International Journal of Advance Research in Science and Engineering
Volume No.07, Special Issue No.04, March 2018
www.ijarse.com
IJARSE
ISSN: 2319-8354

Eurozone Debt Crisis

Farhat Aziz Lone[1], Samina Jamaal[2]

[1,2]Institution/Organization/University: University of Kashmir (India)

Professional/Educational details: scholar/Scholar

Eurozone debt crisis

Contents

Key words :EUROZONE CRISIS, TROIKA ,BAILOUT,RECOVERY

I.INTRODUCTION

European debt crisis (often also referred to as the **Eurozone crisis** or the **European sovereign debt crisis**) is a multi-year debt crisis that has been taking place in **the European union** since the end of 2009. The crisis started when some **eurozone** member states (**Greece, Portugal, Ireland,Spain and Cyprus) were**unable to repay or refinance their govt debt or to bail out over-indebted banks under their national supervision without the assistance of third parties like other **Eurozone Countries,European central bank**,**International Monetary Fund.**The detailed causes of the debt crisis varied from country to country. The structure of the eurozone as a **currency union** (one currency) without **fiscal union** (different tax and public pension rules) contributed to the crisis and limited the ability of European leaders to respond. As issue intensified in early 2010 and thereafter, various leading European nations implemented a series of financial support measures such as **the European Financial Stability Facility (EFSF**) and **European Stability Mechanism (ESM).** The ECB also tried to solve the crisis by lowering interest rates and providing cheap loans of more than one trillion euro in order to maintain money flows between European banks. In late 2012, the ECB calmed financial markets by announcing free unlimited support for all eurozone countries involved in a sovereign state bailout/precautionary programme from EFSF/ESM, through yield lowering Outright Monetary Transactions (OMT) . The economic growth and improved structural deficits enabled Ireland and Portugal to exit their bailout programme in July 2014. Greece and Cyprus both managed to partly regain market access in 2014. Spain never officially received a bailout programme. Its rescue package from the ESM was earmarked for a bank recapitalization fund and did not include financial support for the government itself. As such, it can be argued to have had a major political impact on the ruling governments in **10 out of 19 eurozone countries**, contributing to power shifts in Greece, Ireland, France, Italy, Portugal, Spain, Slovenia, Slovakia, Belgium and the Netherlands, as well as outside of the eurozone, like in United Kingdom.While the current financial crisis is global in nature.

II.BACKGROUND

The eurozone crisis resulted from a combination of complex factors, including the finance and easy credit during 2002–2008 period that encouraged high-risk lending and borrowing practices, the financial crisis of 2007–08,international trade imbalances **,**real estate bubbles that have since burst, the Great Recession of 2008–2012,fiscal policy choices related to government revenues and expenses, and approaches used by states to bail out troubled banking industries and private bondholders, assuming private debt burdens or socializing losses. In 1992, members of the European Union signed the **Maastricht Treaty**, under which they pledged to limit their **deficit spending** and **debt levels**. However, in early 2000 , some EU member states failed to stay within the confines of **the Maastricht criteria** and turned to securitizing future government revenues to reduce their debts and/or deficits, sidestepping best practice and ignoring international standards. This allowed the sovereigns to mask their deficit and debt levels through a combination of techniques, including inconsistent accounting, off-balance-sheet transactions, and the use of complex currency and credit derivative structures. From late 2009 on, after Greece's newly elected, **PASOK** government stopped masking its true indebtedness and budget deficit, fears of sovereign defaults in certain European states developed in the public, and the government debt of several states was downgraded. The crisis subsequently spread to Ireland and Portugal, while raising concerns about Italy, Spain, and the European banking system, and more fundamental imbalances within the eurozone. The fact that the Greek debt exceeded $400 billion (over 120% of GDP) and France owned 10% of that debt, struck terror into investors at the word "**default**. As of January 2009, a group of 10 central and eastern European banks had already asked for a **bailout**. The **European commission**released a forecast of a **1.8%** decline in EU economic output for 2009, making the outlook for the banks even worse.

