International Research Journal of Finance and Economics
ISSN 1450-2887 Issue 97 September, 2012
© EuroJournals Publishing, Inc. 2012
http://www.internationalresearchjournaloffinanceandeconomics.com

European Debt Crisis and its Analysis

Fatih Mehmet Öcal
Sirnak University Faculty of Economics and Administrative Sciences
Department of Economics, Sirnak, Turkey
E-mail: fmehmetocal@hotmail.com
Tel: +90-486-2164008

Mehmet Vahit Eren
Sirnak University Faculty of Economics and Administrative Sciences
Department of Economics, Sirnak, Turkey
E-mail: mvahiteren@hotmail.com
Tel: +90-486-2164008

Abstract

The mortgage crisis that originated from The United States in 2007, became global by effecting the whole countries all around the world in a short time. The economic policies, applied to overcome this crisis, have recently broken out in almost all countries through leading debt crisis especially in Europe. The countries, faced up with such problems as budget deficits which bring Greece on the brink of bankruptcy. For the solution, the intervention of European Monetary Fund (EMF) and common eurobond exportation are brought into question for the countries in order to overcome their economic problems. In this study, information about the debt crisis that seriously effected Europe in a negative way by the effect of Mortgage Crisis, its echoes and the proposed solutions will be given.

Keywords: European Debt Crisis, PIIGS, European Money Fund, Eurobond.
Jel Classification Codes: E00, E42, E52, E58, H60.

1. Introduction

Economic and financial crisis that started in the middle of the year 2007 has been a substantial effect on government bond market of euro area (Barbosa and Costa, 2010:131). Global economic crisis starting with Mortgage crisis in USA has become a nightmare of all the world economies by changing quality. Banking crisis caused by Mortgage crises has led recession in all world countries most notably in the USA, including European countries. During the process of recession, the mega world banks have been dispossessed and trillions of dollar bailouts have been declared to relieve the markets. Even tough, with the bailouts in the last two quarters, especially USA and many Europe economies has been rid of recession, this unrequited money, like a boomerang, have returned as a budget deficit in high quantity to the mentioned countries. This situation throws the world into a new economic crisis storm. The process started with the bankrupcty of Greece, has started to treaten Portugal, Spain, Ireland, Italy and even England. However, a trillion-dollar new bailout declared by European Union (EU) couldn’t resolve the crisis, just defer it. EU’s currency Euro’s serious value loss against dolar has brought about

revalorization of euro. The budget deficits in question contains the seeds of the crisis which even could cause dissolution of european monetary union besides downsizing of EU in future (Gündüzalp, 2010).

The debt crisis that Greece has been experiencing, has brought EU's economic organizational structure defects in to light. Setting EU's basic framework, the 'Maastricht Agreement' has put forward that the countries will converge economically and its figures. However, it couldn't prescribe about in what way and with which institutions the countries whose economic conditions deviated from EU criteria and the countries in difficulty would be intervented. In adddition to this, EU regulation doesn't allow other countries to undertake a liability of a country in difficulty. Euro area's monetary policies are ruled by European Central Bank (ECB), but ECB can not do its duty of being a saviour because of being fence sitter and unauthorized to loan. In Greece crisis, the idea of creation of an APF was suggested (Ercan, 2010), except this fund, issuing common euro-bond came up as a saviour.

The aim of the study is to bring into discussion the offered solutions to overcome the debt problem started in euro area. In this sense, firstly the effects of the crisis on PIIGS countries will be explained through explaining the reasons of the debt crisis of Europe, and then the information about European Monetary Fund and common euro bond issue which is thought to be effective on solving the debt crisis will be given.

2. European Debt Crisis

When the single monetary policy in euro area and relative integration of national bond market is considered, the stocks and shares' credit and liquidity risk may appear in the long term (Barbosa and Costa, 2010:132).

Bond markets in monetary union being superfluous fragile is the factor leading the spread of the problem. The reason is that the national governments in monetary union has taken a loan in uncontrollable foreign currency. As a result, the bondholders can not always be guaranteed about payment on expiration when liquidity is needed. On the contrary, 'the single countries' have been issuing on domestic monetary unit and this feature guaranties that the payments can be always made to the bondholders in the said countries. Absence of an assurance like that makes bond markets in monetary union prone to breakage as the banking systems' being prone to 'communicable disease'. Banking systems may lead depositors withdraw their deposits on the other banks quickly because of the solvency of a bank. Such a risk, problems about solvency of a country (Greece) in monetary union causes the other bond markets to sell their bonds with panic and a liquidity crisis in the other markets due to the absence of cash. Rise in the interest rates turns into a payment crisis after liquidity crisis and comes to bankruptcy in any country rising the interest rates enough (Grauwe, 2011:1). A problem in banking system of a country in monetary union firstly affects Union Members and then the other nonmember world economies. In the globalizing world, it is worried that such a problem can spread the crisis with a domino effect.

