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The Lingering Financial Crisis in the European Union

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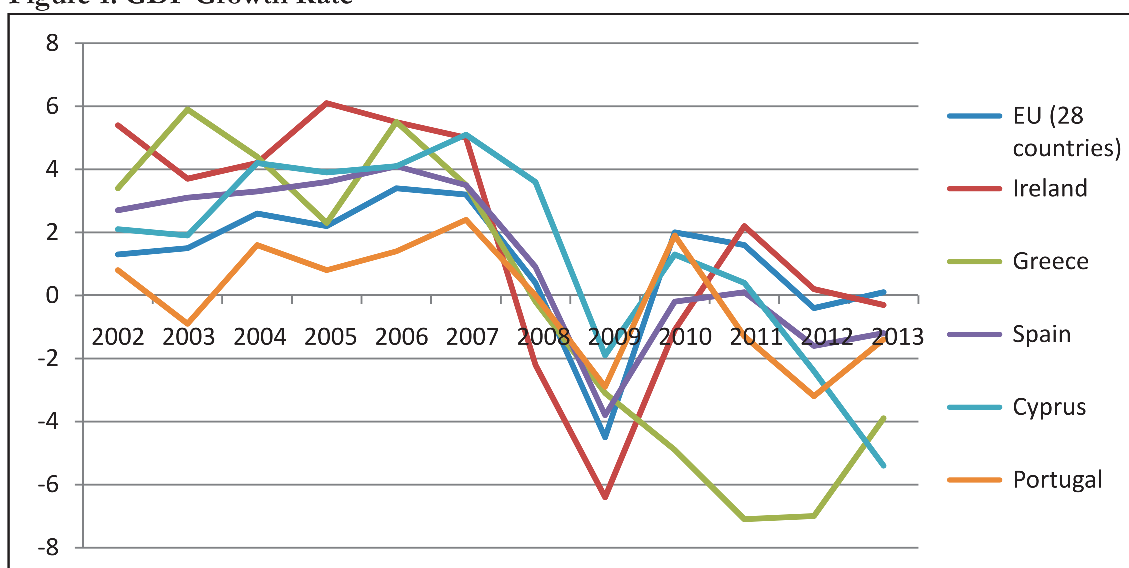
Introduction

The economic and social problems of the European Union (EU) have not been fully resolved since the euro zone crisis, which began after the Global Financial Crisis (GFC) in 2008. The euro zone[i] comprises 18 of the 28 members of the EU, all of whom have the euro as a common currency. These countries continue to be in turmoil. Though the intensity of the crisis has weakened, there still remain serious problems of deflation and unemployment. While Germany has experienced continuous growth, France has had slow and near-stagnant growth in the first quarter of 2014 and many of the southern members of the EU continue to have very low growth and high sovereign debt.

Figure 1: GDP Growth Rate



SOURCE: Eurostat database[1]

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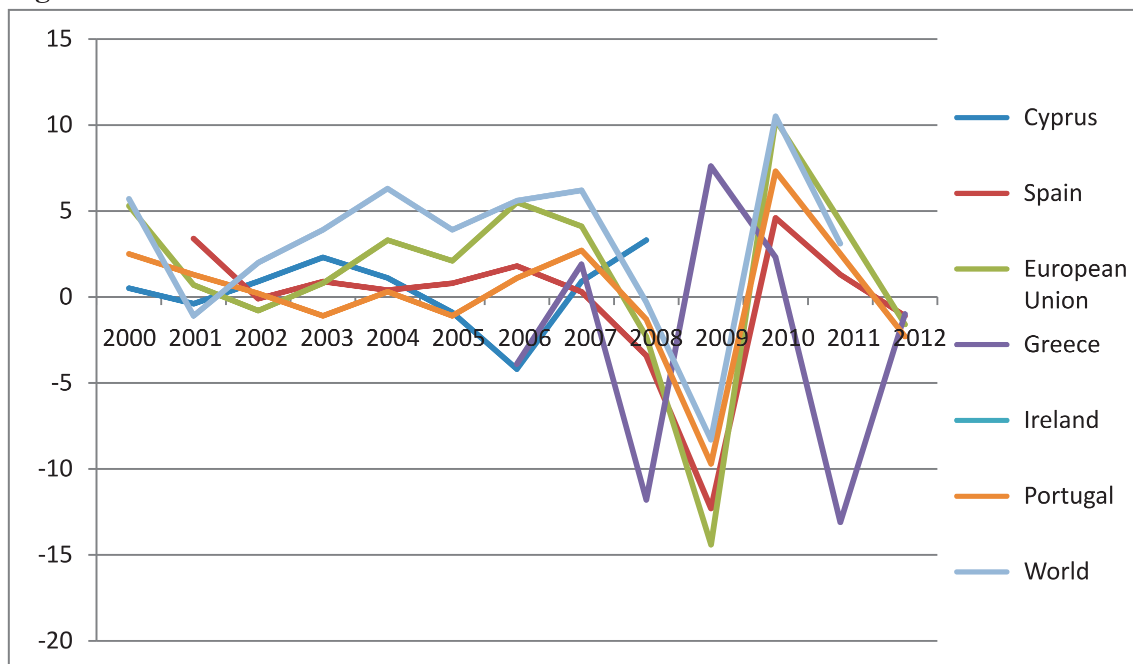
The Genesis of the Crisis

From May 2010 till May 2013, a number of euro zone countries asked for emergency loans from other EU governments and the International Monetary Fund (IMF), being unable to fund their budget deficits at sustainable interest rates from the financial markets. One after another, Greece, Ireland, Portugal, Spain and Cyprus were close to defaulting on their debts.

Although two bailout packages were worked out for Greece, and Ireland and Portugal have ended their bailout programmes, signs of industrial revival in many of the euro zone countries remain weak and questions about the sustainability of the monetary union and the future of the euro as a common currency still loom. They emanate from the differences in the rates of GDP and productivity growth among the member states—which comprise both large, economically powerful countries and peripheral, smaller ones. It was perhaps a mistake to enter into a monetary union before a fiscal and political union

Figure 2: Industrial Growth Rate



SOURCE: Eurostat database[1]