Four eurozone states had to be rescued by sovereign bailout programs, which were provided jointly by **the International Monetary Fund** and the **European Commission,** with additional support at the technical level from **the European Central Bank**. Together these three international organizations representing the bailout creditors became nicknamed "the **Troika**". To fight the crisis some governments have focused on raising taxes and lowering expenditures. In mid-2012, due to successful fiscal consolidation and implementation of structural reforms in the countries being most at risk and various policy measures taken by EU, financial stability in the eurozone has improved significantly and interest rates have steadily fallen. In oct 2012, **only 3 out of 17** eurozone countries, **namely Greece, Portugal, and Cyprus** still battled with long-term interest rates above 6%. By early January 2013, successful sovereign debt auctions across the eurozone but most importantly in **Ireland, Spain, and Portugal**, showed investors believe the ECB-backstop has worked. In November 2013 **ECB** lowered its **bank rate** to only 0.25% to aid recovery in the eurozone. As of May 2014, only two countries (Greece and Cyprus) still need help from third parties.

Bank exposure to Euro zone periphery USD Billion Position as of March 2011					
	Greece	**Portugal**	**Ireland**	**Italy**	**Spain**
Direct exposure to public and private debt					
France	56.9	28.3	30.1	410.2	146.1
Germany	23.8	38.9	116.5	164.9	177.9
UK	14.7	26.6	136.6	68.9	100.8
US	8.7	5.6	58.9	44.1	57.9
Indirect exposure through derivatives / guarantees					
France	8.3	5.7	25.3	85.6	37.7
Germany	5.2	12.5	38.8	61.6	45.8
UK	4.6	4.7	47.6	30.0	30.2
US	38.4	49.4	59.7	248.0	154.6
Total exposure					
France	65.8	34.0	55.4	495.9	183.7
Germany	29.0	51.4	155.3	226.5	223.6
UK	19.2	31.3	184.2	98.9	131.0
US	47.0	55.0	118.6	292.1	212.5
Source: BIS July,2011, Preliminary International Banking Statistics, Q1, 2011					

III.RESEARCH METHODOLOGY

This is basically an Analytical research done on the topicand data has been extracted from the information available on various platforms both print and electronic media and various other journals available on the topic. The method used in the study is analytical in nature and comparative analysis and in-depth analysis of countries is done on various occasions. The analytical research was done on the countries which were affected due to the crisis.This analytical research is based on the interpretation of several relevant indicators and comparative analysis of the countries both years of pre-and post-crisis.

IV.POPULATION SIZE AND SAMPLE

Most of the countries are taken into consideration for analytical research and comparative analysis is done on the effected countries in the Eurozone. There were around 17 eurozone countries, which were duely effected by the crisis some as a wholewhile some partly.

V.IMPACT ON THE EUROZONE COUNTRIES

Impact on countries majorly effected by the eurozone debt crisis

- **Greece**
- **Ireland**
- **Portugal**
- **Iceland**
- **Spain**
- **Cyprus**
- **India**

- **Greece**

Greece's economy was one of the fastest growing in the eurozone during 2000 and was associated with a large structural deficit.As the world economy was hit by the financial crisis of 2007-08 , Greece was hit especially hard because its main industries ,shipping and tourismwere especially sensitive to changes in the business cycle. The government spent heavily to keep the economy functioning and the country's debt increased accordingly. In 2010, the Greek government requested an initial loan of €45 billion from the EU and IMF, to cover its financial needs for the remaining part of 2010. A few days later S&P slashed Greece's sovereign debt rating to BB+ or "junk" status amid fears of default. Stock markets worldwide and the euro currency declined in response to the downgrade. The **Troika**, a tripartite committee formed by the **European commission,** the **European Central Bank** and the **International Monetary Fund** , offered Greece a second bailout loan worth €130 billion in 2011 second economic adjustment programme, but with the activation being conditional on implementation of further austerity measures and a debt restructure agreement. Surprisingly, the Greek prime minister George Papanradoufirst answered that call by announcing a December 2011 refrendum on the new bailout plan, but had to back down amidst strong pressure from EU partners, who threatened to withhold an overdue €6 billion loan payment that Greece needed by mid-December. On 10 November 2011, Papandreou resigned following an agreement with the New democracy party and the popular orthodox rally to appoint non-MP technocrat Lucas papdemos as new prime minister of an interim **national interim govt**, with responsibility for implementing the needed austerity measures to pave the way for the second bailout loan. All the implemented austerity measures have helped Greece bring down its primary deficit. In February 2012, an IMF official negotiating Greek austerity measures admitted that excessive spending cuts were harming Greece. The IMF predicted the Greek economy to contract by 5.5% by 2014. Harsh austerity measures led to an actual contraction after six years of recession of 17%.Some economic experts argue that the best option for Greece, and the rest of the EU, would be to engineer an "**orderly default**", allowing Athens to withdraw simultaneously from the eurozone and reintroduce its national currency the drachma at a debased rate. If Greece were to leave the euro, the economic and political consequences would be devastating.