Solutions for banking system's problems and solution for total monetary union is equal. The problem in national bond markets could be solved with a central bank that can guarantee always cash payment to the bondholders. In euro area, Europe Central Bank (ECB) is the only institution that can fulfil this role. While ECB has been fulfilling this role as an institution providing liquidity to the banking system by accepting government bonds (indirectly) or by selling government bonds directly until a short while ago (Grauwe, 2011:2), now it acts reluctant to maintain its functions. Actually ECB has launched approximately 200 billion euro liquidity since the outbreak of Greek crisis on May 2010. Escalation of the crisis forced the governments to effort finding money to provide Greece affect minimum. The decrease of ECB's responsibility as the last lender has been the only and the most important factor that explains stopping contagious effect of the crisis to euro area bond markets. (Grauwe, 2011:2).

The crisis started in Greece forms the first and main basic of the euro area crisis. Three main factors played role in the progress of this crisis. These are Greece, Financial Markets (rating agencies included) and Euro Area authorities.

2.1. Greece

The role of Greece in the crisis can be summarized in a few sentences. The misgovernment and deceits by Greek authorities brought the crisis. Greek government was obliged to struggle with the big confidence problem that makes the solution of the crisis difficult. Any information given by Greek government about ajdustment of the budget situation will lead to be suspicious about the future (Grauwe, 2010a:1). The failure of Greek authorized institutions in the crisis management diminished the confidence of Union Members, especially Greek citizens. Thus, the importance of the stabilization programmes to be applied appears clearly by itself.

Greece will get another loan in amounts of 109 billion euro from EU and IMF that has longer term and low interest rate(3,5%). Additionally, if necessary euro area countries will provide enough resource again for Greek banks to strengthen their capital (Kovacheva, 2011). So it will contribute to enliven the Greek economy in paralel with the success in resource transmission from finance sector to real economy.

It is estimated that contribution to growth of private sector will be 37 billion dolar by 2014 with the miscellaneous aid that will be given to Greece. The creditors are offered to decrease the interest rates, which reaches a record high at the rate of 25% now, to extend maturity, different kinds of swaps and slash in Greek bond value at the rate of 21% in order to restructure the debt of Greece. Banks accepted to join a debt-back programme which worths 12,6 billion euro, private sector participation's getting 50 billion euro in total. In 2011-2019 period, private sector's total net contribution will reach 106 billion euro (Kovacheva, 2011). From now on the important thing is that the only way of preventing the economic crisis that appeared in Greece to appear in other EU countries or to keep its effects at a limited level, is using the mentioned resources properly by transfering them to production process on time and sufficiently.

2.2. Finacial Markets

Destabilizing role and effect of financial markets is again seen dramatically. Just a year ago when the governments add new bonds in an unprecedented amount to the market, bond markets, decreasing at a record level, long term interest rates created a boom. The situation became more dramatic in a few weeks and many countries' bond markets declined (Grauwe, 2010a:1).

The rating agencies are at the centre of destabilizing role of finacial markets. Only thing that can be said for these agencies is that they failed in foreseeing the outbreak of the crisis and it was criticised excessively after the outbreak of the crisis. Two years ago credit rating agencies were caught unprepared to credit crisis and for the last few months they have faced with the same situation. With the outbreak of the crisis, Dubai deferred the repayment of their bonds. Realizing the crisis credit rating agencies lowered Dubai bonds' grade. Failure in forecast of the debt crisis led to serious studies for the other possible debt crisis. These studies focused on many countries, mainly on South European Countries, and the process of lowering credit rating started. This led to important increase in the rates of government bonds in these countries (Grauwe, 2010b:1). Nowadays credit agencies have been criticized seriously because of the belief that they make their decisions under the influence of some countries and political developments, not being objective, besides their inabilitiy of foreseeing the outbreak of the economic crisis.

The importance of the credit rating agencies has increased, because global economy has recently been eventful. An adverse opinion or a rumour about a country can overturn the market. People avoid investing, they even try to convert their investments into money according to these rumours. So, countries face the problem of providing liquidity and this situation causes the crisis to

deepen. In order to decrease the negative effects of the crisis, these agencies do not lower their credit ratings for some countries in order to attract investment despite their bad condition. However, this good faith seems to have quite negative effects on the credit rating agencies. Because, worldwide operating companies' declaration of bankruptcy brings up the confidence problem of credit rating agencies while some other countries have high credit rating. Additionally, they give high credit ratings to the countries where they invest their bonds, so it is seen that they just think about their own investments without thinking all creditors. These data show that the credit rating agencies, inexactly, are not in enough confidence level. USA and France governments started necessary studies to confirm this consideration (Tutar vd., 2011:21). Considering these developments, credit rating agencies must carry on their activities scientifically, objectively and in accordance with impartiality, otherwise it is a visible reality that their confidence will completely disappear and they will get short shrift.

2.3. Euro Area Authorities

The crisis has been anounced because of the uncertainty and recession caused by Europe Central Bank (ECB) and euro area governments. Euro area governments' failure in stating that they were ready for an aid to Greece led to a conflict between Union member governments about Greece crisis (Grauwe, 2010a:2). These failures resulted in the spread and acceleration of the crisis.

