European Union's Debt Crisis and Financial Indiscipline

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Abstract
Monetary policies of the countries in Eurozone, which intend to unite economic force, are dependent on the political preferences of European Central Bank (ECB), though, incapability to conduct financial policy by a centralized institution led to incompatibility between economic policies and exposed the member countries of EU to debt crisis. EU countries, the most notable of which is Greece, have made attempts on financial structuring in an effort to overcome debt crisis by forming a set of financial stability mechanisms. Seemingly, it can be understood that the national efforts, which aim to reach such targets as conveying EU funds to growth and employment within the predetermined limits, competitiveness, incenting employment, strengthening financial stability and contributing to the sustainability of public finance, must be supported by the steps to be taken at the EU level. This study aims to assess the causes of the debt crisis into which EU countries have gone and the financial stability precautions that have been taken against. In forming the financial stability mechanism, whether the precautions will contribute to the stability depends on establishing a framework which is smooth, comprehensible and compatible with the objective and this framework must be dependable to support structural reforms and flexible enough to adapt to other policies.

Key Words: Fiscal Discipline, Debt Crisis, Eurozone, Monetary Union

1. Introduction

The financial crisis, which emerged in USA in 2008 and later spread quickly to become a global crisis, effected EU-member states, particularly the countries in Eurozone, negatively. The lack of inspection in financial system during the pre-crisis period arised with the crisis and the qualification of the supervisory and regulatory structures was brought into quesiton. Expectations that such EU states as Greece, Ireland, Italy, Portugal and Spain could overcome their debts descended into desperation, and, budget deficits and the amount of debt that is used to finance these deficits have come to an alarming degree. Necessary precautions could not be taken punctually against the hitches in public finance, which lifted the effectiveness of the present debt crisis and came to a threatening degree particularly for the Eurozone states that are in monetary union.

In 2009, EU took steps in order to strengthen European economic governance through the measures against the crisis in an effort to prevent similar crises. In the regulations on EU scale, one of the most important targets of the reforms, which was implicitly stressed, was to reduce the incomes and social rights of working class.

Understanding the severity of the situation, Greek government, the main character of the crisis, initiated a search for solution, with the Eurozone states and IMF, that cost 110 million €. However, insincere efforts of the countries which were not going through the debt crisis yielded no result. Accordingly, the member states of EU had to take a set of stability measures, including financial audit, to find a solution to the existing crisis and prevent similar crises. Among these measures are the reforms that aim to strengthen European economic governance, coordinate the budget, improve the supervisory mechanisms and strictly apply the rules of Stability and Growth Pact–which could not be applied before (Dağdelen, 2011:3). In this regard, a series of restructuring efforts tried to discipline financial indiscipline, which was the main reason of the crisis, however, there still exists no permanent and effective structuring. These structuring efforts aim to strengthen EU's competitiveness and conduct EU's economy management in accordance with financial and monetary policies. The facilities which have been established for this purpose aim to support the member countries' ability to pay.

The first of these facilities was Balance of Payments which was later followed by Credit Pool. Furthermore, European Financial Stability Mechanism has been formed as a temporary institution and projected to be replaced by European Stability Mechanism in 2013. Additionally, European Financial Stability Facility is similarly a temporary institution which has been arranged to be replaced by European Stability Mechanism in 2013. Euro Plus Pact has been established to strengthen the competitiveness of the countries in Eurozone.

This study is on the searches of solution to the crisis, known as European debt crisis, which has resulted from EU's fiscal indiscipline. In this sense, first, the general framework of the concept of fiscal discipline is discussed. Second, the causes of the debt crisis are assessed, later, a series of financial structuring efforts to evade from the crisis are examined. Finally, a general assessment and suggestions are given in the conclusion part.

2. Fiscal Discipline: The General Framework and The Infrasturcure of Fiscal Discipline in European Union (EU)

2.1. The Genaral Framework

The implementation of fiscal policies within arbitrary and rule-based policies includes various political applications and powers. The implementations of arbitrary fiscal policies contain political applications which entrust politicians with full authority in fields of means, magnitudes, priorities and timing whereas rule-based policy implementations set certain goals for and bounds to policy makers (Eroğlu, 2012:568).