To prevent this from happening, the **Troika (EC, IMF and ECB)** eventually agreed in **February 2012** to provide a second bailout package worth **€130billion**, conditional on the implementation of another harsh austerity package that would reduce Greek expenditure by **€3.3bn** in 2012 and another **€10bn** in **2013** and **2014**. Then, in March 2012, the Greek government did finally default on its debt, which was the **largest default in history** by a government, about twice as big as Russia's 1918 default with the predicted debt burden now showing a more sustainable size equal to 117% of GDP by 2020 somewhat lower than the target of 120.5% initially outlined in the signed Memorandum with the Troika. This phenomenon became known as "Grexit" and started to govern international market behavior. Due to a delayed reform schedule and a worsened economic recession, the new government immediately asked the Troika to be granted an extended deadline from 2015 to 2017 before being required to restore the budget into a self-financed situation; which in effect was equal to a request of a third bailout package for 2015–16 worth €32.6bn of extra loans. In return, the Eurogroup agreed on the following day to lower interest rates and prolong debt maturities and to provide Greece with additional funds of around €10bn for a **debt-buy-back** programme. The biggest challenge for Greece is to overhaul the **tax administration** with a significant part of annually assessed taxes not paid. Both of the latest bailout programme audit reports, released independently by the European Commission and IMF in June 2014, revealed that even after transfer of the scheduled bailout funds and full implementation of the agreed adjustment package in 2012, there was a new forecast financing gap of: **€5.6bn in 2014, €12.3bn in 2015, and €0bn in 2016**.

Greece experienced positive economic growth in each of the three first quarters of 2014. The return of economic growth, along with the now existing underlying structural budget surplus of the general government, build the basis for the debt-to-GDP ratio to start a significant decline in the coming years ahead, which will help ensure that Greece will be labelled "debt sustainable" and fully regain complete access to private lending markets in 2015, many of its negative repercussions are forecast still to be felt during many of the subsequent years.

- **Portugal**

Consistent and redundant recruitment policies boosted the number of redundant public servants. Risky credit, public debt creation, and European structural and cohesion funds were mismanaged across almost four decades. As the global crisis erupted which disrupted the markets and the world economy, together with the US subprime mortgage crisis and the eurozone crisis, Portugal was one of the first economies to be hit hard, and was affected very deeply. In 2010 Moody's downgraded Portugal's sovereign bond rating, which led to an increased pressure on Portuguese government bonds. In early 2011, Portugal requested a €78 billion IMF-EU bailout package in a bid to stabilize its public finances. Portugal's debt was in 2012 forecast by the Troika to peak at around 124% of GDP in 2014, followed by a firm downward trajectory after 2014. Previously the Troika had predicted it would peak at 118.5% of GDP in 2013, so the developments proved to be a bit worse than first anticipated, but the situation was described as fully sustainable and progressing well. As a result, from the slightly worse economic circumstances, the country has been given one more year to reduce the budget deficit to a level below 3% of GDP, moving the target year from 2013 to 2014. Unemployment rate increased to over 17%

by end of 2012 but it has since decreased gradually to 10,5% as of November 2016. As part of the bailout programme, Portugal was required to regain complete access to financial markets by September 2013. The first step towards this target was successfully taken on 3 October 2012, when the country managed to regain partial market access by selling a bond series with 3-year maturity. The Portugal is expected to benefit from interventions by the ECB, which announced readiness to implement extended support in the form of some yield-lowering bond purchases (OMTs), aiming to bring governmental interest rates down to sustainable levels. A peak for the Portuguese 10-year governmental interest rates happened on 30 January 2012, where it reached 17.3% after the rating agencies had cut the governments credit rating to "non-investment grade" or junk .As of December 2012, it has been more than halved to only 7%.A successful return to the long-term lending market was made by the issuing of a 5-year maturity bond series in January 2013, and the state regained complete lending access when it successfully issued a 10-year maturity bond series on 2013.The Portuguese government has "made progress in reforming labour legislation, cutting previously generous redundancy payments by more than half and freeing smaller employers from collective bargaining obligations, all components of Portugal's €78 billion bailout program. In 2014, Portugal left the EU bailout mechanism without additional need for support, as it had already regained a complete access to lending markets back in May 2013, and with its latest issuing of a 10-year government bond being successfully completed with a rate as low as 3.59%.