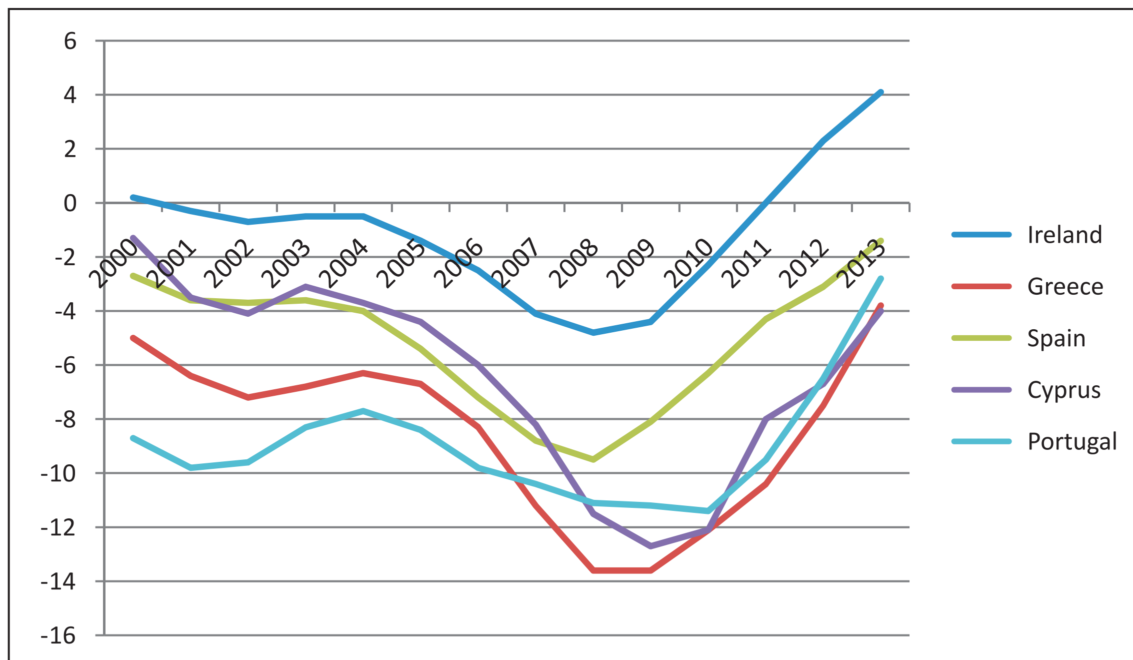
There are thus many anomalies in the way the EU was formed and expanded. Yet, despite all the legitimate reasons for complaint and the weaknesses of the EU, it does give the member countries the psychological comfort of belonging to a large and potentially powerful union. The concept of the EU also gives people in the member countries a sense of European identity and citizenship.

A single common currency, the euro, was adopted in 2002 (the single currency was originally launched in 1999 among 11 member countries but confined to cashless transactions and stock

markets), which made transactions of goods and services easier and facilitated investment across the region. But some of the member states had overvalued currencies and high inflation[ii] when they switched to the euro. Under the Monetary Union, given its lower interest rates (kept low to promote growth in reunified Germany), they were able to access goods and services in euros cheaply from other members. The governments also increased their spending, and fiscal deficits widened. Greece, for example, increased its commitments to public sector workers in the form of extremely generous wage and pension benefits. Productivity and competitiveness declined due to high labour costs. (In fact, Greece failed to disclose its true fiscal deficit which was very high.) Current account deficits also widened, as some of the southern countries kept importing more than they exported. Large deficits had to be funded by high levels of public and private borrowings.

Thus, the problems of the euro zone had started much before the GFC. Easy credit conditions in 2002-08 had encouraged high-risk lending and borrowing practices in some of the southern members. In the first few weeks of 2010, after the GFC had begun in the US, there was renewed anxiety about the excessive amount of national debt in some of the euro zone countries, and lenders demanded higher interest rates from several countries with high debt levels, fiscal and current account deficits. Private debt arising from the property bubble in Ireland was transferred to sovereign debt as a result of bailouts by the banking system. Greece's debt exceeded $400 billion and France owned 10 percent of the debt. There were fears that Greece would default. Greece was bailed out in 2010 with a direct loan of 110 billion euros from the EU and the IMF.

Figure 3: Current Account Deficit as Percentage of GDP



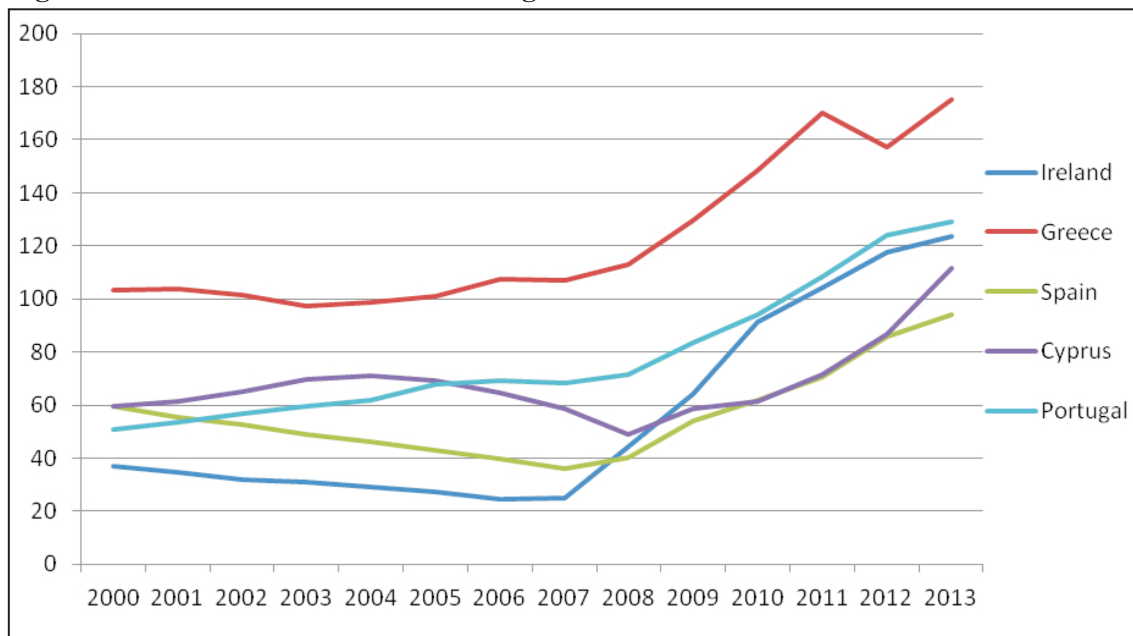
SOURCE: Eurostat database[3]

Two years later another 130 billion-euro loan was given to Greece. It had to reduce public pensions and wages as part of the conditionality of the loan. By then, the problem of member countries

accumulating debt and running high current account deficits had gathered momentum. (No doubt, in some countries it had begun much earlier.) Even though the Maastricht treaty to form the EU and adopt a single currency was signed in 1992 and it was well known that countries with originally weak currencies—and higher interest rates—were becoming members, no fiscal union was created among them. Each member could have its own tax and pension policies.

