


**Seeking Debt Crisis And Solution In Europe**

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**Abstract**

In this study, the European Union (EU) countries, the countries of their lives go down to the root causes of the debt crisis by making suggestions in search of solutions to the debt crisis will be examined. Emerging in the U.S.A. mortgage market crisis in 2007, quickly spread to the real sector from the financial sector in the years 2007-2009. And so the U.S.A. economy, increased unemployment and stagnation in 2008 and 2009 a major problem encountered. The economic crisis in the U.S. especially in EU countries, especially spread through strong financial relationships. Cause of the crisis spreading, the U.S.A., its foreign trade with third countries EU’s countries and possible recession and real income loses, narrowed. Foreign demand for exports of goods and services of third countries. Another reason for the crisis, said that the U.S.A. debt-based consumer spending growth can’t be prevented. E.U.’s main causes of debt crisis, the misappropriation of resources, competition loss, and therefore can’t be seen in this negative economic revival began participation in the Euro. Falling interest rates in euro countries participating in the pre-crisis period, the total demand by facilitating increased borrowing opportunities. GIIPS(Greece, Ireland, Italy, Portugal, Spain) countries in parallel with an increase in demand has increased in both public and private debts. Increased demand led to an increase in the prices of goods and services increase in investment. In the last part of study, the debt crisis of the EU countries should take measures to release the elimination of
debt problems, increase the competiveness of member states and the EU, strengthening economic governance issues within the EU will be examined.

**Keywords:** Global Crisis, Debt Crisis, European Union

1. **INTRODUCTION**

U.S.A. real estate crisis emerged in late 2008, then the real economies of Britain and the ongoing volatility in financial markets have a devastating effect on the financial markets have faced a crisis. Decline in total demand and the slump in financial markets has resulted in the decline in trade volume. However, severe damage to many of this crisis has a strong economy. The latest example of this situation in the EU, but many measures taken against some of the effects of the crisis be established. In this study, the first global crisis that emerged in the USA and Europe that followed the debt crisis in Europe by examining the emergence debt crisis for the country based evaluations are performed to look for solutions.

2. **Global Crisis and Its Reasons**

Global crisis, emerging in U.S.A., has begun in finance, firstly in the real sector and then spreaded to the entire economy. The reason why this crisis began is that mortgages, given in low interest rates, was not paid back to banks in due dates. Loans not paid back both caused finance institutions to go bankrupt and financial crisis reflected to the real sector as a result of declining demands with shaken consumer confidence in the market (Önder, 2009: 17). Because global crisis led to the liquid and confidence problem, direct foreign investments and the short-term money movements as portfolio investments decreased (Engin ve Yeşiltepe, 2009: 17). After the attack in U.S.A., in 11 September of 2001, followed by a recession in economy, the Federal Reserve System (FED) brought interest ratios down from %6.5 being in 2001 to %3 in 2003 in order to arouse economics. This fall in interest rates reflected to the interest rates applied to the mortgage. Since low inflation and low interest rates decreased the costs of mortgage, the demand for this sector increased. Increasing demand brought together the increase in the costs of home. Even tough families could not afford these costs, financial markets gave bonded home loan to people (Kutlu ve Demirci, 2011: 122). From the 2000 till the end of 2006, there was liquid abundance in the financial markets. The abundance of liquide caused to given loan those people who has no income or work. After banks had introduced the seized homes to market, the costs of homes fell down. However, the users of credit discontinued to pay credits because of such reasons that bank loans were too higher than home charges (Alantar, 2008: 2). The banks giving mortgage evaluated the property before the repaying of credits and sold it to an investment bank or a mortgage institution. Not paying back the credits, here, not only the bank that giving credit but also the institution that buying the security suffered by. Hence, the crisis made an chain like effect. Due to the fact that the crisis reflected to the real economy, in U.S. and Europe came about a decrease in the rates of growth. As in the figure, since 2007, the decline of the growth rates is seen in the developed and the developing countries (Alantar, 2008: 3-6). Trade balance deficit increasing with the global crisis revealed the current account deficit problem. And the current account deficit brought out the need to find out external source. It was not easy to fulfill the need of source. Things that were done to avoid the negative effects of global crisis has caused budget deficits and increase of loans in EU countries (Oskay, 2010: 72-73).
2.1. Europe Debt Crisis