3. The Crisis Implications

Financial markets started to worry about the debt accumulation in euro area in 2009. In Greece, newly elected government attracted attention by stating that the former government lied and budget deficit for the year 2009 was more than stated. The crisis spread the other countries that have budget deficit and in order to refresh the confidence of the market the authorities stated that they have to fundraise 500 billion euro from member countries and 250 billion euro from IMF and 250 billion euro for European Financial Stability Fund (Soros, 2010:2). The problematic situation of Greece and stabilization programmes' announcement led to an important depreciation in the value of euro in money markets.

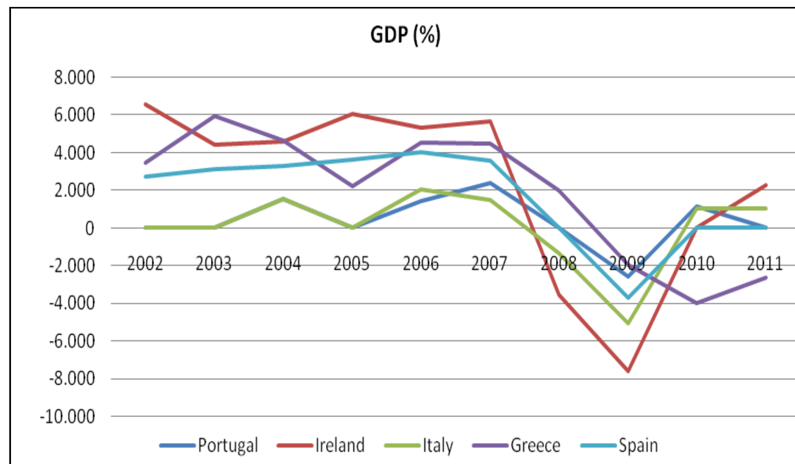
While prolonged depreciation in the value of euro alleviates deflation, the debt maintains its relative weight unless there is a growth. This situation is not only for national debt but also trading credits arranged by banks. It is known that euro is in a defective position and while the countries forming European Union are expected to correct these defects (Soros, 2010:2), it is clear that it is a sharp and hard process since the economies of those countries forming the union do not have homogeneous structure in terms of their level of development.

Deduction in retirement grants including public sector salaries and the terms of bailout in Greece can prove the necessity of enough economic discipline. While the other euro area contries reacted to the crisis by trimming the sales and with a slight tax increase, ultimately short term government domestic debt interest rates dropped relatively. So, it is estimated that the other problematic countries will do more deductions in public sector to fulfil the conditions demanded to Greece (Wihlborg vd., 2010:58). It was the expected result that this situation would affect all union countries negatively at different grades and in order to minimize the said effects starting the studies from now on is also a reality.

High indebtedness of some countries is a threat risk that weakens euro. In the spot market the value of euro depreciated against strong curriencies such as dollar, sterling, yen and yuan. Media showed Portugal, Italy, Ireland, Greece and Spain (PIIGS) as "troublemakers" of euro. As the governments didn't make arrangements in public expenditures according to decreasing economic potential, economic recession damaged public finance between the years of 2008-2010. While indications of the crisis went down just in PIIGS, public economy problems escalated in almost all euro countries (Prokopijevic, 2010:369). This result put forward the result that economic developments in union memeber countries will be on a knife-edge within the next years and the necessity of being vigilant.

Prices and labor costs increased in PIIGS more than other euro economies and ultimately an important part of competition powers of PIIGS disappeared. PIIGS can be saved by attracting more investment and providing more jobs or higher-paying jobs (Prokopijevic, 2010:380-381). For this, precautions that will create and develop trust environment in the middle and long term in the said countries should be taken and the investments should be made in the areas resulting in reducing unemployment and public deficits.

Table 1: The Growth Rate of Gross Domestic Product Portugal, Italy, Ireland, Greece, Spain

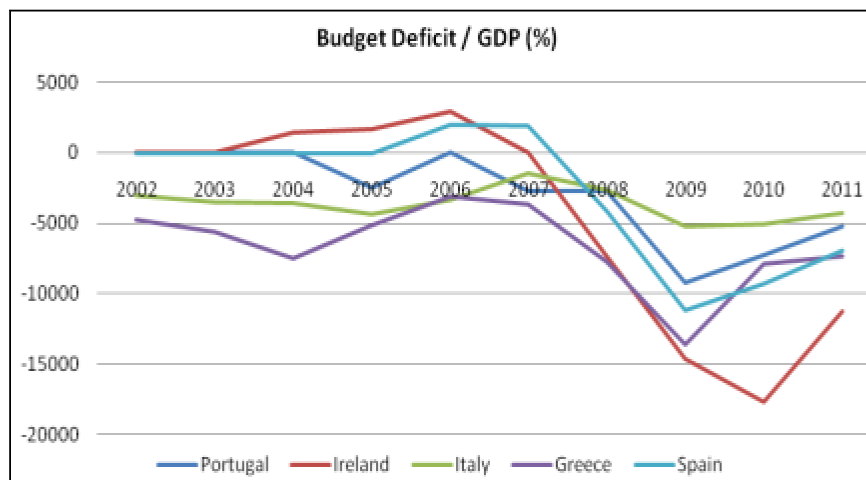


Resource: www.imf.org (29.01.2012)

When the growth rate of PIIGS countries examined, in 2009 a shrinkage was seen in all and in 2010 the shrinkage continued in all the countries except Italy and Portugal. In 2011, the countries except Greece and Portugal showed positive growth performance. PIIGS countries' lower growth performance than previous 10 years' rates shows the importance of the situation. It can be said that "the crisis took these countries 10 year back".