Ideally, if the euro zone members had their own separate currencies, they would have been allowed to devalue them to regain their competitiveness when faced with sluggish export growth. But because they had adopted the euro whose exchange rate was not in their control, they could not do so. And that was the beginning of the crisis. Greece was particularly affected with its debt GDP ratio shooting up to 175 percent. In 2009, Greece had a budget deficit of 15.8 percent (at that time underestimated at 12.5 percent).

Figure 4: General Gross Debt as Percentage of GDP



SOURCE: Eurostat database[4]

Following the deepening of the euro zone crisis, a 'Troika' comprising the IMF, the European Commission (EC) and the European Central Bank (ECB) was formed in the spring of 2010 to negotiate the Greek financial assistance programme. The participation of the ECB and IMF was demanded by the heads of states of the EU in a joint statement on 25 March 2010. The Troika negotiated the financial assistance programmes for Ireland, Portugal and Cyprus and the new programmes for Greece.

The Troika controls the economic aspects of the EU's functioning and assesses compliance with the conditionality laid down by the IMF. The IMF contributed one-third of the money used for the euro

zone bailouts, but currently contributes 10 percent. The ECB is actively involved in the design and monitoring of the economic conditionality in the context of the EU/IMF macroeconomic adjustment programmes. The ECB also agreed to act as an agent for secondary market activities of the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), and for the rescue funds for the euro area.[iii]

The ESM replaced the temporary European Financial Facility in July 2012. It became the permanent bailout fund of the EU, effective 27 September 2012, following a treaty signed by 16 of the euro zone members. It is an intergovernmental organisation and serves as a financial firewall. It manages a single country's default and limits financial contagion.

The ECB's operations from Frankfurt have been mostly concentrated on ensuring the necessary supply of liquidity to the euro area banks. It has launched two government bond purchase programmes: the Securities Market Programme (SMP), launched on 10 May 2010 and terminated on 6 September 2012, followed by the Outright Monetary Transaction (OMT) programme.[iv]

Under the SMP, the ECB bought about 219.5 billion euros of sovereign bonds of Greece, Ireland, Portugal, Italy and Spain by February 2013 on the secondary market through open market operations. At the end of 2011, the ECB held 23 percent of the total outstanding debt of Greece, 16 percent of Ireland's, 6 percent of Italy's and 5 percent of Spain's. All purchases were sterilised (i.e., the liquidity provided was reabsorbed by the euro system) to ensure that the monetary stance was not affected and inflation was controlled. It reactivated the dollar swap lines with the help of the US Federal Reserve. While the SMP could not bring definite relief to markets, the OMT has been more successful. It is the programme put in place by the ECB following ECB head Mario Draghi's declaration that the ECB would do "whatever it takes to preserve the euro". Under the OMT, the ECB can buy government bonds of a euro member country in the secondary market, keeping the primary market for these bonds open and driving down bond yields.[v]

Before the OMT programme, investors believed the ECB would not stand ready to prevent a crisis; therefore, betting on a country in the bond market did not make sense. The OMT was necessary from the point of view of ensuring proper monetary policy transmissions. It is based on an explicit conditionality: compliance with a full or precautionary macroeconomic adjustment programme that has been designed by either the EFSF or ESM.

The ECB is the central bank for the euro zone and controls the entire monetary policy. It has been central in arranging bailouts and combating the financial crisis. It has also played a part in lowering interest rates and providing three-year variable-rate loans of more than $1.3 trillion to maintain

money flows between European banks. Moreover, it has taken a series of measures aimed at reducing volatility in the financial markets and improving liquidity.[vi]

On the whole, the programme for the rescue of the EU countries from the euro zone crisis has had bigger coverage and depth than earlier similar programmes, such as those adopted during the Latin American crisis or the Asian crisis. The first criterion to be met by the beleaguered EU members was that they be able to regain market access for fresh credit lines. Ireland made a full exit from the programme at the scheduled time (December 2013). The first programme—involving a 'haircut' (a euphemism for reducing privately held government debt[vii])—has been discontinued and replaced by a second one for all affected countries, such as Portugal, Greece, Cyprus and Ireland.

Most countries will probably not be able to regain market access without some form of write down of their publicly held debt. Economic adjustments of the lending programme have involved three types of conditionality: (a) reducing public debts and deficits; (b) introducing financial measures to restore the health of the financial sector; and (c) engaging in structural reforms and enhancing competitiveness.

Most countries adopted the fiscal consolidation measures prescribed by the Troika. But debt to GDP ratios rose higher than originally foreseen. This was due to a larger than expected fall in economic output. A number of factors—such as the magnified fiscal multiplier effect and the unexpected deterioration in the external environment, including open discussions of a breakup of the euro area—undermined investor confidence. Also, there had been an over-optimistic assessment of the existing conditions and an underestimation of the weaknesses of some of the administrative systems in the EU.

An Assessment of Reforms

Structural reforms have been weak in Greece and Portugal. Though both countries have implemented some reforms, it is difficult to assess whether these will be sufficient. The fall in domestic demand has been bigger than anticipated in Greece, Ireland and Portugal. Imports also fell more than expected in Greece and Portugal although they increased in Ireland. At the same time, the current account deficit, too, reduced more than forecast in Ireland.

Over time, the conditionality affected Greece much more than the other states. Fiscal conditionality was emphasised in Greece at the beginning of the programme, but attention was later increasingly focussed on reforms and addressing employment issues. Privatisation also became a central issue of Greek conditionality. In Portugal, structural reforms were at the core of conditionality. Issues

regarding poverty, social justice and inequality rarely featured in any of the programme documents. The current mood in Greece and Cyprus is to exit from the programme.

But many problems will remain even after the exit. In particular, unemployment rates and private and public debt levels are still very high. Growth prospects are still unsatisfactory and far too weak to address the unemployment challenge.

For example, in Greece, unemployment is at more than 25 percent and public debt at 120 percent of GDP. The high debt (public and private) levels, the generally weak growth determinants in the countries where the programme is being implemented, a fragile global economy, disinflation tendencies in the EU and persisting banking problems suggest that caution should be exercised while considering exits.

According to many economists, Portugal should not have opted for the clean exit from the programme, which it did in May 2014.[viii] As for Greece, it is hard to see how the country can exit by the end of 2014 without some form of further debt relief and an accompanying framework to improve the structural drivers of growth.

Austerity to no Avail

More than conditionality and restructuring of the economy, it is the austerity measures which have affected all the countries under the programme and sparked protests.

A number of austerity measures were imposed by the IMF. All the highly indebted countries were under an obligation to revise their tax systems, exercise prudence in government spending and implement structural reforms. Since the countries have necessarily given up monetary autonomy while adopting a common currency, there is need for a certain degree of fiscal similarity between them so that each can react to shocks and crises without jeopardising the others.

