the member country level, the organization of the ECB's OMT project, the determination to set up a Single Supervisory Mechanism as a first step towards

Banking Union, the adoption of the ESM, the strengthening of the institutional framework of EMU, the agreement on the second programme for Greece.

Table 2: Composition of growth in euro area (real annual percentage change)

	2007	2008	2009	2010	2011	2012	2013	2014
	Real percentage change							
Private consumption	1.7	0.4	1.0	0.9	0.1	-1.2	-0.7	0.9
Public consumption	2.2	2.3	2.6	0.7	-0.1	-0.2	-0.2	0.5
Gross fixed capital formation	5.2	-1.4	-12.7	-0.1	1.5	-4.1	-1.8	2.4
Change in stocks as % of GDP	0.8	0.7	-0.3	0.3	0.6	-0.1	-0.3	-0.2
Exports of goods and services	6.6	1.1	-12.4	11.2	6.3	2.8	2.6	4.9
Final demand	3.9	0.6	-6.3	4.1	2.3	-0.6	0.2	2.4
Imports of goods and services	6.2	0.9	-11.1	9.6	4.2	-0.7	1.2	4.8
GDP	3.0	0.4	-4.4	2.0	1.4	-0.6	-0.3	1.4
GNI	2.6	-0.2	-4.0	2.2	1.3	-0.5	-0.3	1.4
p.m. GDP EU	3.2	0.3	-4.3	2.1	1.5	-0.3	0.1	1.6
Cotribution to change in GDP								
Private consumption	0.9	0.2	-0.6	0.5	0.1	-0.7	-0.4	0.5
Public consumption	0.4	0.5	0.5	0.2	0.0	-0.1	-0.1	0.1
Investment	1.1	-0.3	-2.7	0.0	0.3	-0.8	-0.3	0.4
Inventories	0.3	-0.1	-0.1	0.6	0.2	-0.5	-0.1	0.1
Exports	2.7	0.5	-5.2	4.1	2.6	1.2	1.2	2.3
Final demand	5.5	0.8	-8.9	5.5	3.2	-0.9	0.3	3.4
Imports	-2.5	-0.4	4.6	-3.4	-1.7	0.3	-0.5	-2.1
Net exports	0.2	0.1	-0.7	0.7	0.9	1.5	0.7	0.2

Source:European Comission, Winter 2013

In 2014 is expected a recovery in the global economy and domestic growth supported by dissipating uncertainty. In the euro area member countries there is a need to undertake new businesses, companies, banks which proves that need a better balance sheet consolidation who will lead to further growth in domestic demand constraint over average expected. Table 2 present the real annual percentage change on composition of growth in euro area.

The substantial easing of financial market tensions has not translated into a significant improvement in bank lending conditions to households and nonfinancial corporations in vulnerable countries. These are major reasons why the recovery in the EU and the euro area is likely to be delayed until the second half of this year and why growth is expected to become more broadly-based only in 2015.

European financial markets continue its upward trend by 2013 on a wave of confidence, increasing the value of stocks, bonds and euro markets facilitating the return of the euro area have been forced to seek bailout packages. Ireland placed at the beginning of 2014, 3.75 billion euro bond in an issue oversubscribed more than three times after he signed a three-year program agreed with the EU, IMF and ECB. Markets would return Greece symbolic meaning, after four years of crisis that has toppled governments pushed Europe into recession, with unemployment over 12%, and generated discussions about the breakup of the eurozone.

Table 3: Euro area debt dynamics

	average 2004-08	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Gross debt ratio (% of GDP)	69.1	80.0	85.6	88.1	93.1	95.1	95.2
Change in the ratio	0.2	9.8	5.6	2.5	5.1	2.0	0.0
Contribution to the change in the ratio:							
1. Primary balance	-1.1	3.5	3.4	1.1	0.4	-0.4	-0.5
2. Snaw-ball effect	0.3	5.3	0.6	0.8	2.5	1.9	0.4
Of wich:							
Interest expenditure	3.0	2.9	2.8	3.0	3.1	3.1	3.1
Growth effect	-1.4	3.2	-1.6	-1.2	0.5	0.2	-1.3
Inflation effect	-1.3	-0.7	-0.6	-1.0	-1.1	-1.4	-1.4
3. Stow-flow adjustment	1.0	0.	1.6	0.5	2.2	0.5	0.1

Source:European Comission, Winter 2013

Table 3 presents the euro area debt dynamics from 2004 to 2014. Despite the projected improvements in the headline budget balance over the forecast horizon government debt ratios for the years 2012 and 2013 in the euro area and the EU are projected to be slightly higher than expected.

In 2013 Greece has primary surplus, excluding debt service costs of EUR 1.5 billion or 0.8% of GDP, the first since 2002. The figure does not include other extraordinary expenses and income such as aid to recapitalize Greek banks and the profits returned Athens European Central Bank, made from holdings of Greek government bonds.

Four years ago, Greece officially requested international financial assistance as yields required by investors to buy Greek bonds reached an unsustainable level, which precipitated the country into crisis. At the beginning of May 2014, Greece has returned successfully in markets with a sale of five-year bonds.

Achieve budget surplus is a sign of progress by Greece to put finances in order, four years of harsh austerity measures have cut nearly a quarter of GDP and led to record levels of unemployment, nearly 28% .

CONCLUSIOS

In order to reduce the crisis impact on the euro area countries was created a fiscal agreement that provides the limitation of structural budget deficits and public debt as percentage of GDP through constitutional provisions or similar. Adopting this plan will help, for short term to restore confidence and for long term, to have a high economy and financial stability. Even if it is necessary, such a plan will not bring the desired benefits if is implemented too earlier and if it is accompanied by an additional rule to change expectations on the behavior of financial entities governments in times of crisis. Relatively low public deficits and debt can coexist with huge imbalances in the private sector, which can be as destructive as those in the public sector. Large private sector imbalances can always generate a crisis.

Countries that joined the monetary union with a low competitiveness, for reasons that will be carefully studied, could not converge to sustainable productivity levels of countries in the North. The crisis has shown that the single currency is not sufficient to make productivity trends to converge. Due to massive borrowing euro, they can not leave the eurozone without huge costs for them to become competitive enough. This is reflected in higher costs for all eurozone member countries.

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