In euro area domestic income narrowed till 4% in 2009, rised to 1.6% in 2010 and to 1.4% in 2011. In EU, a similar situation was seen, while GDP was narrowing till 4.1% in 2009, it rised to 1.6% in 2010 and 2011 (www.imf.org, 29.01.2012).

Table 2: Budget Deficit/Gross Domestic Product Deficit Portugal, Italy, Ireland, Greece, Spain

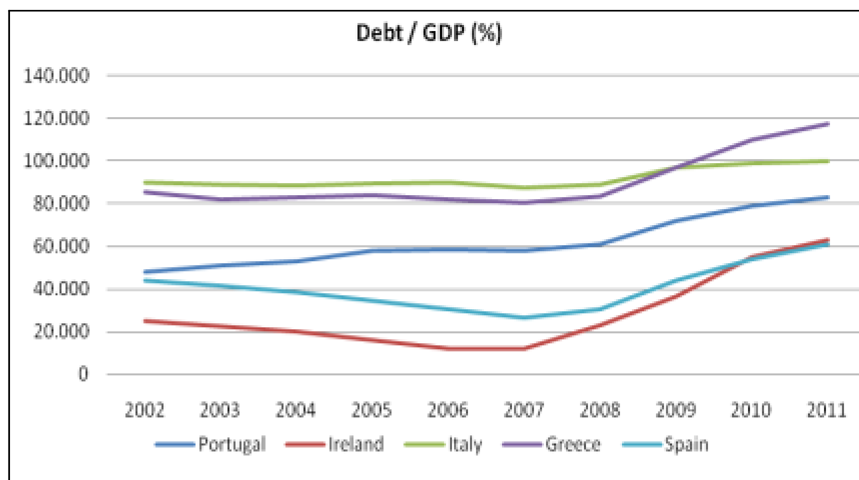


Resource: www..imf.org (29.01.2012)

PIIGS countries have had deficit since 2008 and the budget deficit/GDP rate has been above Maastricht criteria (budget deficit to GDP ratio's being 3%) for the last three years. In Ireland and Greece, this rate was calculated as minimum -7,3%, maximum -17,6% in 2008-2011 period.

The budget has had a deficit in decennium that is examined in Euro area. Since the last three years the budget deficit to domestic income ratio has been at aproximately double level of Maastricht Standard. A similar situation has been seen in EU (www.imf.org, 29.01.2012).

Table 3: Debt / Gross Domestic Product Deficit Portugal, Italy, Ireland, Greece, Spain



Resource: www.imf.org (29.01.2012)

In Italy and Greece, total debt to national income ratio is seen quite above the Maastricht Criteria (debt to GDP ratio's being 60%) in the last decade. In Italy, while this ratio was 98,9% in 2010, it rised to 100,1% in 2011. In Greece, while it was 109,5% in 2010, it reached to 117,2% in 2011. This ratio's being about double of Maastricht Criteria caused Greece to be showed as the head actor of the crisis.

In euro area, while the debt to GDP ratio ranged between 53% and 70% in the last decade, it was over this ratio in the last three years. In USA, while this ratio was between 48% and 66% in the same period, it was above the Maastricht Criteria in the last two years (www.imf.org, 29.01.2012).

As a result of these developments 3 year term bailout created for Greece by the help of EU and IMF that is valued at 109 billion euro in total. It is worried that the problems in Greece, creating a domino effect, will affect the countries in euro area which have some structural problems in their economy such as Portugal, Ireland, Italy and Spain. Concerns about deepening of the crisis caused to decline of the bond prices in some countries, rise in the interest rates accordingly rise in cost of borrowings. Consequently, the mentioned concerns led to the rise of puclic debts raito in GDP and debt sustainability's being imperiled. So, after Greece, Ireland and Portugal had to apply to EU with a help demand (Prime ministry, 2011:5). These developments clearly show the obligation of succesful management for Greece crisis, and in the case of failure, economies of all union member countries will be affected negatively.

There is an uncertainity about European Central Bank's (ECB) liquidty assurance and Greek government's debt privilege. As it is known, ECB trusts the point produced by American rating agencies to determine the apropriate of government bond as assurance. Before the financial crisis, having minimum A degree (or the equivalent) was a must. ECB decreased this degree to BBB+ to support banking system during banking crisis process. At the end of 2009, ECB announced that they will turn back to minimum degree before crisis from the beginning of the year 2011 (Grauwe, 2010a:2). These developments show that if the crisis management can be carried successfuly, the

economies of all union member countries, especially Greece, which are in crisis will normalize, and be back on the rails.