Arbitrary policy implementations were brought to agenda through Keynes' studies on the 1929 World Crisis. Keynes, who placed emphasis on open budget policy rather than balanced budget implementation, had such a preference in order to compensate lack of demand which he considered as the main cause of the Crisis 1929, and, he aimed to dynamise total demand by increasing public expenditures. In this sense, arbitrary fiscal policy played a significant role in enlivening the demand but, in the forthcoming process, budget deficits and unsustainable debt burden started to ruin fiscal discipline and economic stability, which brought the debates on rule-based policy to agenda (Eroğlu, 2012:569).

Rule-based policy implementations, led by monetarist economists, developed indicators which could be used as financial performance measurements. These indicators were objectified by such judicial texts as government programme, government manifest, constitution, codes and international treaties. Accordingly, through setting numeric cap and goals to such means of voluntary fiscal policy as budget deficit, noninterest surplus, magnitude of debt stock, borrowing sources, taxes, taxation authority and types of spending, applications that aimed to bring amount and composition under control became obligatory (Aktan, 2010:86). To conceptually take the perception of fiscal discipline, it means the permanent constraints macroeconomically set to the indicators of general financial performance. Practically, these constraints include restrictions which are, as the percentage of a certain macro magnitude, imposed on debt, owing, spending and incomes (Şen, 2010:27).

The fist thing that comes to mind, when the point is fiscal discipline, is the equality of public incomes and expenses. In addition to this, practibility of the regulations about the income and expence balance should be taken into consideration. The mentioned regulations include economic magnitudes such as government's budget deficits, owing or a combination of both (Ley, 2004:1). In other words, fiscal discipline, beyond the income and expense balance, should be considered as the provision of the sustainability of financial policy in budget deficits, public borrowing and financig in the short and long terms (Debrun, Epstein & Symansky, 2008:1). On the other hand, Fiscal Rule is a mechanism which restricts discretional power by setting numeric limits to budget items (Kopits & Symansky, 1998:2). The grounds of fiscal discipline implementations date back to the 1929 Great Depression. The perception of 'policy of occasion' (voluntary fiscal policy) which was necessary to evade from the Depression, particularly just after 1970, resulted in excessive budget deficits and unsustainable debt sprial becuase of governmtents' 'know-no-bound' attitudes to public expenditures (Eroğlu, 2012:570). However, in democratic governance, governments, with reelection anxiety, prefer central bank sources or owing–which has emerged during the 2008 Global Financial Crisis– instead of taxation in order to finance public expenditures; nonetheless, this causes serious fragility in the countries' macroeconomic indicators.

In this regard, governments' preferences of populist policies and disagreements between coalition partners effect the reformation works necessary for economic conjuncture and, therefore, budget performance is negatively effected. Furthermore, the bottleneck in the mechanism of political decision-making effects decision lag, consequently instigating the unstability. Thus, in many developed countries, rule-based financial policy makes the solution of such problems possible (Daban et al., 2003:13). Under these circumstances, fiscal discipline has become a mostly consulted policy in crisis economy and stability programmes in that it can provide macroeconomic stability, restore the reliability of the financial policy by decreasing budget deficits, introduce a sustainable fiscal policy and lessen the effect of the economic conjuncture (Kennedy and Robbins, 2001:3).

Different methods can be followed in fiscal discipline implementations. Budget discipline, owing discipline and expense and income discipline are among the most common techniques. In budget discipline, some restrictions are placed in volume and combination of budget. These are a) the equality of public incomes and expenses, b) financial deficit restriction compared to gross domestic product, c) restrictions to structural budget deficits and d) the equality of current incomes and expenses. Owing discipline deals with the restrictions to owing sources of public administrative units. Accordingly, some restrictions are placed in total debt stock compared to gross domestic product (GDP). As for the restrictions to incomes and expenses, the aim is to constitutionally and legally control to what degree income and expense items will increase within the year following the current year. In this regard, nominal restrictions are exposed on expense items or total public expenditures, compared to gross national product, are restricted. The restrictions to incomes, on the other hand, deal with the fact that local administrations' expenditures should not exceed their incomes and that some restrictions should be placed in the increase rate of the incomes (Eroğlu, 2012:570).