Greece's austerity and reform package involved reducing the fiscal deficit from 13.6 percent to 2.6 percent by 2014. To accomplish this, the government had to cut public sector wages, freeze state-funded pensions and strengthen tax collection. In addition, reform of regional and municipal government administration required reducing the number of local government units to allow better coordination of spending and borrowing at the sub-national level.

But public spending cuts were not compensated for by more spending by consumers. Excessive levels of private indebtedness and collapse of public confidence led the private sector to decrease spending in an attempt to save for rainy days ahead. This led to low demand for both products and

labour, which further deepened the recession and made it even more difficult to generate tax revenue to reduce public debt.

Labour reforms included wage and benefit cuts to reduce costs and improve price competitiveness. Finally, pensions are being reformed to enhance the long-term sustainability of the pension system.

The result of the austerity measures has been quite severe. Industries have closed down due to recession in other countries, which has led to compression of demand and an increase in unemployment. The high cost of inputs, especially high labour costs, made countries like Greece less competitive. The high value of the euro has also not helped in increasing exports. Germany has managed to keep its wages down through austerity measures aimed at controlling fiscal deficit. Instead of firing workers outright, it opted for reduced number of hours of work and wage restraint. In particular, it retained high skill workers. Its productivity growth consequently went up and exports rose rapidly.[ix] It became a champion of austerity measures, making the German Chancellor, Angela Merkel, unpopular in Greece.[x]

Figure 5: Growth of Export Rate

SOURCE: World Bank database[5]

Social Costs of Austerity

Europe faces major social problems today, which indicate that the crisis is not yet over. More than 6 million jobs were lost between 2008 and 2013 within the EU, increasing the number of unemployed to more than 26 million and the unemployment rate to 11 percent in 2013, the highest in more than two decades. Poverty levels increased to 9.9 percent by 2012.

Income inequality as measured by the Gini coefficient remained at the same level in 2012 as in 2007 for the EU as a whole, but in some countries, it is now higher than three decades ago. During the crisis, the southern countries in particular went through some worrying social developments accompanying a rise in inequality. But there are significant differences. Latvia is the most unequal country in the euro zone, and Slovenia the most equitable. While some euro zone countries account for people who are severely materially deprived, the rate of poverty in Luxembourg is 1 percent.

The crisis has altered the EU's social model. According to Euro-barometer 2012, 80 percent of respondents thought that poverty had increased in the past 12 months. The social fallout of the crisis and its impact on economic growth is at the centre of the economic policy debate. The efficiency of social security systems has also varied following the crisis within the EU. The efficiency of the Mediterranean social model is low and at the same time inequality levels are high.

Generally speaking, the increase in poverty and unemployment has been more pronounced in the countries that already had higher levels of inequality before the crisis, in particular in the countries of southern Europe and the Baltic region.

Most EU members have undertaken significant fiscal consolidation in the last few years. In the euro zone as a whole, spending cuts were concentrated in broad public services, economic affairs and environmental protection. In general, spending on social protection was preserved, at least in relative terms, even in the countries that implemented the largest fiscal adjustments.

But the distribution of the costs of adjustment between the young and old has been uneven. Spending on family unemployment benefits, education, health and other forms of social protection increased below the rate of inflation, which meant a cut in real terms. In contrast, spending on housing and old age pensions increased more than inflation. Thus, spending on the elderly was preserved or increased substantially. But while spending on unemployment benefits increased significantly, unemployment benefits per unemployed person declined. This indicated reduced benefits per person, and also narrower eligibility.[xi]

Youth unemployment can have lasting negative effects, as skills are undermined over a whole lifetime, with trickle-down effects on fertility rates and child support. Poverty undermines the ability to access educational and health services, with negative impact on long-term productivity.

Increase in poverty and unemployment undermines trust in government and could hamper reform. This may lead to problems in sustainability of public finance, which may require larger fiscal adjustments thereby adversely affecting social developments.

Youth unemployment requires urgent attention. The mobilisation of a 6 billion euros youth guarantee fund and the EC communication on 'Social dimension of economic and monetary union' are welcome initiatives. One paper, however, has suggested these may raise expectations that cannot be met, further undermining the trust of citizens in the EU.

Another European level initiative has to be greater focus on demand management. Weak demand has been a major reason for job losses and social problems, even in the face of necessary fiscal consolidation. If demand remains low, more flexible labour markets will not create employment to the required extent. More demand would help reverse the chronically low inflation in the euro area, which would foster private sector de-leveraging, sustainability of public finance and intra euro price adjustment.

Alternative Measures

Austerity measures have dismantled some of the mechanisms that reduced inequality and facilitated equitable growth. Austerity measures have been based on regressive taxes and deep spending cuts, particularly in public services such as education, health and social security.

It is the experience of some of the debt-ridden countries that debt repayment or deficit reduction cannot be the sole or overriding purpose of economic policy because extreme austerity that reduces deficits and not debts is destructive and does not create opportunities for the future.

Alternatives to austerity could target employment creation, which would involve creating productive work through public investment and procurement, and incentivising private expansion to address regional inequalities and environmental sustainability. Also, retraining opportunities could be offered to the unemployed to enable them to find new employment. In some cases, it would be necessary to help workers migrate and consequently meet regional labour market demands.

The employment situation and social protection systems could be connected through job sharing. Combating high levels of inequality should be a top priority.

It is generally agreed that the adjustments that have taken place in the euro zone area are quite severe and may impact social cohesion. The composition of the fiscal adjustment has to be carefully designed and whatever expenditure restraint is imposed, it has to be practiced in a growth friendly manner. Besides implementing structural fiscal reforms such as pension reforms, measures must be put in place to boost aggregate demand in the short run.

One aspect of structural reforms is promoting better-functioning labour and product markets. For example, flexible work arrangements are better than outright layoffs. Reducing rents in product markets would help ensure that the impact of wage restraint on prices will be distributed to the households in the form of increase in purchasing power. Other structural reforms, such as changing employment protection legislation, will not help in cushioning the negative shock. An effective monetary policy and credit channels throughout the zone are likely to aid costs of restructuring.

Germany pushed its economic competitiveness by increasing value-added tax by three percentage points in 2007, and used part of the additional revenues to lower employers' unemployment insurance contribution.

Paul Krugman sees the euro crisis as a current account imbalance crisis that can be corrected by raising the affected countries' level of savings through a reduction in budget deficits. Countries with large trade surpluses like Germany will need to shift their economies towards domestic services and increase wages to support domestic consumption. There has to be current account rebalancing. In 2014, the current account surplus of the euro zone doubled compared to the previous year, reaching a record high of 227.9 billion euros.