- **Cyprus**

The Cyprus economy with 840,000 people was hit hard in and around 2012, the €22 billion exposure of Cypriot banks to the Greek debt haircut, the downgrading of the Cypriot economy into junk status . The Cypriot Government requested a bailout from the **EFSM/ESM** citing difficulties in supporting its banking sector from the exposure to the Greek debt haircut. On 30 November the **Troika** and the Cypriot Government had agreed on the bailout terms with only the amount of money required for the bailout remaining to be agreed upon. Bailout terms include strong austerity measures, including cuts in civil service salaries, social benefits, allowances and pensions and increases in VAT, tobacco, alcohol and fuel taxes, taxes on lottery winnings, property, and higher public health care charges. The final conditions for activation of the bailout package was outlined by the Troika's MoU agreement, which was endorsed in full by the Cypriot House of Representatives on 30 April 2013. It includes:

- Recapitalization of the entire financial sector while accepting a closure of the Laiki bank,
- Implementation of the anti-money laundering framework in Cypriot financial institutions,
- Fiscal consolidation to help bring down the Cypriot governmental budget deficit,
- Structural reforms to restore competitiveness and macroeconomic imbalances,
- Privatization programme.

The Cypriot debt-to-GDP ratio is on this background now forecasted only to peak at 126% in 2015 and subsequently decline to 105% in 2020, and thus considered to remain within sustainable territory.

- **India**

The Eurozone debt crisis and fragile US recovery have contributed to the slowdown of the Indian economy by affecting the exports and capital inflows in India. The capital outflows have resulted in crash in stock markets that have affected investors adversely. The rupee's depreciation, while aggravated by domestic speculative activity, is primarily traceable to the ongoing sovereign debt crisis in Europe. The value of rupee which was around 44.50 rupees to a US dollar in August 2011 fell to as low as 54 rupees to a dollar on December 15, 2011 and was around Rs. 54.8 to a US dollar in the first week of April 2013.As observed during the crisis of 2008, the present crisis has again led to a large withdrawal of FII money from the Indian stock market, eroding its value. The slowdown in GDP growth to 6.2 per cent in 2011-12 and 5 per cent in 2012-13 was partly due to Eurozone crisis. Eurozone debt crisis put a damper on India's exports to Europe, the biggest destination for Indian exports as well as capital inflows into the Indian equity and debt markets. Besides, increase in interest rates by RBI to fight inflation has led the corporate sector to defer investment which has resulted in the drastic fall in output of capital goods. Once inflation is brought under control RBI will cut its interest rates which will give a push to investment that will boost industrial growth. However, to ensure higher growth in the next few years productivity of capital has to be raised through better governance and speedy implementation of stalled infrastructure product. In 2010 the world again found itself in financial turmoil threatening another recession in the developed economies of the world, especially in Eurozone before the effects of global financial crisis (2007-09) had yet to fully wear off. The new crisis emerged not due to hitherto toxic assets as was the case of 2007-09 sub-prime crisis but due to the threat of defaulting on payment of its debt by governments of European countries especially by Greek government. Some economists have put forward the view that this new crisis is continuation of the previous crisis of2007-09. The global financial system seems to be very fragile. Though Greece accounted for less than 2 per cent of the combined GDP of the European Union (EU), yet it set that entire region in turmoil and terrified investors throughout the world. As a result, during the Month of May 2010 stock market prices crashed not only in Europe but also in the USA and throughout Asia.

The table below provides an overview of the financial composition of all bailout programs being initiated for EU member states,**(billion €)**

Eurozone States	**Time span**	**IMF**	**World Bank**	**EIB /EBRD**	**Bilateral**	**BoP**	**GLF**	**EFSM**	**EFSF**	**ESM**	**Bailout in total**
Cyprus I	Dec.2011-Dec.2012	-	-	-	2.5	-	-	-	-	-	**2.5**
Cyprus II	May 2013-Mar.2016	1.0	-	-	-	-	-	-	-	9.0	**10.0**