4. Solution Offers

The deficiency of euro area in creating a political association led to the result that the fragile structure, prone to crisis, would continue. Even though a plan seems impossible for a political association, little but focused steps can be taken for such an association in future. It is beneficial to state two steps. One is the idea of creating a European Monetary Fund (EMF) put forward recently by Gros and Mayer (2010). EMF will be a new European institution that will provide finance in the countries which has high budget deficits and high debt levels. In crisis periods, the countries which need financial aid will be supported by stating that it has the authority for stipulating to give financial aid as well (Grauwe, 2010a:5). It is certain that these given economic provisions' being used at the right time and in the right place, will play an important role for country or countries ridding off the crisis in a short time.

Second step is creating a common euro bond market. Such a euro bond market was offered by Gros and Micassi (2008) and by De Grauwe and Moesen (2009). Creating a new common euro bond, which all countries join in the ratio of share in Europe Central Bank, is offered. The interest rate, the participating countries have to pay, is up to the interest rates of issued bond in their own markets that the government determined. So, more wasteful countries such as Greece will have to pay more interest than more disciplined countries. Common bond interest rate will be weighted as the average of the national interest rate. Such a plan show that it will mitigate the moral hazard in the common bond issue. In addition, it will be attractive for foreign investors by creating a new enough sized bond market (Grauwe, 2010a:5). It can be said that the offered bond market will function as a prewarning to the countries that cannot manage their economies well as in Greece context and it will discipline the country economies.

Even though these offers are small steps for providing economic integration, its importance in our day can not be ignored. Euro area members approach any offer for solution seriously. Two of these offers will tried to be explained.

4.1. "European Monetary Fund" Approach

EU member countries signed solidarity principles based on many agreement. So they gain the right of taking support when they come up against extraordinary finance difficulties. At the same time, this solidarity principle states that it is a must to contribute to create the needed sources for a potential support effort in the countries which may constitue an imposition on the association. Both subjects go for especially euro area. Member country economies are linked together tightly by using the same currency. The problems in any euro area member country mean negative spillover effects for shareholders. In this respect, euro area member countries bear a private responsibility in order not to create difficulty for their shareholders. The political logic underlying the Maastricht Criteria for The Fiscal Policy and The Stability Pact is this. Offered EMF (organized under the concept of "souped up cooperation" established with European Union Treaty) can be a concrete expression of collaboration principle (Gros and Mayer, 2010:2). The Maastricht criterias at the same time act almost as a self-control mechanism for putting forward whether the union member country economies are managed well or not for the Fiscal Policy and the Stability Pact to be successful.

Thus it is put forward that there is a two-food structure to finance EMF as in the way of EFSF existing today. While liquidity support as bond buyings is provided in the secondary market to finace financial stability in the secondary market in European Central Bank by making a discount again, saving operations, including the bankruptcy risk's being financed with financial intermediary are proposed. In short (Gros and Mayer, 2011:34):

1. Arranging and managing a fund is not possible before decreasing the debt, Brady Plan should be supported by debt restructuring, with VAT bonds and support of the member countries.

2. Financial stability department should remove the obstacles of euro area bond market liquidity that endanger the financial stability by intervening the secondary markets.

Instituting European Monetary Fund (EMF) as a platform is necessary for enhancing the demand created from the crisis and EMU stability in the long term to coordinate the monetary and national fiscal policy and to get finance for the countries in difficulty. EMF bears a resemblance to IMF. These are (Mayer, 2009:140);

- Professional supervision of economic policy of countries,
- Financial support under strict policy conditions in stress times,
- Peer assessment of their policy and peer control of financial supports.

But also there will be important differences from IMF (Mayer, 2009:140);

- EMF will act as a last resort creditor for EU countries,
- EMU countries will accept EMF decisions as binding in economic policies (with fines for infringements similar to the Stability and Growth Pact),
- EMF will be a platform for coordination of monetary and fiscal policy among EMU countries.

Capital structure of EMF may be similar to European Investment Bank (EIB). The capital is assured corresponding with obligation authority in capital markets and the size of economies by EMU member countries with complete and collective responsibility by the shareholders. EMF must be approximately double size of EIB to supply aid (Mayer, 2009:140).

Even though creating EMF is not the unique solution for the problems that current economic and fiscal crisis created, this crisis can be used as a catalyst to deepen the European integration in parallel with many important historical samples (Mayer, 2009:141). European Monetary Fund (EMF) can overcome the crisis sustainability in Europe by coordinating and managing the public finance of the member countries. This crisis is not just an economic crisis but also a social and political crisis. EMF is the principal component in providing “A new treaty for Europe”. A systemic problem requires a systemic solution that will get back the priority of policy on speculation. European Financial Stability Fund (EFSF) is offered to be transformed to European Monetary Fund (EMF). The scope of EMF (Schulmeister, 2011:16):

- EMF provides euro to the government by selling euro bonds in capital markets. These bonds are guaranteed on an unlimited scale by all euro countries. Additionally, EMF takes full support of ECB (European Central Bank). ECB buys euro bonds from EMF if needed.
- EMF stabilizes the euro bond interest rates at the level below the growth rates in middle period. Euro bonds rest with EMF and the investors, they are not subject matter for foreign trade, but it can be rectified in anytime (Schulmeister, 2011:15).
- According to systemic approach, EMF helps rearrangement of public finance in euro countries and so, ECB establishes close relations with European Commission and national governments. For this purpose EMF raises fund for euro countries in accordance with unlimiting “conditionality” criterion.
- EMF overcomes discrepancy brandth in the interest rates by spreading among euro contries and so harmony and confidence of EU and EMU do strengthen (Schulmeister, 2011:16).
- In the case of launch of European Monetary Fund, the countries in fiscal difficulty will have the chance of benefitting from the fund launched in Euro Area if necessary. So the problems come to an end with solution within the Euro Area boundaries (Radikal Newspaper, 2010).