Fiscal discipline application, too, establishes fiscal transparency. With the establisment of fiscal transparency– which means that government's tasks and functions, information and calculations (expenses, taxes, owing, debt management, etc.) about public economy and public financial management,and plans and projects about basic economy policies should be submitted for public opinion's information in a clear and comprehensible way that it can establish trust–, budget deficits can be decreased and their proportion to gross domestic product in public debt stock can drop (Bilginoğlu & Maras, 2011:59). Consequently, fiscal discipline is the indispensable element of the establishment of fiscal transparency.

2.2. The Infrastructure of Fiscal Discipline in EU

Countries today have more tendency to financial crises as globalization accelarates and, with the aim of avoiding the potential effects of financial crises, they have lately started to take precautions which will strengthen their economic structures. Thus, providing financial and monetary discipline in a country is of prime importance so that economic stability and fiscal and monetary policies being implemented could yield more efficient results. In this sense, EU countries in Eurozone managed to set monetary discipline which was provided by single-currency rule as a result of monetary union but the weakness of fiscal discipline has brought some reformation efforts for the establishment of fiscal discipline.

The global financial crisis deeply influenced EU economies especially between 2008 and 2010. These effects are particularly on the increase in public debt and budget deficits. EU's relevant organs have made central policies to introduce a strict fiscal discipline to the member countries especially following the recent Euro crisis. The economic crisis that Greece has experienced is particularly effective on making these policies. With this crisis, the fiscal rule implementation has again been brought to agenda to establish fiscal discipline. On 13th December 2011, EU put Six-Pack into force in order to ameliorate the financial and monetary policies and enhance supervision over the countries' economies. With this implementation, EU aims to attune fiscal policies, audit the countries' budgets, apply macroeconomic policies and structural reforms more extensively and create a stronger Stability and Growth Pact.

Maastricht Treaty is the most extensive and regular rule, signed in 1992 and put into force on 1st November 1993, which was established to set fiscal discipline in EU. Additionally, Stability and Growth Pact, of which the member states of EU are on the side, is one the most far-reaching fiscal rules. These rules, including sanctions for economic and monetray union (EMU) states, are the early examples by which fiscal rules were bound to sanctions (Kalkan, 2007:4).

Maastricht Convergence Criteria

European Council, in line with The Delor Report, decided that the first stage of Economic and Monetary Union would be taken on 1st November 1990 and scheduled was 7th February 1992 when European Monetary Union would be established by Maastricht Treaty (DTM, 2007:203). In Copenhagen Summit, held on 2nd June 1993, European Council accepted that the extension of EU would cover Central Eastern European Countries and, in the meanwhile, determined criteria with which candidate countries must comply before their full membership was accepted. These criteria are divided into there groups: political, economic and the adoption of community legistation.

In this regard, political criterion concentrated on the superiority of law, human rights, respect for minorities and the necessity of institutions to assure the protection of minorities whereas economic criterion, other than the presence of market economy, pointed to the capability to resist market forces and competition pressure within the Union. The adoption of community legistation stipulated the obedience to the objectives of political, economic and monetary union and the capability to take membership responsibilities (DTM, 1999:43). Copenhagen Summit Economy Criteria are also known as Maastricht Criteria and they are as follows (Us, 2007:121):

• The difference between the average of the annual inflation rates of the 3 countries (which showed best performances) which have the lowest inflation in the community and the inflation rate of the relevant candidate country must not be more than 1.5 point (European Community Association Agreement c.121(1); Protocol on the convergence criteria proposed in European Community Association Agreement clause 121, c.1).

• The total of the candidate country's public debt (gross consolidated debt stock) must not be more than %60 of its gross domestic product (GDP) (European Community Association Agreement c.121(1); Protocol on the convergence criteria proposed in European Community Association Agreement clause 121, c.2; Protocol on Excessive Public Deficit Procedures).

• The proportion of the candidate country's budget deficit to its GDP must not be more than %3 (European Community Association Agreement c.121(1); Protocol on the convergence criteria proposed in European Community Association Agreement clause 121, c.2; Protocol on Excessive Public Deficit Procedures).