Greece I+II	May 2010-Jun.2015	32.1 out of 48.1	-	-	-	-	52.9	-	130.9 out of 144.6	-	**215.9 out of 245.6**
Greece III	Aug.2015-Aug.2018	(proportion of 86, to be decided Oct.2015)	-	-	-	-	-	-	-	(up till 86)	**86**
Hungary	Nov.2008-Oct.2010	9.1 out of 12.5	1.0	-	-	5.5 out of 6.5	-	-	-	-	**15.6 out of 20.0**
Ireland	Nov.2010-Dec.2013	22.5	-	-	4.8	-	-	22.5	18.4	-	**68.2**
Latvia	Dec.2008-Dec.2011	1.1 out of 1.7	0.4	0.1	0.0 out of 2.2	2.9 out of 3.1	-	-	-	-	**4.5 out of 7.5**
Portugal	May 2011-Jun 2014	26.5 out of 27.4	-	-	-	-	-	24.3 out of 25.6	26.0	-	**76.8 out of 79.0**
Romania I	May 2009-Jun 2011	12.6 out of 13.6	1.0	1.0	-	5.0	-	-	-	-	**19.6 out of 20.6**

Romania II	Mar 2011-Jun 2013	0.0 out of 3.6	1.15	-	-	0.0 out of 1.4	-	-	-	-	**1.15 out of 6.15**
Romania III	Oct 2013-Sep 2015	0.0 out of 2.0	2.5	-	-	0.0 out of 2.0	-	-	-	-	**2.5 out of 6.5**
Spain	July 2012-Dec.2013	-	-	-	-	-	-	-	-	41.3 out of 100	**41.3 out of 100**
Total payment	**Nov.2008-Aug.2018**	**104.9**	**6.05**	**1.1**	**7.3**	**13.4**	**52.9**	**46.8**	**175.3**	**136.3**	**544.05**

VI.MAJOR EUROZONE TREATY

Eurozone debt crisis problem still remains unresolved threatening the breaking up of European union as well. In 2011 European union summit was held in Berlin to make an attempt to solve Eurozone present debt crisis and to save Eurozone from splitting by preventing the future debt crisis. At this summit a Eurozone treaty was formed to bring about a deeper integration in Eurozone. Britain was not a part to this treaty. In this treaty EU leaders agreed to lend up to $200 billion to an emergency lending facility of the IMF to help it aid Eurozone countries gripped by crisis. This is in addition to the €440 billion for European Financial Stability Fund (EFSF) already established by European governments, and a permanent € 500 billion facility called the ESM which was to be established by June 2012. These arrangements for bailing out stressed economies were expected to go a long way in dealing with the existing debt problem. But they do not deal with the fiscal problem that underlies the debt problem. Unless these governments conform to prudent fiscal rules that align their spending with their revenues, the sovereign debt problem will keep recurring. Hence the most significant achievement of the last EU summit was the agreement by all EU governments, except UK, to commit to a fiscal agreement

VII.BRUSSELS AGREEMENT AND AFTERMATH

The leaders of the 17 eurozone countries met in Brussels in 2011 and agreed on a 50% write-off of Greek sovereign debt held by banks, a fourfold increase (to about €1 trillion) in bail-out funds held under the European Financial Stability Facility, an increased mandatory level of 9% for bank capitalization within the EU. José Manuel Barroso characterized the package as a set of "exceptional measures for exceptional times”. The package's acceptance was put into doubt on 31 October when Greek Prime Minister George Papandreou announced that a **referendum** would be held so that the Greek people would have the final say on the bailout, upsetting financial markets. On 3 November 2011 the promised Greek referendum on the bailout package was withdrawn by Prime Minister Papandreou.

- **Measures to Overcome Crisis**
- **European Financial Stability Facility (EFSF)**
- **European Financial Stabilization Mechanism (EFSM)**
- **European Central Bank**
- **Long Term Refinancing Operation (LTRO)**
- **Reorganization of the European banking system**
- **Outright Monetary Transactions (OMTs)**
- **European Stability Mechanism (ESM)**
- **European Fiscal Compact**
- **Economic reforms and recovery proposals**

- **European Financial Stability Facility (EFSF)**

The EU memberstates agreed to create the European Financial Stability Facility (EFSF) in May 2010, a legal instrument aiming at preserving financial stability in Europe by providing financial assistance to eurozone states in difficulty. The EFSF can issue bonds or other debt instruments in the market with the support of the German Debt Management Office to raise the funds needed to provide loans to eurozone countries in financial trouble, recapitalize banks or buy sovereign debt. Omissions of bonds are backed by guarantees given by the euro member states in proportion to their share in the paid-up capital of the **ECB**. The transfers of bailout funds were performed in tranches over several years and were conditional on the governments simultaneously implementing a package of fiscal consolidation, structural reforms, privatization of public assets and setting up funds for further bank recapitalization and resolution. The EFSF only raises funds after an aid request is made by a country .The EFSF is set to expire in 2013, running some months parallel to the permanent €500 billion rescue funding program called the European Stability Mechanism (ESM), which will start operating as soon as member states representing 90% of the capital commitments have ratified it.