All euro countries are the members of EMF. Participation to the fund will be assigned according to suffrage besides economic power and population of the member countries (or some combination). This subject is left open to political decision-making process. EMF is managed by finance ministers of the member countries, euro bond floatation and distributing quantity is determined among their own members. In the second place it depends on many criteria. This condition provides that any members can’t act as free riders (Schulmeister, 2011:18).

Contrary to many euro bond offers, a general boundry shouldn't be for euro bond finance. Euro states as monetary union members should become a fund. If a country doesn't have the EMF funding criterion, it can't take these funds and both consequently it will have to pay unsustainable high interest and it will have to rely on its own national bond floatation. Knowing that the governments in high debt before hand will be caught up in the consolidation precautions compliance with EMF and EU. In other words, if the discipline power of EU authorities is compared with the current situation trusting unquestioning granting of credit to the government by banks, it will be higher if state finance is get by EMF (Schulmeister, 2011:18).

4.2. Common Euro Bonds

Some euro area countries offered new instruments for euro governments (partially) finance with the deepening of the fiscal crisis. Euro bonds should be sold by a unique country or a new institution that 17 countries using euro guaranteed and within a certain bound (for instance 60% of GDP is "Maastricht debt magrin") (Fidler and Forelle, 2011).

Main idea in favor of euro bonds is that: Monetary union enables member countries (asymmetric) to devalue their own currency in the case of shock and the governments have the opportunity of access to financial instruments provided by their "own" central banks. As a result investors' loss of confidence drags the country into a loss (Schulmeister, 2011:17).

Main idea underlying limiting the Access of the countries to euro bond finance is "discipline effect of marginal cost of higher borrowing". In the capital markets in the countries that have the euro bond finance capacity national "red" bonds must be sold. Governments act irresponsibly during the high interest rates of the markets. Palley (2011) offers subscription of a "European Public Finance Agency (EPFA)" issuing bond to euro area countries as help duty with normal budget deficit finance permanently. The target is to make the budget deficit finance a normal factor (Schulmeister, 2011:16). If success is achieved in this, the negative affects of budget deficits, mistrust environment created in that country and union member countries is prevented to affect the economies in the medium and long term negatively.

While EMF concept resembles EPFA offer, it differs from in two points (Schulmeister, 2011:17):

1. While European Central Bank decides the level of short term interest rate, EMF decides the level of euro bond long term interest rate.
2. Euro bonds change hands by EMF and the investors, they can always be converted into cash but they are not traded on capital markets.

Besides being economic policy tool, determining the long term interest rates has two main reasons. Firstly, this approach is an economic policy to stabilize the future interest rate of euro states under the level of medium term (expected) growth rate. In this way, the interest rate on corporation bonds will be reduced. Improvement of financing conditions for bussiness and public sector is a prerequisite for decreasing the public indebtness. Secondly, the control of long term interest rates provides the determination of interest rate to EMF, close to the level of interest rate charged by high level developed "well countries" such as Germany in cooperation with Central Bank and European Commission (Schulmeister, 2011:17).

Euro bonds are not traded on capital markets, because financial investors may speculate for or against relative euro bond for government bonds of USA, England, Japan or some small states. This game is unnecessary even if it is easier than monetary union member countries playing against each other. In addition to this, banks can receive rent by loaning at low rate from European Central Bank and investing to government bonds at high rate. This doesn't add any value to the macroeconomics (just profit for banks) and princple of the banks seeking investment opportunities should be improving the productivity. It seems more reasonable that the investors finance the governments. This possibility that is already existing in many countries should be extended at the level of EMU via EMF (Schulmeister, 2011:17). If success is achieved in this, it is obvious that the governments' financial

staff's hand will be strenghten and they will have much more alternatives in making decisions about economic policy, so this case will make positive contribution to their economies.

EFSF (European Financial Stability Fund) financing has become the center of euro crisis. Many supervisors regard "Euro Bonds" as the unique solution for this problem described as insoluble. "Euro Bonds" concept generally means a bond that is guaranteed by all euro area states jointly and severally (Gros and Mayer, 2011:34).

One of speciality of euro bonds is that each euro government will join the partnership as much as the number of its stocks in European Investment Bank (EIB). Second one is euro bond interest rate (coupon) will be weighted average of observed return in each governments' bond market. Third one is bond issue incomes will be canalized to each government using the same weight. Fourthly, each government will pay per-annum rate to the bond coupon using the same interest rates to compute the average euro bond interest rate (Grauwe and Moesen, 2009:134).