Europe is the main reason in the decline of the credit scores of debt crisis countries, pressures in the stock market, dominant countries’ bonds and in the spread of credit debt swap agreement. The financial staples, which are under pressure in Europe, are countries such as Greece, Icelandic, Ireland and Portugal (Arezki vd, 2011: 3). In the Eurozone to solve the debt crisis emerging in the spring of 2010, the money and finance policies of Economic and Monetary Union (EMU) was not been affected (Gianviti vd., 2010: 1). Debt crisis of Eurozone, 2010, caused big movements in yields to call while causing great changes in the rates of Euro and other currency unit (Gianviti vd., 2010: 5). The government is generally held responsible for crises on account of the exceeded budget deficits to practice definite goals in the pact of stability and growth as a part of Maastricht Treaty. The reformation proposals of EU include the controlled financial policies and rising bank arrangements of national governments. While the Stability and Growth Pact, Maastricht Treaty and European Union was focusing on debt and budget deficit rates of government, they neglected the “excessive” debt rates of private sector. This excessive debt caused crisis in the financial markets (Stein, 2011, 199). When banking crisis came out in private sector, governments - especially of countries like Ireland and Spain – undertook the dept of the private sector and saved these banks from that debt. Taxpayers has become indebted to the foreign financiers (Stein, 2011, 200-201). The rates of debt after crisis /GSMH has increased. Constitutional budget deficit is more lower in Ireland and Spain than the Euro zone. The private sector has become the main reason of debt crisis in these countaries (Stein, 2011, 202).

2.1.1. Euro Zone

EU member states, a common currency (EURO) through use of established monetary union. However, the “Euro ZOne” called the monetary union, because of the up heaval in recent years has undergone some of the economic crisis. First, some countries in the euro area credit ratings agencies has been reduced significantly. After thr Irish government bonds in Greece and Portugal, then the degree is worthless, and this case has been brought up to the crisis escalated. With 17 member countries, including the so-called Euro common currency, the euro area and countries use the euro by the European Central Bank monetary policy to be applied to a single source, including Euro 17 depending on the countries’ economies together tightly as they could. This is the negativity coming from the other Euro countries in the territory of one euro in facilitating the spread within a short time. However, the financial and real sectors of the EU member states at a high level of integration between these countries and the speed increased the levels of exposure. (Odabaş, Bahtiyar, 2011, 104). Looking at the table in 2010 while public deficits to be reduced compared to the Euro in 2010 which took place in 2009 while public debt has increased over the previous year. Euro area government debt to GDP ratio was 79.3% in 2009 to 85.1 % in 2010, this rate increased to. Public deficits in the euro area GDp ratio which is the figure of the previous year, 6.3% from 6.0% a year. Public expenditure in 2010 compared to 2009 in the Euro 17 countries, showed a slight decline in governemnt revenues over the same period almost unchanged. However, this table Euro Area 17 key figures related to the general governemnt budget deficit anf debt included ratio of debt stocks by country looking very serious budget deficits or differences emerge.(Odabaş, Bahtiyar, 2011, 104-105).
Table 1: Euro Zone (17) Countries’s Public Debt Stock

<table>
<thead>
<tr>
<th>Euro Zone (17)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Current Prices (milyon €)</td>
<td>9 035 939</td>
<td>9 264 270</td>
<td>8 970 953</td>
<td>9 204 316</td>
</tr>
<tr>
<td>Budget balance (milyon €)</td>
<td>-60 082</td>
<td>-188 988</td>
<td>-566 680</td>
<td>-550 481</td>
</tr>
<tr>
<td>Budget balance (% GSYİH)</td>
<td>-0.7</td>
<td>-2.0</td>
<td>-6.3</td>
<td>-6.0</td>
</tr>
<tr>
<td>Public Expenditures (% GSYİH)</td>
<td>45.9</td>
<td>46.9</td>
<td>50.8</td>
<td>50.4</td>
</tr>
<tr>
<td>Public revenues (% GSYİH)</td>
<td>45.2</td>
<td>44.8</td>
<td>44.5</td>
<td>44.4</td>
</tr>
<tr>
<td>Public debt (milyon €)</td>
<td>5 984 848</td>
<td>6 472 881</td>
<td>7 116 276</td>
<td>7 837 207</td>
</tr>
<tr>
<td>Public debt (% GSYİH)</td>
<td>66.2</td>
<td>69.9</td>
<td>79.3</td>
<td>85.1</td>
</tr>
</tbody>
</table>


2.1.2. European Union Member Countries Debt Crises

Euro-Zone is described as surrounding countries Greece, Portugal and Ireland, the debt crisis occurring in the second quarter of 2010 and later expanded by including Italy and Spain, followed by a road. This situation, particularly in terms of global growth and financial stability is a major risk to the Euro Area countries. (Değerli, Keleş, 2011, 2).