- **European Financial Stabilization Mechanism (EFSM)**

The EU created the European Financial Stabilization Mechanism (EFSM), an emergency funding programme reliant upon funds raised on the financial markets and guaranteed by the European Commission using the budget of the European Union as collateral. It provides financial assistance to EU member states in economic difficulty. The fund, backed by all 27 EU members, has the authority to raise up to €60 billionand is rated AAA by Fitch, Moody's and Standard & Poor's. Under the EFSM, the EU successfully placed in the capital markets an €5 billion issue of bonds as part of the financial support package agreed for Ireland, at a borrowing cost for the EFSM of 2.59%. Like the EFSF, the EFSM was replaced by the permanent rescue funding programme ESM, which was launched in September 2012.

- **European Central Bank**

The **European Central Bank (ECB)** has taken a series of measures aimed at reducing volatility in the financial markets and at improving liquidity.

In May 2010 it took the following actions:

- It began open market operations buying government and private debt securities, reaching €219.5 billion in February 2012, though it simultaneously absorbed the same amount of liquidity to prevent a rise in inflation. According to Rabobank economist Elwin de Groot, there is a "natural limit" of €300 billion the ECB can sterilize.
- It reactivated the dollar swap lines with Federal Reserve support.
- It changed its policy regarding the necessary credit rating for loan deposits, accepting as collateral all outstanding and new debt instruments issued or guaranteed by the Greek government, regardless of the nation's credit rating.

In 2011, the ECB, the US Federal Reserve, the central banks of Canada, Japan, Britain and the Swiss National Bank provided global financial markets with additional liquidity to ward off the debt crisis and to support the real economy. The central banks agreed to lower the cost of dollar currency swaps .

- **Long Term Refinancing Operation (LTRO)**

The ECBstarted the biggest infusion of credit into the European banking system in the 2011 in euro's 13-year history. Under its Long Term Refinancing Operations (LTROs) it loaned €489 billion to 523 banks for an exceptionally low rate just about one per cent. Previous refinancing operations matured after three, six, and twelve months. The by far biggest amount of €325 billion was tapped by banks in Greece, Ireland, Italy and Spain.This way the ECB tried to make sure that banks have enough cash to pay off €200 billiontheir own maturing debts in the first three months of 2012, and at the same time keep operations and loans to businesses so that a credit crunch does not choke off economic growth. It also hoped that banks would use some of the money to buy government bonds, effectively easing the debt crisis. On 29 February 2012, the ECB held a second auction, LTRO2, providing 800 eurozone banks with further €529.5 billion in cheap loans. Net new borrowing under the €529.5 billion February auction was around €313 billion; out of a total of €256 billion existing ECB lending, €215 billion was rolled into LTRO2. ECB lending has largely replaced inter-bank lending. Spain has

€365 billion and Italy has €281 billion of borrowings from the ECB (June 2012 data). Germany has €275 billion on deposit.

- **Reorganization of the European banking system**

The European Central Bank together with other European leaders hammered out plans for the ECB to become a bank regulator and to form a deposit insurance program to augment national programs. Other economic reforms promoting European growth and employment were also proposed.

- **Outright Monetary Transactions (OMTs)**

The ECB announced to offer additional financial support in the form of yield-lowering bond purchases (OMT) in 2012, for all eurozone countries involved in a sovereign state bailout program from EFSF/ESM. A eurozone country can benefit from the program if and for as long asit is found to suffer from stressed bond yields at excessive levels; but only at the point of time where the country possesses/regains a complete market access and only if the country still complies with all terms in the signed Memorandum of Understanding (MoU) agreement. Countries receiving a precautionary programme rather than a sovereign bailout will, by definition, have complete market access and thus qualify for OMT support if also suffering from stressed interest rates on its government bonds. In regards of countries receiving a sovereign bailout (Ireland, Portugal and Greece), they will on the other hand not qualify for OMT support before they have regained complete market access, which will normally only happen after having received the last scheduled bailout disbursement.