Euro bonds being guaranteed by all 17 euro states with the support of European Central Bank commonly and unlimited causes euro bonds to be harmed in the case of collapse of the financial system. In this way EMU will gain a powerful position when unlimited support of FED to the government bonds is compared with financial investments. The main reason of attraction of USA bonds is this, even though its weakness of economy. Investors believe that the loss of USA government bonds is (almost) impossible when they consider the support of FED (Schulmeister, 2011:19), this result shows clearly why USA government bonds are one of indispensable financial instruments in the eyes of the investors.

The confidence degree hight of euro bonds result in the global demand of these tools being high. It has two reaosons, primarily only USA procures comparable government securities for major investors in global economy such as central banks and pension funds, second one is real economy of euro area is more powerful than USA (the weakness in Europe results from basic inconsistency in the field of finance that EMF can overcome) (Schulmeister, 2011:19). If European Union, all union member countries, notably euro area countries achieve minimizing the differences in the development levels as soon as possible and then building their financial systems on solid basis, if they achieve mounting it to their real economy appropriately, it can be thought that the world governship will pass to EU from USA hegemony within in the first ten year.

Long term interest rates' being under the level of economic growth in euro area will promote the investments as a prerequisite for a constant improvement. Just this case can be made real in the medium and long term. Such a development will prevent payment of the debt and the necessity of the "well" countries to save the "bad" ones. If contrarily, the policy that accepts certified bankrupt of EMU countries is adopted, much more capital must be mobilized. Even though the policy of raising the duties within a unique national state to save the banks is easier, the problems of the countries waiting for a rescue such as Greece and Portugal have higher costs (Schulmeister, 2011:19). The interest rates being under the growth rates' acceleration of the investments is highly important as the other union member "well" countries don't want to bear rightfully the costs of the countries whose economies are troubled such as Greece and as it will save the "well" countries from more probable costs besides it will urge the "bad" countries to enliven their economy by themselves.

EU commission has offered alternatives bringing Euro bond plan to which German government remains indifferent, to the final stage. President of EU Commission Barroso has stated that in the case that budget discipline is guaranteed, the way of common bond issue will be opened, asking the countries using euro for fulfilling their structural reform commitments and to deepen the economic integration. There are three different scenarios that Barroso has brought forward.

According to the first one of these, henceforth it will be provided that Euro area countries loan just with common "euro bonds" instead of national bonds. According to this option the budgets of all countries in Euro area will become definite with the approval of the other countries and economy management of the countries in difficulty will be transferred to EU. So after monetary union, financial union will be provided.

In the second alternative offered as a middle way, the countries will continue to go out in national bonds tenders, in addition to this the euro bonds will also be put into place. The loan made with euro bonds will be under the guarantee of all member countries. However, the countries that exceed the determined obligation of funds will have to pay higher interest. So the countries will be promoted about lowering the borrowing costs.

As the third option, Euro Area is offered to be a partial guarantor to new borrowings of the countries but current debt and risks are offered to be left aside, this alternative is stated to be applied easily without making changes in the EU constitution. Both national bonds and Euro bonds can be used together in this offer, too. (http://www.dw.de/dw/article/0,, 15554005,00.html). It can be said that these three alternatives are applicable. But which of these will be applied or which will achieve the success at short notice will be paralel to how much the union member countries described as “well” will support to the financial burden economically and to the fulfilment of the incumbent financial obligations by economically “bad” countries.

5. Conclusion

The crisis started at the beginnins of 2007, becoming global in the middle of 2008 continues to show the effects on today’s economy. In Europe countries especially in Greece the effects of the crisis was seriously felt. The deepening debt crisis in euro area and extension of the process decreased the growth rates of many developed and developing countries substantially.

PIIGS countries’ inability to provide the Maastricht criteria (as; debt to GDP ratio is 60%, bugdet deficit to gdp ratio is 3%), caused the discourses that some countries should be removed from union. The realization of this situation doesn’t solve the problems, but besides, it is necessary to assure the public discipline of all union member countries. Thus, the launch of Europe Monetary Fund (EMF) as a unit that Europe can apply to finance its own financial problems and issuing common euro bond in euro area have been suggested.

An EMF that EU pools in it self, fiscal policy control, will be able to own the functions that are deficient in the union as being creditor as “a last resort” and standing guarantor for financial assets. More importantly it will provide a member of the union, in the case of necessity, not to need IMF intervention which is a nonmember institution. With theestablishment of EMF, the decreasing economy credibility of EU and Euro area will rise.

Euro bonds change hands between EMF and the investors, they always can be turned into cash but are not traded in capital markets. They differ from the other national bonds with this feature and they are not exposed to speculations of the other countries. Euro bonds figure as a complementary factor in enabling the role of EMF.

Resources

[1] Barbosa, Luciana and Sonia COSTA (2010), “Determinants Of Sovereign Bond Yield Spreads In The Euro Area In The Context Of The Economic And Financial Crisis”, Economic Bulletin, pp.131-150, http://www.bportugal.pt/en-US/BdP%20 Publications%20 Research/ AB201010_e.pdf (30.01.2012).