• As of 12-month period, long-term interest rates being charged in any candidate country must not exceed the interest rates of the 3 countries–which showed the best performances in the field of price stability– more than 2 points (European Community Association Agreement c.121(1); Protocol on the convergence criteria proposed in European Community Association Agreement clause 121, c.4).

• The currency of a candidate country can not have been devalueated across another candidate country's currency within the last 2 years. The currencies of candidate countries must be stable enough across the currencies of the member states. Candidate countries must comply with normal fluctuation margin(±2.25 percent) proposed by exchange mechanism of European Monetary System (European Community Association Agreement c.121(1); Protocol on the convergence criteria proposed in European Community Association Agreement clause 121, c.3).

The criterion of inflation and long-term interest rate and non-devaluation of the national currency aim to assure monetary stability in Eurozone whereas those of budget deficit and public debt intend to safeguard the Union against the threat of inflation posed by governments' budget deficits (Afxentiou, 2000:249).

EU, though supported by such mechanisms as Maastricht Criterion, failed to set a political union proposed by European Constitution and this brought the errors in designing Euro into question due to the global economic slowdown. The contradiction out of implementing 'single-money policy' and 'multiple financial policies' has become more and more apparent in the countries in Eurozone which are at a different stage of conjunctural fluctuation. The politicians of the countries who ran into debt with low interest rates in the environment of trust by monetary union prefered postponing the structural reforms necessary for their economies. With the effect of the global slowdown resulted from the financial crisis in USA, macroeconomic indicators of the countries that postponed the structural reforms declined rapidly. This resulted in lowering the grades of credit rating agencies, leading to the increase in the cost of borrowing (Dilekli & Yeşilkaya, 2012).

The debates on Maastricht Criterion are in especially two aspects: One is on whether the criterion are necessary and the other, despite accepting the necessity of the criterion, on the dispute that the predetermined reference values are void of theoretical basis. However, seeing that the criterion are 'unnecesaary' and reference values are 'void of theoretical basis' or 'unnecessary', the mentioned criterion are of particular importance in that they chance to compare the member states' economies and analyze their differentiated economic indicators.

Stability And Growth Pact

Stability and Growth Pact (SGP) was founded on the fiscal discipline terms introduced by Maastricht Treaty. Stability and Growth Pact is a contract that independent governments voluntarily accept in order to form and sustain a strong public finance. This pact, a means of economic policies' coordination, played an important role in forming the framework of fiscal policy and aimed to provide coherency between the member countries' fiscal policies in line with the common currency policy being conducted by European Central Bank (Özpence, 2009:117). The pact was founded to set and strengthen budget discipline that would prevent excessive budget deficits in Eurozone. A two-leg strategy which consisted of an Early Warning Mechanism and Excessive Budget Deficit Position was established with the aim of closing excessive budget deficits. Early Warning System aims to intervene before budget deficits emerge and to provide a coordination between economy policies. Excessive Budget Deficit Position, on the other hand, intends to detect excessive budget deficits of the member states and to take constructive precautions to immediately repair them.

SGP was in operation from 1999, when it became valid, to 2002. Maastricht Criterion and the original Stability and Growth Pact rules derived a significant attainment throughout EU in 1990s. The budget deficit in EU, which was %5.1 in 1995, receded to %0.8 in 1999. However, many countries were proposed to sustain fiscal discipline so that they could reach the budget target which would give equal or more in the medium term. Fiscal discipline continued throughout 1999 and in the next period, and, a recovery of budget balance was made. However, the global economic slowdown that started with the rapid decline of the technology shares in USA in 2000 and the intense reforms within EU disturbed the financial balance as from 2001. Therefore, excessive budget deficits emerged in 6 of the Eurozone countries (Portugal in 2001, Germany and France in 2002, Netherlands and Greece in 2003 and Italy in 2004) during the 2002-2004 period (Morris, Ongena & Schuknecht, 2006:47).

Both the debates in literature and the events during the 2002-2005 period proved that SGP brought a series of problems in practical terms and SGP rules necessarily had to be revised in 2005 (Akgül, 2008:271). New regulations concluded that budget deficit must not exceed %3 of GDP; public debt stock must not be more than %60 of GDP; target countries must have balanced budgets in the medium term; countries' levels of debt, the state of their public investments and their potential of growth would be taken into account to set the medium-term target; the medium-term targets must be reviewed to adapt to the changes in economic conditions once every four years; and, countries must decrease their structural deficits at the rate of %5 GDP (ECFIN, 2009). The SGP Reform aimed to place emphasis on the long-term financial sustainability and elasticity. Accordingly, both to set the medium-term targets and to run penal mechanisms, the consideration of such factors as country, specific facts, structural reforms and economic outlook was necessitated.