Germany and the EU finance ministers have proposed that euro zone countries should cede power to a Central Bank single resolution authority and establish a Common Funding Network. From 2016, there will be a resolution system under the single supervision at the ECB.

The European Commission has proposed that the EU take measures to develop a banking union, where the ECB would have a supervisory role in monitoring the implementation of the single rule book and ensuring financial stability of banks in the member states. The ECB will be the financial supervisor of euro zone banks and will have one set of rules to close or restructure troubled banks, and one pot of money to pay for everything. The ESM and EFSF will be supervised by the ECB. Germany has already approved draft laws that effectively give the go ahead to the plans for the banking union. But many problems[xii] remain: the recovery pace in the EU is still lagging; Germany's own position has been weakened due to member countries' deflation and the trouble in Ukraine, which have impacted the demand for German goods.

Impact on India

Despite slight indications that it may be abating, the continuing euro zone crisis is bad for the developing world given forecasts of a low growth rate. The EU is an important export destination, a source for FDI and FII and tourism revenues.

As a developing country, India benefits from FDI flows coming from the EU. Given the more stable nature of these flows compared to FII inflows, it is critical that they continue coming in. While the crisis has adversely impacted these flows, the repercussions have not been severe. FDI flows from the euro zone countries to India declined to $3.5 billion in 2010-11 when the crisis began, but recovered to $4.2 billion in 2011-12 and were back at $3.5 billion in 2012-13. In addition, Europe constitutes a major source of private transfer flows to India, which were around 18 percent of total flows in 2008-09. These have also declined.[xiii]

There has been a slowdown in Indian exports to the EU, with merchandise exports declining from $42.7 billion in 2011 to $37.8 billion in 2012. The EU's share in India's total exports declined from 13.9 percent to 12.8 percent in the same years. The euro zone's share in India's exports was at 16 percent in 2008.

The share of India's software export earnings from the EU declined from 26 per cent in 2009-10 to 24 per cent in 2011-12. Tourist arrivals also declined. The EU accounts for more than one-third of total tourist arrivals in India.

There has been limited impact on the banking sector. Foreign banking accounts for only 8 percent of India's total bank sector assets and 5 percent of banking sector credit. RBI data show that there are only 37 branches and three subsidiaries of Indian banks in the EU. None of them are in Portugal, Italy, Greece or Spain. Out of 37 branches, 30 are in the UK, 3 in Belgium, 2 in Germany and 2 in France. Indian banks' exposure to bonds issued by the affected countries was insignificant. De-leveraging in the European banking system, however, impacted credit flows to India. The consolidated claims of European banks on India declined from $146 billion in December 2010 to $139 billion in December 2012.

One of the lessons learned by India is the need to guard against fiscal excesses and keep control over public expenditure in order to rein in the fiscal deficit. The RBI has been persistent in keeping inflation under check and has not lowered interest rates as a precautionary measure. This has prevented the formation of a housing bubble but has adversely affected new investment. Maintaining proper balance in its interest rate policy is as important for India as it is for the EU. Recapitalisation of banks in India is just as badly needed as in the EU.

An early end to the euro zone crisis would be beneficial to India and South Asia. The EU is also a big donor to the South Asian region. The continuation of EU aid (pledged at 0.7 percent of its GDP) is important for regional development.

Annexure Tables

Table 1: Real GDP Growth Rate

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU (the first 28 countries in list)	1.3	1.5	2.6	2.2	3.4	3.2	0.4	-4.5	2	1.6	-0.4	0.1
Belgium	1.4	0.8	3.3	1.8	2.7	2.9	1	-2.8	2.3	1.8	-0.1	0.2
Bulgaria	4.7	5.5	6.7	6.4	6.5	6.4	6.2	-5.5	0.4	1.8	0.6	0.9
CzechRepublic	2.1	3.8	4.7	6.8	7	5.7	3.1	-4.5	2.5	1.8	-1	-0.9
Denmark	0.5	0.4	2.3	2.4	3.4	1.6	-0.8	-5.7	1.4	1.1	-0.4	0.4
Germany	0	-0.4	1.2	0.7	3.7	3.3	1.1	-5.1	4	3.3	0.7	0.4
Estonia	6.6	7.8	6.3	8.9	10.1	7.5	-4.2	-14	2.6	9.6	3.9	0.8
Ireland	5.4	3.7	4.2	6.1	5.5	5	-2.2	-6.4	-1.1	2.2	0.2	-0.3
Greece	3.4	5.9	4.4	2.3	5.5	3.5	-0.2	-3.1	-4.9	-7.1	-7	-3.9
Spain	2.7	3.1	3.3	3.6	4.1	3.5	0.9	-3.8	-0.2	-0.1	-1.6	-1.2
France	0.9	0.9	2.5	1.8	2.5	2.3	-0.1	-3.1	1.7	2	0	0.2
Croatia	4.9	5.4	4.1	4.3	4.9	5.1	2.1	-6.9	-2.3	-0.2	-1.9	-1
Italy	0.5	0	1.7	0.9	2.2	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1.9
Cyprus	2.1	1.9	4.2	3.9	4.1	5.1	3.6	-1.9	1.3	0.4	-2.4	-5.4
Latvia	7.1	7.7	8.8	10.1	11	10	-2.8	-18	-1.3	5.3	5.2	4.1
Lithuania	6.8	10.3	7.4	7.8	7.8	9.8	2.9	-15	1.6	6	3.7	3.3
Luxembourg	4.1	1.7	4.4	5.3	4.9	6.6	-0.7	-5.6	3.1	1.9	-0.2	2.1
Hungary	4.5	3.9	4.8	4	3.9	0.1	0.9	-6.8	1.1	1.6	-1.7	1.1
Malta	2.4	0.7	-0.3	3.6	2.6	4.1	3.9	-2.8	4.1	1.6	0.6	2.4
Netherlands	0.1	0.3	2.2	2	3.4	3.9	1.8	-3.7	1.5	0.9	-1.2	-0.8
Austria	1.7	0.9	2.6	2.4	3.7	3.7	1.4	-3.8	1.8	2.8	0.9	0.4
Poland	1.4	3.9	5.3	3.6	6.2	6.8	5.1	1.6	3.9	4.5	2	1.6
Portugal	0.8	-0.9	1.6	0.8	1.4	2.4	0	2.9	1.9	-1.3	-3.2	-1.4
Romania	5.1	5.2	8.5	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Slovenia	3.8	2.9	4.4	4	5.8	7	3.4	-7.9	1.3	0.7	-2.5	-1.1
Slovakia	4.6	4.8	5.1	6.7	8.3	10.5	5.8	-4.9	4.4	3	1.8	0.9
Finland	1.8	2	4.1	2.9	4.4	5.3	0.3	-8.5	3.4	2.8	-1	-1.4
Sweden	2.5	2.3	4.2	3.2	4.3	3.3	-0.6	-5	6.6	2.9	0.9	1.5
United Kingdom	2.3	3.9	3.2	3.2	2.8	3.4	-0.8	-5.2	1.7	1.1	0.3	1.7
Iceland	0.1	2.4	7.8	7.2	4.7	6	1.2	-6.6	-4.1	2.7	1.5	3.3
Norway	1.5	1	4	2.6	2.3	2.7	0.1	-1.6	0.5	1.3	2.9	0.6
Montenegro	1.9	2.5	4.4	4.2	8.6	10.7	6.9	-5.7	2.5	3.2	-2.5	:
Former Yugoslav Republic of Macedonia, the	0.9	2.8	4.6	4.4	5	6.1	5	-0.9	2.9	2.8	-0.4	3.1
Serbia	4.3	2.5	9.3	5.4	3.6	5.4	3.8	-3.5	1	1.6	-1.5	2.5