[2] Basbakanlik (2011), “Avrupa Birligi’nde Küresel Finansal Krize Karsı Alinan Onlemler ve Birligin Rekabet Gucunun Arttirilmasına Yonelik Girisimler: “Euro Rekabet Pakti”, Ankara, ss.1-38.

[3] Ercan, Metin (2010), “'Avrupa Para Fonu’na Dogru”, Radikal Gazetesi, 10.03.2010, http://www.radikal.com.tr/Radikal.aspx?aType=RadikalYazar&ArticleID=984772 & CategoryID=101 (02.02.2012).

[4] Fidler, Stephen and Charles FORELLE (2011), "EU Pushes Scenarios For Euro Bond", The Wall Street Journal, http://online.wsj.com/article/SB100014240 52970203710704577050360748379688.html (08.02.2012).
[5] Grauwe, Paul De (2010a), "Crisis In The Eurozone And How To Deal With It", CEPS, No:204, pp.1-6, http://ssrn.com/abstract=1604453 (27.01.2012).
[6] Grauwe, Paul De (2010b), "The Greek Crisis And The Future Of The Eurozone", pp.1-5, http://www.econ.kuleuven.be/ew/academic/intecon/Degrauwe/PDG-papers/ Discussion_papers/EuroIntelligence-March-2010.pdf (01.02.2012).
[7] Grauwe, Paul De (2011), "Only A More Active ECB Can Solve The Euro Crisis", CEPS, No:250, pp.1-8, http://www.ceps.be/book/only-more-active-ecb-can-solve-euro-crisis (30.01.2012).
[8] Grauwe, Paul De and Win MOESEN (2009), "Gains for All: A Proposal For A Common Euro Bond", Intereconomics, pp.132-135, http://www.ceps.be/system /files/article/ 2009/06/Forum.pdf (30.01.2012).
[9] Gros, Daniel and Thomas MAYER (2010), "How To Deal With Sovereign Default In Europe: Towards A Euro(Pean) Monetary Fund", CEPS, No:202, pp.1-10, http://www.tau.ac.il/~yashiv/CEPS%20%20Towards%20a%20European%20Monetary%20Fund%20-%20Clean.PDF (28.01.2012).
[10] GROS, Daniel and Thomas MAYER (2011), "EFSF 2.0 Or The European Monetary Fund", CESifo DICE Report, pp.31-38, http://www.cesifo-group.de/portal/pls/portal/docs/ 1/1211673.PDF (28.01.2012).
[11] Gunduzalp, M. Fatih (2010), "Bütce Acikları ve Borc Krizi Kuresel Dengeleri mi Degistiriyor?", Tefekkur Dergisi, Sayı:38, http://www.tefekkurdergisi.com/icerik.asp? dergi=38&konu=1029 (30.01.2012).
[12] Kovacheva, Ralitsa (2011), "The Eurozone Creates A European Monetary Fund. Another 109 Billion Euros For Greece", http://www.euinside.eu/en/news/the-eurozone-creates-a-european-monetary-fund-gives-109-bln-euros-to-greece (03.02.2012).
[13] Mayer, Thomas (2009), "The Case For A European Monetary Fund", Intereconomics, pp.138-141, http://www.ceps.be/system/files/article/ 2009/06/Forum.pdf (30.01.2012).
[14] Prokopijevic, Miroslav (2010), "Euro Crisis", Panoeconomicus, No:3, pp. 369-384, http://www.panoeconomicus.rs/casopis/2010_3/08.pdf (30.01.2012).
[15] Radikal Gazetesi (2010), "Avrupa'da IMF benzeri 'Para Fonu' kuruluyor", 09.03.2010, http://www.radikal.com.tr/Radikal.aspx?aType=RadikalEklerDetayV3 &ArticleID=984512&CategoryID=101&Rdkref=1 (31.01.2012).
[16] Schulmeister, Stephan (2011), "The European Monetary Fund A Systemic Problem Needs A Systemic Solution", pp.1-24, http://www.labournet.de/diskussion/eu/wipo/ schulmeister.pdf (28.01.2012).
[17] Soros, George (2010), "The Crisis&The Euro", The New York Review of Books, pp.1-5, http://www.relooney.info/0_New_7589.pdf (27.01.2012).
[18] Tutar, Erdinc; Filiz TUTAR ve Mehmet Vahit EREN (2011), "Uluslararası Kredi Derecelendirme Kuruluslarinin Rolu, Guvenirlilik Acisindan Sorgulanmasi ve Turkiye", Akademik Bakis Dergisi, Sayı:25, Temmuz-Agustos, ss.1-24.
[19] Wihlborg, Clas; Thomas D. WILLETT and Nan ZHANG (2010), "The Euro Debt Crisis It Isn't Just Fiscal", World Economics, Vol. 11, No. 4, pp.51-77, http://www.cgu.edu/PDFFiles/SPE/Willett/Papers/Willett,_Wihlborg,_Zhang%20 The%20Euro%20 Debt%20 Crisis.pdf (27.01.2012).
[20] http://www.dw.de/dw/article/0,,15554005,00.html (06.02.2012).
[21] www.imf.org (29.01.2012).