The pact has two main aspects: one is 'preventive' and the other 'dissuasive'. The preventive aspect bids that, until 1st December every year, Eurozone countries, via their stability programmes, and non-Eurozone countries in EU, via their adjustment programmes, must inform European Council and Commission about how they will presumably protect their financial stabilities in the medium term. The dissuasive aspect of SGP, on the other hand, applies excessive budget deficit procedure. In this regard, if the Council decides that there exists an excessive budget deficit in any member country, the relevant country is given advices but these advices are not made public. However, if the relevant country does nothing to follow the Council's advices, the Council may announce the advices to the public. In case of the member state's obstinacy not to follow the advices, the Council may give the member state a warning. If the member state, which is subject to excessive budget deficit procedure, insistently takes no precaution despite the warning, various measures (imposing a fair amount of fine, asking European Investment Bank to review its crediting policy about the relevant country and asking the relevant country to pay a fair amount of interest-free caution money in the eye of the Union until the Council has accepted that the excessive public deficit has been removed) can be taken (Yiğit, 2012:144).

SGP, though considered as an important innovation in terms of the designation and coordination of financial policies, underwent a variety of criticism. Especially, no sanction was imposed on Germany and France despite the Council's advice, which showed that there are various problems about the operability of the Pact. In 2004, some reforms were accepted for the functions of the pact. In October 2010, the prime ministers of the states in Eurozone held a meeting to present new policies in interpreting the financial criterion (Şanlıoğlu & Bilginoğlu, 2010:168).

3. Fiscal Indiscipline in EU and Its Economic Reflections

17 of the EU members aimed to establish a strong economic structure by converting their national currencies into a common currency but this monetary union, called Eurozone, faced a series of economic problems which are explained as European Debt Crisis. The first instance of the problems is the debt crisis that emerged in Greece in the midst of 2010. Afterwards, Portugal and Ireland, the credit scores of which were severely lowered by credit rating agencies, went into debt crisis and this deteoriated the expectations, decreasing the values of state bonds, and finally deepened the crisis (Odabaş & Bahtiyar, 2011:103-104). In this regard, high budget deficits in the Eurozone countries increased borrowing requirement and the resultant high debt stocks raised fragility. The expectations that Greece, Italy, Portugal and Spain could discharge their debts grew worse. This minimized the dischargeability of debt, increasing the cost of borrowing (Dadush et. al, 2011:1).

Here, the point to be emphasized is that both monetary and fiscal policies should take aim at the same target in order to establish political efficiency in economic policies which consist of monetary and fiscal policies. However, for Eurozone, this poses a contradiction that whether voluntary (policies of occasion) or rule-based policies should be implemented. Thus, there was a rule-based (price-stability-oriented) and centralized (European Central Bank) monetary policy implementation in Eurozone until the outbreak of the debt crisis, however, the conveyance of the authority to make fiscal policy to the policy making body of each country and the establishment of a strict, rule-based fiscal policy failed even though Maastricht Convergence Criterion and Stability and Growth Pact tried to set some bounds to the fiscal policy in the movement of economic integration. To remove this contradiction revealed by the debt crisis, a set of restructuring efforts are being made to establish a stable fiscal policy.