2.1.2.1. Crisis in Greece

Informal economy in Greece is very important in the beginning of the euro. In excess of informality reduces tax revenues. Also in Greece in the Euro zone, while the poor performance hit the rise in national income, inflation rates, the region has achieved the highest level. For these reasons, the cost of borrowing has also risen in Greece. Euros between 2000-2008 to just over 3% inflation rate in the process of adaption illusion. Improved macroeconomic conditions and increased foreign capital inflow in this period. Greater than 5% GDP in 1995 to 2008, net capital inflow was 100%. Parallel to the increase in domestic demand, increasing imports increased current account deficit. The current account deficit was 3.7% in 1997 to 14.4% has risen up. Increased demand has increased prices and employment costs, and this has reduced the competitiveness of Greece. Since 1997, the Euro, with 47% average increase in consumer prices was well above the 27% economy. Increase expected in the IMF’s real effective Exchange rate in Greece is around % 20-30’s. In these circumstances the loss of competition is obvious. Along with increasing the budget deficit crisis, with growth reversed and increased debt. National income in 2008 showed an increase of %2, 2% by 2009 has become smaller and correspondingly reduced government revenues and the budget deficit in 2008 was % 7.7 in 2009 to 13.6% increased. Borrowing in 2007, while % 96 of GDP in 2009 rose to %116. (Öztürk, Aras, 2011, 147.) Ireland and Spain in the government are seen as different because of the debt crisis in Greece. The stability and Growth Pact, Greece, Ireland and Spain the debt crisis proportions when a value is clerally relevant. Greece, a large fiscal deficit and the cumulative result of a large public debt and the debt crisis of chronic macroeconomic balances is seen as the origin. The global crisis worsenend the
financial situation began to deteriorate in the second half of 2007 in Greece. Greece’s credit rating to fall in the budget predicament causes the public debt/GDP ratio of 115.1% in the euro area has been the most indebted country, Italy, and also during 2014, this ratio was expected to continue to rise. (Stein, t.y., 210-211).

2.1.2.2. Crisis in Ireland

Ireland based on the continuous development of the construction sector growth has accelerated since the 1990’s. Prosperity has increased the demand for the construction sector due to the increase in housing prices and this situation greatly enhanced. Along with increasing global crisis of 2008, however, housing prices have fallen by 50-60% and caused to be dragged into the crisis in Ireland. Housing loans as a result of this crisis, banks re forced to configure a distorted financial structures. 45 billion dollars in government in order to improve the financial condition of banks has transferred a resource. This situation has increased government budget deficits, the impact of the crisis and economic recession, tax revenues began to decline.

Uncertainty of the budget reduction in tax revenues in Ireland has increased even more by compressing.(http://www.sobiad.org/eJOURNALS/dergi_EBD/arsiv/2011_2/mustafa_ozturk. pdf, 2011, 148). Looking at the table of public deficits in the year 2010 in Ireland increased by about twicw compared to 2009. Took place in 2010, the public debt has increased over the previous year. While the public debt to GDP ratio in Ireland in 2009 65.6% 96.2% in 2010, this rate rose to. If the public deficit to GDP ratio which is the figure of the previous year -14.3% from -32.4%2s was. Watching a growing trend in public expenditures, public revenues almost unchanged over the same period. (Eurostat, 2011,5.)

Table 2 : Ireland’s Public debt stock

<table>
<thead>
<tr>
<th>Irlanda</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Current Prices (milyon €)</td>
<td>189 374</td>
<td>179 989</td>
<td>159 645</td>
<td>153 939</td>
</tr>
<tr>
<td>Budget balance (milyon €)</td>
<td>128</td>
<td>-13 196</td>
<td>-22 795</td>
<td>-49 903</td>
</tr>
<tr>
<td>Budget balance (% GSYİH)</td>
<td>0.1</td>
<td>-7.3</td>
<td>-14.3</td>
<td>-32.4</td>
</tr>
<tr>
<td>Public expenditures (% GSYİH)</td>
<td>36.7</td>
<td>42.8</td>
<td>48.2</td>
<td>67.0</td>
</tr>
<tr>
<td>Public revenues (% GSYİH)</td>
<td>36.8</td>
<td>35.5</td>
<td>33.9</td>
<td>34.6</td>
</tr>
<tr>
<td>Public debt (milyon €)</td>
<td>47 361</td>
<td>79 837</td>
<td>104 782</td>
<td>148 074</td>
</tr>
<tr>
<td>Public debt (% GSYİH)</td>
<td>25.0</td>
<td>44.4</td>
<td>65.6</td>
<td>96.2</td>
</tr>
</tbody>
</table>

2.1.2.3. Crisis in Portugal

% 4 growth in the transition to the Euro and EU in Portugal was one of the fastest-growing countries. Process of harmonization with euro interest rates fell to % 6 in Portugal. Loose fiscal policy and low interest rates, increased consumer spending. Fixes capital investment increased. The construction sector grew. The current account deficit zero in 1995 to 2000 was an increase of % 9. But at the same rate did’nt increase production. Portugal’s economy did’nt reach serious problems as Greece and Ireland’s economy until the problem reached serious proportions. Portugal in 2001, the rules of the Stability and Growth Pact countries unimplementing is the only country in the euro area is the prof that the recession taking place for a long time. Portugal is a very high current account deficit and the deepening crisis in the banking sector has led to improper practices. According to 2009 data of the country’s public debt/ GDP or 83 and the ratio of budget deficit/ GDP ratio -10.1 or be too far from these members are an indication of the Maastricht Criteria.