SOURCE: Eurostat database

Table 2: Industrial Growth Rate

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	6.7	2.2	-0.9	0.5	2.9	4.9	7.7	8.3	0.7	-12.4	7.8	8.3	1.2
Belgium	4.5	0.3	-0.6	-1.2	3.8	1.1	0.7	3.5	-0.2	-14.6	5.3	-1.0	-2.3
Bulgaria	11.7	4.4	3.2	10.4	1.8	6.8	8.2	15.4	1.9	-4.0	5.0	9.0	
Cyprus	0.5	-0.4	0.9	2.3	1.1	-0.9	-4.2	0.9	3.3				
Czech Republic	12.6	3.3	5.1	4.0	9.3	19.1	18.1	7.7	10.7	-15.4	12.2	8.6	0.0
Germany	7.2	1.8	-2.4	1.4	4.1	2.3	9.0	5.0	-2.6	-20.7	20.1	9.1	-0.7
Denmark	3.3	0.5	-2.8	-3.1	1.4	-0.2	4.9	2.9	-3.7	-13.5	2.5	6.5	3.0
Spain		3.4	-0.1	0.9	0.4	0.8	1.8	0.3	-3.4	-12.3	4.6	1.3	-1.1
Estonia	19.9	12.9	7.5	8.3	3.0	10.2	11.2	5.0	-3.3	-23.3	26.0	17.8	-1.9
European Union	5.3	0.7	0.8	0.8	3.3	2.1	5.5	4.1	-2.3	-14.4	10.3	4.4	-1.6
France	3.9	0.4	-0.9	1.7	2.1	2.3	1.2	2.3	-4.2	-7.4	4.1	2.1	-2.1
United Kingdom	2.2	-1.8	-2.2	0.5	1.9	0.4	1.9	0.8	2.8	10.1	4.2	1.8	-1.5
Greece							-3.9	1.9	-11.8	7.6	2.3	-13.1	-1.0
Croatia	6.3	1.3	4.2	3.8	4.2	2.9	3.4	7.4	0.5	-11.6	-2.6	1.0	-5.2
Hungary	6.2	2.4	3.9	7.6	5.2	4.2	6.9	6.9	-0.6	-14.3	10.6		
Ireland													
Italy	3.8	-0.8	-0.8	-2.5	1.5	0.8	4.3	3.2	-3.6	-16.6	7.7	1.7	-3.7
Lithuania	10.7	13.0	4.8	14.0	11.8	8.6	9.5	4.8	1.5	-15.0			
Luxembourg	7.4	3.6	3.0	2.0	2.9	1.0	-5.6	12.1	-17.5	23.3	10.2	-12.0	3.0
Latvia	6.8	10.2	8.9	6.0	6.7	5.9	6.2	0.5	-6.5	-19.2	15.4		
Malta	16.3	18.2	1.6	3.0	-13.9	1.0	0.1	5.2	4.9	-18.0	4.6		
Netherlands	7.1	0.0	0.0	0.9	3.8	2.1	3.5	5.9	-1.5	-9.2	6.3	3.2	-1.0
Poland	6.9	0.8	1.0	10.4	12.7	4.1	16.2	13.1	8.5	5.3	5.3		
Portugal	2.5	1.3	0.2	1.1	0.3	-1.1	1.1	2.7	-1.3	9.7	7.3	2.5	-2.3
Slovak Republic	-3.2	14.3	2.4	16.3	18.4	12.3	16.0	16.6	9.2	-21.3	2.2		
Slovenia	9.7	4.2	5.2	5.5	4.5	4.3	7.3	7.8	0.1	-16.7	8.0		
Sweden	8.8	-1.7	7.4	5.1	10.0	5.2	7.1	3.8	-5.4	-21.1	27.5	4.7	-3.5
Ukraine	12.8	11.7	8.9	18.2	14.6	3.0	9.2	12.8	-4.9	-20.9	14.5	2.9	-3.5
World	5.7	1.1	2.0	3.9	6.3	3.9	5.6	6.2	-0.3	-8.3	10.5	3.1	