Table 1

The Effect of The Crisis on EU, Eurozone, USA and Turkey

	GDP Growth (%)				**Public Debt/GDP (%)**				**BudgetDeficit/GDP (%)**			
	2008	2009	2010	2011*	2008	2009	2010	2011	2008	2009	2010	2011
EU–27	0,5	-4,3	1,9	1,8	62,5	74,7	80,2	82,5	-2,4	-6,9	-6,6	-4,5
EZ–17 [1]	0,4	-4,2	1,8	1,6	70,1	79,8	85,4	87,2	-2,1	-6,4	-6,2	-4,1
USA	-0,3	-3,5	3,0	2,6	71,6	85,2	94,4	100	-6,5	9,6	-12,8	-10,3
Turkey	0,7	-4,8	8,9	7,5	39,5	45,5	41,6	39,8	-1,8	-5,5	-3,6	-2,8

Source : (Avrupa Birliği Bakanlığı, 2011:1)

[1]17 Countries in Eurozone

Worries about the future of Euro and the deterioration of the economic outlooks of the countries in Eurozone became more apparent with the Global Crisis. In this regard, the efforts to terminate the process of crisis in EU has yet yielded no result. In Table 1, Eurozone economy led by the negative economies of Greece, Portugal and Ireland shows a poor outlook with the rates that exceed Public Debt-Gross Domestic Product ratio predetermined as %60 and Budget Deficit-GDP ratio predetermined as %3 by Maastricht Convergence Criterion. Thereupon, Papandreou's government, which came to power in 2009, claimed that the country's budget deficit-GDP ratio was actually not %6.7 but %12.7, which abused the trust and deteriorated the expectations, increasing risk perception (Dağdelen, 2011:2). Thus, the efforts to make the poor economic course controllable also aimed at transparent rules of high functionality and an auditable structure in order to prevent the system from being interrupted again (Avrupa Birliği Bakanlığı, 2011:2).

4. The Precautions Against the Debt Crisis and EU's Restructuring Efforts:

Balance of Payments Facility

Balance of Payments Facility was establised to take part against the potential problems that 10 of the European Union states, which are not in Eurozone, may face in both balance of payments and the external financing difficulties that may correspondingly emerge (European Commission, 2012a).

The facility was founded by Council Regulation No. 332/2002 dated 18th February 2002 pursuant to the clauses 119(1) and 119(2) (this clause was changed as clause 143 by the Treaty on the functioning of EU) which propose to supply aid to the member states that have difficulties in the balance of payments of The Treaty of Rome (European Commission, 2012a).

The objective of the facility is to preserve the EU single market's financial stability and balance. The financing mechanism that will be set by the facility is as follow: Countries that have difiiculty in the balance of payments to take on debt will be provided loan by the exclusion of the bonds which have been put under guarantee by EU budget and 27 member states (European Commission, 2012a). Pursuant to the relevant regulation, the states which take advantage of the facility are supposed to take necessary precautions of economic policies so that they can make their balance of payments sustainable and reliable. Whether the country that request for help will be provided loan or not and the amount of the loan, if to be provided, will be determined by EU Council of Ministers. In conclusion, a memorandum of understanding, based on the conditions that the Council have determined, will be signed by the member state and the Comission and submitted to European Parliament and EU Council of Ministers (European Commission, 2012a). The total budget of the facility is 50 billion € and Hungary has made 6,5 billion € use of it whereas Latvia 3,1 billion € and Romania 5 billion € up to now (European Commission, 2012a).

Pooled Loans (Greek Loan Facility)

The facility, founded as an especial mechanism to provide Greece with loan, is a debt pool of 110 billion €, 80 billion of which was provided by the countries in the Eurozone through European Commission and 30 billion provided by IMF (European Commission, 2012b). The Council Decree No. 2010/320/EU dated 10th May 2010 determined the measures that Greece must take in return for the financial aid to be supplied. However, when the deterioration of Greece's economic condition continued and the country came to the verge of bankruptcy, on 14th March 2012, the Council of Ministers in the Eurozone made a new decree that proposed the supply of a 130 billion € aid package that will cover 2012 and 2014 (European Commission, 2012b).

European Financial Stability Mechanism (EFSM)

EFSM was establised to supply financial aid to all of the EU members that have financial difficulties. The mechanism, founded by Council Regulation No. 407/2010 dated 11th May 2012, is legally based on the clause 122(2) of the Treaty on the functioning of EU (European Commission, 2012c). The objective of the mechanism is that the Union will provide aid to any member state that has serious financial difficulties due to external factors which have happened beyond its own control (European Commission, 2012c).

In accordance with the mechanism, the Commission assess the financial demands of the country in need of help and make an adjustment policy in order to assure financial stability. With a contract that the country will abide by the economic and financial conditions determined by the Commission, the country in need of help and the Commision sign a memorandum of understanding. Hereafter, the Commission provide loans from the markets on behalf of EU and these loans are made available to the country that has requested help (European Commission, 2012c).