Stabilization program in the country is prepared to reduce budget deficits and subsequent rejection of parliament, the Prime Minister’s resignation has led to deterioration of political stability and credit rating agencies lowered the credit rating of Portugal. The scope of the packet is reduced to %2 of GDP budget deficit until 2013, freezing of pensions, salaries in the public sector with more than 1500 Euros to cut between% 5-10, health, education and local government expenditures, such as applications for cut down on the agenda has. (Pioneer Perspectives, 2011, s.3-7).

3. Solutions developed as a Crisis

Payment difficulties of the EU member states outside the euro-zone opportunities against the financing has been established for the creation of Fund Balance of payments. Mode of operation of this fund will use the funds to issue bonds is coletterally member states of the country. (Council of the European Union, 2002.1-2)

Credit Pool mechanism established. This system was created for the use of a debt once a pool of Greece. Euros 80 billion and 30 billion Euros of EU-funded by the IMF in a repository 110 billion euros. (European Comission, 2011:1)

Established the European Financial Stability Mechanism. This mechanism of natural disasters and a member of the EU member states of the country to live in their own financial difficulties as a result of external factors outside the control of the event was created to be used. However, to some extent affected by external factors such as Greece and Ireland, but also being heavily influenced by internal factors of the crisis, this mechanism is used. In this system, credit markets on behalf of the EU member countries and made available are provided. With this mechanism, the bodies of the EU adopted the use of resources in a tight macro-economic stabilization program brought the application requirement. This mechanism is temporarily formed. Instead, in 2013, will be the European Stability Mechanism. (Europe Press Releases, 2010:1)

The European Fiancial Stability Fund was established in 2010. The purpose of the Fund’s debt problems so that the eurozone countries and monetary union to provide temporary financial support to maintain financial stability. Euro zone countries’ common mode of operation of the fund launched under the guarantee is provide credit to member countries through bonds. Mechanism of the European Financial Stability Fund, the European Financial Stability Fund is a temporary place in 2013 will leave the European Stability Mechanism. (Council of The European Union, 2010:1-5)
In 2010 decided to establish the European Stability Mechanism. This mechanism will be operational in 2013, is an institutional structure will have a permanent nature. The debt problems of the former is like living in Greece and Ireland was set up temporarily in order to provide financial support to member countries of the Union. As a condition of the mechanism of utilizing the principle of economic adjustment programs introduced strict application. The used slices of credit in support of the European Stability Mechanism in a difficult situation if necessary, may purchase bonds of the Member countries. (Council of The European Union, 2011:1-6)

4. CONCLUSION

Since 2008, when the global economic crisis in the U.S.A. the recession that occurred, both these adversely affected the economies of the country and the world. In the Euro area, to experience what the point of all the scenarios in case of Greece is focused failure to pay debts. Uncertain consequences as a result of the union was to be exported to Greece, a crisis likely to affect other countries will point to an entangled state. In case of inability to pay and a possible bankruptcy of Greece and the other euro zone countries, Greece will lead to decrease in value of bonds. Such a possibility or even France, Italy and Spain in the troubled days spent in a negative way. Severe effects of the crisis is happening to other Euro zone countries in order to prevent the spread of October 27th 2011 in Brussels, EU leaders come together and have taken concrete steps to save the euro. Greece’s debt to the leaders agreed on the reduction of debts the banks have made their under taking losses up to %50 of the banks. Thus, banks in Greece’s 250 billion euros in debt, is expected to be reduced to euro 102 billion. In addition, the European Financial stability Fund resources was decided to remove 440 Billion Euros 1 trillion euros, the new fund will enter the application in November 2011 regarding the framework agreement has been reached. Another important decision taken at the summit of any country in the future to provide protection against losses arising from the entry of default was recapitalizing the bank. At this point, emergency banking reforms and successful implementation of public finance reforms are inevitable. Public finances, especially the successful implementation of the rules should be binding and obligatory for all countries. Result in decisions taken at the summit to show the long term, so this context, fiscal rules seem to be necessary to put and to establish new institutions will be watched on.

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