SOURCE: World Bank database

Table 3: Current Account Deficit as Percentage of GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	4.8	4.2	4	3.8	3.7	2.9	2.3	1.9	0.8	0	0	0.1	-0.4	-1.5
Bulgaria	-3.4	-5.2	-4.4	-4.4	-4.7	-7.8	-11.9	-18.1	-22	-19.1	-11.2	-3.4	-0.7	0.4
Czech Republic	-3	-4	-5	-5.5	-5.4	-4	-2.7	-2.4	-2.8	-2.9	-2.8	-3	-2.6	-1.8
Denmark	0.8	2.2	2.3	3	3	3.6	3.4	2.9	2.4	2.5	4	5.1	5.9	6.4
Germany	-1.3	-1	0.1	1.3	2.9	3.9	5.3	6.3	6.6	6.5	6.2	6.4	6.9	7.3
Estonia	-6.1	-4.9	-7.1	-9	-11.1	-10.9	-12.2	-13.8	-13.5	-7.5	-1.2	2.5	0.9	-0.3
Ireland	0.2	-0.3	-0.7	-0.5	-0.5	-1.4	-2.5	-4.1	-4.8	-4.4	-2.3	0	2.3	4.1
Greece	-5	-6.4	-7.2	-6.8	-6.3	-6.7	-8.3	-11.2	-13.6	-13.6	-12.1	-10.4	-7.5	-3.8
Spain	-2.7	-3.6	-3.7	-3.6	-4	-5.4	-7.2	-8.8	-9.5	-8.1	-6.3	-4.3	-3.1	-1.4
France	2.2	1.8	1.3	1.1	0.7	0.2	-0.2	-0.7	-1.1	-1.4	-1.5	-1.5	-1.8	-1.8
Croatia	:	-4	-4.3	-5.5	-5.9	-5.2	-5.4	-6.3	-7.5	-6.9	-4.8	-2.2	-0.5	0.1
Italy	0.9	0.4	-0.1	-0.3	-0.5	-0.7	-0.9	-1.2	-1.9	-2	-2.7	-2.8	-2.2	-0.7
Cyprus	-1.3	-3.5	-4.1	-3.1	-3.7	-4.4	-6	-8.2	-11.5	-12.7	-12.1	-8	-6.7	-4
Latvia	-7.6	-7.1	-6.4	-7.5	-9.3	-11.2	-16	-19.2	-19.4	-9	-0.5	3.1	-0.6	-1.8
Lithuania	-9.4	-7.1	-5.2	-5.5	-6.5	-7.1	-8.4	-10.7	-12.7	-7.9	-3	0	-1.3	-0.8
Luxembourg	10.3	10.1	10.8	9.1	10.2	10.5	11.3	10.7	8.6	7.6	6.8	7.2	6.7	5.9
Hungary	-7.1	-7.5	-7.2	-7	-7.9	-8	-7.8	-7.4	-7.3	-4.9	-2.4	0.1	0.5	1.4
Malta	-6.9	-6.3	-4.5	-1.4	-2.1	-5.8	-7.9	-8.1	-6.8	-6.6	-6.6	-5.2	-1.6	0.9
Netherlands	3.1	2.8	2.4	3.6	5.3	6.9	8.1	7.8	6.8	5.4	5.6	7.2	8.7	9.7
Austria	-1.3	-1.1	0.4	1.2	2.2	2	2.4	2.8	3.7	3.7	3.7	2.6	2.5	2.2
Poland	-5.8	-5.5	-4	-2.8	-3.5	-3.4	-3.8	-4.1	-5.5	-5.5	-5.2	-4.7	-4.6	-3.3
Portugal	-8.7	-9.8	-9.6	-8.3	-7.7	-8.4	-9.8	-10.4	-11.1	-11.2	-11.4	-9.5	-6.5	-2.8
Romania	-4.9	-4.4	-4.1	-4.9	-5.9	-7.6	-9.1	-10.8	-11.8	-9.7	-6.7	-4.3	-4.4	-3.3
Slovenia	-2.1	-1.9	-0.5	-0.1	-0.8	-1.7	-2	-2.6	-3.8	-3.4	-2	-0.1	1.2	3.3
Slovakia	-6.2	-5.8	-6.5	-7.4	-7.2	-7.4	-8.1	-7.2	-6.4	-4.7	-4.2	-3.4	-1.8	0.2
Finland	6.1	7.2	8.2	7.2	6.5	4.8	4.6	3.9	3.7	2.9	2	0.6	-0.5	-1.3
Sweden	4	4.4	4.6	5.5	6.1	6.8	7.4	8.3	9	8.2	7.2	6.2	6.1	6.1
United Kingdom	-1.8	-2.3	-2.1	-1.8	-1.8	-2.1	-2.7	-2.8	-2.2	-1.5	-1.7	-1.8	-2.7	-3.1

SOURCE: Eurostat database

Table 4: Unemployment Rates

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	9.4	8.2	7.3	7	7.4	8	8.3	8.4	8.1	7.6	7.5	7.7	7.8	7.7	7.7
Bulgaria	:	:	:	18	17.2	14.7	12	10.4	8.6	7.1	6.5	7.5	9.4	11.3	12.2
Czech Republic	4.2	8	8.5	8.1	7.7	7.8	8	7.8	6.8	5.6	5.5	6.1	6.9	7	6.9
Denmark	8	4.8	4.7	4.5	4.8	5.2	5.2	4.7	4.2	3.7	4.4	5.6	7	7.5	7.4
Germany	8.2	8.7	8.2	8.2	8.8	9.7	10.5	10.7	10.1	8.8	8	7.5	6.9	6.2	5.6
Estonia	:	11.4	12.5	12.2	11	10	9.2	7.8	6.1	5.3	7.9	11.9	14.2	13	10.3
Ireland	14.1	5.7	4.6	4.2	4.3	4.5	4.5	4.5	4.5	5.2	7.7	10.7	13.5	14.4	14.2
Greece	8.9	11.4	11.3	10.7	10.2	10.2	10	9.8	9	8.3	8.5	9.9	13.2	18.2	23.1
Spain	20.5	13.6	11.8	11.2	11.1	11.2	10.5	9.5	8.6	9.4	12.6	16.5	19.9	22.3	24.3
France	10.7	10	9.2	8.5	8.4	8.6	8.8	8.9	8.6	8.1	8.2	8.6	9.2	9.4	9.8
Croatia	:	:	:	15.6	15	14.3	13.6	12.7	11.3	9.8	9	9.8	11.5	13.8	15.6
Italy	10.5	10.7	10	9.2	8.6	8.3	8.1	7.5	6.9	6.5	6.9	7.6	8.2	9.2	10.4
Cyprus	:	:	:	4.1	3.9	4.1	4.7	4.8	4.6	4.1	4.3	5.1	6.6	8.7	11.9
Latvia	:	14.1	14	13.4	12.5	12	11.1	9.6	7.7	6.9	10.4	14.8	17.7	16.9	14.4
Lithuania	:	14.8	16.1	15.9	14.7	12.7	10.9	8.7	6.2	5.3	8	12.5	15.7	15.6	13.5
Luxembourg	2.9	2.4	2.2	2.2	2.8	3.8	4.5	4.7	4.5	4.6	4.7	4.9	4.8	4.8	5.3
Hungary	:	7.3	6.2	5.8	5.6	5.8	6.3	6.9	7.3	7.5	8.4	9.7	10.7	11	10.7
Malta	:	:	:	7.3	7.6	7.5	7.3	7	6.8	6.5	6.5	6.6	6.8	6.6	6.5
Netherlands	6.3	3.6	3	2.9	3.3	4.1	4.8	4.9	4.4	3.7	3.5	3.8	4.2	4.7	5.5
Austria	3.9	4	3.7	3.8	4	4.5	4.8	5	4.8	4.3	4.3	4.3	4.4	4.3	4.5
Poland	:	13.2	15.9	18.1	19.4	19.6	18.9	17	13.9	10.2	8.3	8.3	9.2	9.8	10
Portugal	6.5	5	4.7	4.9	5.8	6.8	7.7	8.2	8.7	8.7	9.3	10.4	11.9	13.6	15.1
Romania	:	6.2	6.5	6.9	6.9	7.4	7.3	7.5	6.9	6.5	6.4	6.6	7.2	7.2	7.2
Slovenia		7.2	6.8	6.4	6.4	6.5	6.5	6.3	5.8	5.1	5	5.9	7.1	8.1	9.1
Slovakia	:	16.1	18.3	19.1	18.7	18.3	17.5	16.1	13.7	11.4	11	12.1	13.4	14	14
Finland	16.1	10.4	9.7	9.3	9.1	9	8.7	8.3	7.6	7	7.2	7.7	8.1	8	7.9
Sweden	9.1	6.8	6.1	5.8	6.1	6.6	7.2	7.4	7	6.5	6.9	7.7	8.2	8.1	7.9
United Kingdom	9.3	5.8	5.4	5.2	5	4.9	4.8	5	5.2	5.4	6.2	7	7.8	7.9	7.8

