INSIGHT
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To make or break euro?

Analysing the euro in the minds of politicians and economists, some impending challenges that we are looking at are:

- *Can the euro crisis be resolved?*
- *Can euro be survived?*
- *Can we survive with a centralised monetary policy without fiscal union?*
- *Will the eurozone have financial stability without euro bonds?*
- *Can the European central bank measure and manage fiscal framework of individual nations without empowerment?*

IN THE WAKE of the financial crisis threatening to devastate the European financial markets, expectations of the EU Summit resolving the situation runs high among the financial sector.

The summit, scheduled for December 9, will draw focus on the resolution of sovereign debt and banking problems. It is also expected to deal with the greater purchase of eurozone sovereign bonds, an action meant to accomplish tougher budget controls for bloc members as suggested by Germany.

ECB reiterates its stand to combat debt crisis if political leaders concede to stricter budget controls at the summit. Intense diplomatic discussions have been held with the International Monetary Fund about providing bilateral loans that could be used to strengthen the resources of European countries.

This debt crisis is detrimental to the US economy with 15 per cent of total US exports depending on the eurozone's 17 member countries. The remedies suggested to recoup the ailing economy includes setting up of a national fund for sovereign debt exceeding 60 per cent of GDP, slashing interest rates by European Central Banks etc. bound more closely together. German Chancellor Angela Merkel laid out the case for a fiscal union with tough rules on debt and overspending for the 17 nations that use the euro.

The recent weeks have witnessed volatility owing to mixed feelings despite confidence boosting measures from European leaders. The austerity measures suggested by the pact has led countries like Italy, Spain, France and Germany to curb overspending and forfeit their independence over national budgets.

IMF is working on several fronts to encounter the financial crisis faced by the European nations. The fund has been called upon to assist smaller nations like Ireland, Greece and Portugal. Apart from beefing up its lending capacity to provide a third of the necessary loans, the Fund with its expertise, is guiding the member nations on a path to recovery.

Eurozone central banks are expected to provide $270 billion to IMF to create credit lines to countries struggling with a debt crunch and participate in fiscal monitoring. The IMF managing director, Christine Lagarde has urged eurozone countries to find a collective, comprehensive solution to the crisis or risk enduring a lost decade.

The GDP of European nations have not seen recovery despite rescue measures adopted by central banks. Portugal and Greece had a negative growth, and GDPs of Germany, Italy and France faced a decline amidst concerns of efficacy of the summit. Spain had a growth rate of 0.8 in 2011 and this is expected to be at 1.1 in 2012.

The central bank's efforts to provide cheaper dollar loans to struggling European banks have paid off with the stock markets reviving last week in comparison to the past fortnight.

The interest rate decrease, however, would prove unfavourable to the euro as it would benefit higher-yielding currencies. In order to resolve the issue, six central banks, including the Federal Reserve, have joined hands to make more funds available to lenders and to lower the cost of dollar funding. China has also stepped in by reducing the capital that banks need to hold as reserve.

In an attempt to buoy investor confidence in the market, the European Financial Stability Facility intends to offer insurance to those buying the bonds of nations like Spain and Italy. According to OECD forecasts the eurozone has already entered a recession and will eke out growth of only 0.2 per cent in 2012, slashing the growth rate forecast from two per cent in May. However, the news of the approval of Greek bailout fund of €8 billion has brought relief to the ailing economy.

The euro summit is very crucial to the market as European nations rally around the idea of more consensus on fiscal decisions of the Union. France and Germany reiterates that eurozone economies need to be

The European summit is expected to stem the deepening crisis and the rising investor confidence can be seen making gains in the wake of the summit. However, the volatility in the markets have left traders disillusioned, hurt by concerns about whether true reforms would come from the crucial summit.

To resolve the euro crisis we need an effective fiscal union along with a strong monetary union. Otherwise, it would constitute as a design error that could prove detrimental to all the efforts taken to salvage the EU and the euro.

The author is the Group CEO of Doha Bank

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