- **European Stability Mechanism (ESM)**

The European Stability Mechanism (ESM) is a permanent rescue funding programme to succeed the temporary EFSFand EFSM in July 2012but it had to be postponed until after the Federal Constitutional Court of Germany had confirmed the legality of the measures on September 2012. The permanent bailout fund entered into force for 16 signatories in September 2012. It became effective in Estonia on 4 October 2012 after the completion of their ratification process. On 16 December 2010 the European Council agreed a two-line amendment to the EU Lisbon Treaty to allow for a permanent bail-out mechanism to be established including stronger sanctions. In March 2011, the European Parliament approved the treaty amendment after receiving assurances that the European Commission, rather than EU states, would play 'a central role' in running the ESM. The ESM is an intergovernmental organization under public international law. It is located in Luxembourg. Such a mechanism serves as a "financial firewall". Instead of a default by one country rippling through the entire interconnected financial system, the firewall mechanism can ensure that downstream nations and banking systems are protected by guaranteeing some or all of their obligations. Then the single default can be managed while limiting financial contagion.

- **European Fiscal Compact**

By the end of the year, Germany, France and some other smaller EU countries went a step further and vowed to create a fiscal unionacross the eurozone with strict and enforceable fiscal rules and automatic penalties embedded in the EU treaties. In 2011 at the European Council meeting, all 17 members of the eurozone and six countries that aspire to join agreed on a new intergovernmental treaty to put strict caps on government spending and borrowing, with penalties for those countries who violate the limits. All other non-eurozone countries apart from the UK are also prepared to join in, subject to parliamentary vote. Originally EU leaders planned to change existing EU treaties but this was blocked by British prime minister David Cameron, who demanded that the City of London be excluded from future financial regulations, including the proposed EU financial transaction tax. Around 26 countries had agreed to the plan, leaving the United Kingdom as the only country not willing to join. Cameron subsequently conceded that his action had failed to secure any safeguards for the UK. Britain's refusal to be part of the fiscal compact to safeguard the eurozone constituted a *de facto* refusal (PM David Cameron vetoed the project) to engage in any radical revision of the Lisbon Treaty.

- **Economic reforms and recovery proposals**

Direct loans to banks and banking regulation

Eurozone leaders agreed to permit loans by the European Stability Mechanism to be made directly to stressed banks rather than through eurozone states, to avoid adding to sovereign debt. The reform was linked to plans for banking regulation by the European Central Bank. The reform was immediately reflected by a reduction in yield of long-term bonds issued by member states such as Italy and Spain and a rise in value of the Euro.

Country	**Banks recapitalized**
Portugal	Banco BPI, Caixa Geral de Depositos, Millennium BCP
Ireland	Allied Irish Bank, Anglo Irish Bank, Bank of Ireland
Greece	Alpha Bank, Eurobank, National Bank of Greece, Piraeus Bank
Spain	Banco de Valencia, Bankia, Catalunya Caixa, Nova Galicia

VIII.CONCLUSIONS

- **Cyprus** received in 2011 a €2.5bn bilateral emergency bailout loan from Russia, to cover its governmental budget deficits and a refinancing of maturing governmental debts until 31 December 2012. Initially the

IJARSE
ISSN: 2319-8354

bailout loan was supposed to be fully repaid in 2016, but as part of establishment of the later following second Cypriot bailout programme, Russia accepted a delayed repayment in eight biannual tranches throughout 2018-2021 - while also lowering its requested interest rate from 4.5% to 2.5%.