SOURCE: Eurostat database

Table 5: Growth of Export Rates

	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012
European Union	1.6	4.7	4.8	8.9	12.6	6.0	9.8	5.7	1.5	-11.7	11.0	6.3	2.1
Austria	3.7	9.0	8.6	7.2	13.5	7.4	7.7	8.9	1.4	-15.6	9.4	6.6	1.2
Belgium	-0.2	0.3	4.6	5.0	11.8	3.8	5.4	5.2	1.4	-9.4	8.1	6.4	1.8
Bulgaria		12.6	-71.4	22.8	-15.9	-17.5	50.7	6.1	3.0	-11.2	14.7	12.3	-0.4
Cyprus	10.8	-1.1	6.7	16.8	10.6	4.9	3.5	6.1	-0.3	-11.4	0.6		
Czech Republic				18.8	17.3	11.6	13.8	11.2	4.0	-10.9	15.4	9.5	4.5
Germany	5.5	7.5	11.3	6.5	13.2	7.7	13.1	8.0	2.8	-13.0	15.2	8.0	3.2
Denmark	21.7	6.0	6.7	2.9	12.8	8.1	9.0	2.8	3.3	-9.5	3.0	7.0	0.4
Spain	2.3	0.7	4.7	9.4	10.2	2.5	6.7	6.7	-1.0	-10.0	11.7	7.6	2.1
Estonia				5.4	27.4	18.6	6.1	3.7	1.0	-21.3	23.7	23.4	5.6
France	2.8	2.0	4.1	8.2	12.4	2.9	5.2	2.3	-0.3	-12.1	9.5	5.4	2.4
United Kingdom	-0.3	5.9	5.3	9.4	9.4	9.1	12.0	-2.1	1.1	-8.7	6.7	4.5	1.1
Greece	11.1	1.8	-3.5	3.0	14.1	2.5	4.3	7.1	1.7	-19.4	5.2	0.3	-2.4
Croatia					11.9	3.8	6.0	3.7	1.7	-16.2	5.2	1.7	0.4
Hungary	0.8	5.2	-5.3	13.4	19.7	11.3	19.1	15.0	5.7	-10.2	14.3		
Ireland	6.4	6.6	8.7	20.0	20.9	4.4	5.0	8.4	-1.1	-3.8	6.4	5.4	1.6
Italy	-8.4	3.6	6.2	12.6	11.6	3.4	8.4	6.2	-2.8	-17.5	11.4	6.2	2.0
Lithuania					9.9	17.7	12.0	3.0	11.6	-12.7	16.3		
Luxembourg	-1.4	8.8	5.6	4.6	12.6	4.4	12.9	9.0	4.4	-12.9	7.2	5.4	-1.9
Latvia				7.2	11.3	20.2	6.5	10.0	2.0	-14.1	10.3		
Malta	12.0	7.4	13.3	5.2	0.2	0.7	10.5	2.7	2.6	-8.9	18.3		
Netherlands	2.6	4.5	5.7	9.2	13.5	6.0	7.3	6.4	2.0	-7.7	11.6	4.1	3.2
Poland				22.9	23.2	8.0	14.6	9.1	7.1	-6.8	12.1	7.8	2.8
Portugal	2.2	6.7	9.5	8.8	8.8	0.2	11.6	7.5	-0.1	-10.9	10.2	6.9	3.2
Romania				17.0	23.4	7.1	9.9	7.7	7.6	-6.3	14.2	10.9	-3.1
Slovak Republic				4.5	8.9	10.0	21.0	14.3	3.1	-15.9	16.5		
Slovenia				1.1	13.1	10.6	12.5	13.7	2.9	-17.2	9.5		
Sweden	-0.6	1.3	2.3	11.3	11.7	6.6	9.0	5.7	1.7	-13.8	11.4	6.1	0.7
Ukraine				1.1	21.5	-11.2	5.6	3.2	5.7	-22.0	4.5	4.3	-7.7
World	3.3	4.3	6.2	8.9	12.4	7.6	9.8	7.1	2.7	-10.8	13.4	6.2	2.5

SOURCE: World Bank database

Endnotes:

i. The members of the euro zone are: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.

ii. The commitment to a common inflation rate of below but close to 2 percent was not fulfilled by many members.

iii. The Long Haul: Zsolt Darvas, Andre Sapir and Guntram B. Wolff.

iv. OMT was an assurance given by the Troika that they would buy government debt outright.

v. Guntram B. Wolff "The ECB's OMT Programme and German Constitutional Concerns".

vi. ECB Working Paper Series No. 1528, April 2013.

vii. Haircut usually implied writing off debt.

viii. Portugal had a 78 billion euro rescue programme by ECB, EU and IMF in 2011. It undertook reforms and unemployment went down and labour costs fell. Following its exit, there will be no review of its economy by the Troika and it can reverse salary cuts in the public sector and cut taxes.

ix. Foreign Affairs June 20, 2013 : How Germany Won the Eurocrisis.

x. In the recent EU Parliamentary elections held on 22 May 2014, there has been a massive rise of euro-skeptic parties. The most important winner was no doubt the National Front of France. The rise of anti-EU sentiments in the UK saw the UK Independent Party emerge winner in UK component of the election.

xi. Europe's Social problems: Breugel Policy Brief April 2014.

xii. RBI Monthly Bulletin 2010.

xiii. The German Chairman of Monopolies Commission said, "For the future it must be made clear that creditor liability will be consistently enforced." In November 2014, the Bundestag will vote on the German plan to implement the Banking Union. Germany is pressing ahead for EU requirements in protecting German taxpayers from having to foot the bill when a bank gets into trouble.

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