- **Hungary** recovered faster than expected, and thus did not receive the remaining €4.4bn bailout support scheduled for 2009- 2010. IMF paid in total 7.6 out of 10.5 billion SDR, equal to €9.1bn out of €12.5bn at current exchange rates.
- **Ireland** in 2013, after three years on financial life support, Ireland finally left the EU/IMF bailout programme, although it retained a debt of €22.5 billion to the IMF; in 2014, early repayment of €15 billion was being considered. In 2013, Ireland managed to regain complete lending access on financial markets, when it successfully issued €5bn of 10-year maturity bonds at a yield of 4.3%. Ireland ended its bailout programme as scheduled in 2013, without any need for additional financial support.
- **Latvia** recovered faster than expected, and thus did not receive the remaining €3.0bn bailout support originally scheduled for 2011.
- **Portugal** completed its support programme as scheduled in June 2014, one month later than initially planned due to awaiting a verdict by its constitutional court, but without asking for establishment of any subsequent precautionary credit line facility. By the end of the programme all committed amounts had been transferred, except for the last tranche of €2.6bn (1.7bn from EFSM and 0.9bn from IMF), which the Portuguese government declined to receive.
- **Romania** recovered faster than expected, and thus did not receive the remaining €1.0bn bailout support originally scheduled for 2011.
- **Annexure tables**

Growth in GDP – Selected euro zone economies

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Euro area	1.9	0.9	0.8	2.2	1.7	3.1	2.8	0.4	-4.2	1.8
Germany	1.2	0.0	-0.2	1.2	0.8	3.4	2.7	1.0	-4.7	3.6
France	1.8	0.9	0.9	2.5	1.8	2.5	2.3	-0.1	-2.7	1.5
Ireland	5.7	6.5	4.4	4.6	6.0	5.3	5.6	-3.5	-7.6	-1.0
Greece	4.2	3.4	5.9	4.4	2.3	5.2	4.3	1.0	-2.0	-4.5
Spain	3.6	2.7	3.1	3.3	3.6	4.0	3.6	0.9	-3.7	-0.1
Italy	1.8	0.5	0.0	1.5	0.7	2.0	1.5	-1.3	-5.2	1.3
Portugal	2.0	0.7	-0.9	1.6	0.8	1.4	2.4	0.0	-2.5	1.3

Fiscal Deficit / GDP (%)

International Journal of Advance Research in Science and Engineering
Volume No.07, Special Issue No.04, March 2018
www.ijarse.com
IJARSE
ISSN: 2319-8354

	2001	2002	2005	2006	2007	2008	2009	2010
Euro area -17	-1.9	-2.6	-2.5	-1.4	-0.7	-2.0	-6.3	-6.0
Germany	-2.8	-3.7	-3.3	-1.6	0.3	0.1	-3.0	-3.3
France	-1.5	-3.1	-2.9	-2.3	-2.7	-3.3	-7.5	-7.0
Ireland	0.9	-0.4	1.6	2.9	0.1	-7.3	-14.3	-32.4
Greece	-4.5	-4.8	-5.2	-5.7	-6.4	-9.8	-15.4	-10.5
Spain	-0.6	-0.5	1.0	2.0	1.9	-4.2	-11.1	-9.2
Italy	-3.1	-2.9	-4.3	-3.4	-1.5	-2.7	-5.4	-4.6
Portugal	-4.3	-2.9	-5.9	-4.1	-3.1	-3.5	-10.1	-9.1

Public debt / GDP (%)

	2001	2002	2005	2006	2007	2008	2009	2010
Euro area- 17	68.1	67.9	70	68.4	66.2	69.9	79.3	85.1
Germany	58.8	60.4	68	67.6	64.9	66.3	73.5	83.2
France	56.9	58.8	66.4	63.7	63.9	67.7	78.3	81.7
Ireland	35.5	32.1	27.4	24.8	25.0	44.4	65.6	96.2
Greece	103.7	101.7	100	106.1	105.4	110.7	127.1	142.8
Spain	55.5	52.5	43	39.6	36.1	39.8	53.3	60.1
Italy	108.8	105.7	105.9	106.6	103.6	106.3	116.1	119
Portugal	51.2	53.8	62.8	63.9	68.3	71.6	83.0	93.0

Source: Eurostat

REFERENCES

[1.] Eichengreen Barry (2008) The Breakup of the Euro Area, Berkeley

[2.] IMF (2011) Euro Area Policies: Spillover Report 2011.

[3.] www.imf.org

[4.] Eurostat

[5.] Blundell-Wignall and Atkinson (2008, 2010 and 2011)

[6.] Blundell-Wignall *et al.* (2010)

[7.] OECD (2009), The Financial Crisis: Reform and Exit Strategies, Paris.

[8.] European Central Bank. Press release.

[9.] www.ecb.europa.eu.

[10.] International Monetary Fund, Penn World Tables, Reinhart and Rogoff,

[11.] Preliminary International Banking Statistics, BIS, July,2011,

IJARSE
ISSN: 2319-8354