EFSM is a temporary mechanism that will be replaced with European Stability Mechanism (ESM) as from June of 2013 (IKV, 2012).

EFSM founded a source of 60 billion € to be used for the countries that request for help and whose financial structures has become disconcerted. At present, the total amount of the fund to be given to Ireland by EFSM is 22,5 billion € and 26 billion € to Portugal (European Commission, 2012d). The mechanism is of prime importance in that it can chance the countries in financial straits to run into debt under favorable conditions through EU, the credit grade of which is AAA (European Commission, 2012d).

European Financial Stability Facility (EFSF)

EFSF, also known as Rescue Fund, was founded as a limited company which is dependent on Luxemburg Acts by the Council of Finance Ministers of the European Union (ECOFIN) decree dated 9th May 2010 in the presence of 16 member states in the Eurozone on 7th June 2010. EFSF is a special mechanism which aims to combat debt crisis. The objective of the facility is to provide the Eurozone states in financial straits with temporary financial support (Euronews Türkçe, 2011).

EFSF was rated with AAA by the three prominent credit rating agencies (Standard & Poor's, Moody's and Fitch). EFSF chances the member states to borrow with lower cost (IKV, 2012). However, in the early months of 2012, the credit rate of the facility was pulled down to AA (CNN-Turk, 2012). EFSF is a temporary facility that will be replaced with European Stability Mechanism, which is a permanent mechanism, as from the midst of 2013.

Table 2

Credit Uses Within The Body of EFSF

States	Currently Paid (Euro)	Payments Pending (Euro)	Total of Max. Payment To Be Made (Euro)
Ireland	12.0	5.7	17.7
Portugal	17.4	8.6	26
Greece	73.9	70.7	144.6

Source: (European Financial Stability Facility, 2012a)

European Stability Mechanism (ESM)

The economy and finance ministers of the EU-member states decided to establish ESM, which is a permanent mechanism to assure financial stability in Eurozone, by Financial Affairs Council held on 28-29th November 2010 (IKV, 2012). The mechanism has become formally valid by the treaty signed on 2nd February 2012. The objectives of the ESM Treaty are as follows:

- Establishment of new financing agents
- More flexible pricing
- A more compact structure
- Establishment of new urgent decision-making procedures
- Adjustment of the timing of capital-providing
- Working in accordance with IMF (European Commission, 2012e).

The mechanism was projected to be a Luxemburg-centered intergovernmental organization that would have characteristics of international law (European Financial Stability Facility, 2012b: 24). It will be managed by a Board of Governors consisting of the ministers of finance of the countries in Eurozone; the member for economic and financial affairs of European Commission and the chair of European Central Bank will take part as supervisors in the Board of Governors (European Financial Stability Facility, 2012b:24). European Stability Mechanism intends to have capital base at the cost of 700 billion €, 200 billion of which is partial reserve, and raise capital through bond sales after being rated with AAA by means of the mentioned capital base (IKV, 2012; CNN-Turk, .2012). 80 billion € of the capital has been paid. The remaining 620 billion € consists of the withdrawable capitals and ransom guaranteed by governments (Avrupa Birliği Genel Sekreterliği, 2011:16). The utiuzation terms of the mechanism will be dependent on a strict condition that the economic adjustment programme for which the Commission, IMF and the demanding member state have come to an agreement must necessarily be practised. The financial aid that ESM will give to the demanding member states will be in the form of direct loan. Additionally, ESM may, when necessary, engage in such an activity as buying the bonds of the states in financial straits with the aim of decreasing the cost of borrowing (Avrupa Birliği Genel Sekreterliği, 2011:17). The contribution rates of the countries to ESM were determined in the treaty.

Table 3

Member States of ESM and Their Contributions to The Mechanism

ESM Member	Capital Contribution (Euro)
Germany	190 024 800 000
France	142 701 300 000
Italy	125 395 900 000
Spain	83 325 900 000
Netherlands	40 019 000 000
Belgium	24 339 700 000
Greece	19 716 900 000
Austria	19 483 800 000
Portugal	17 564 400 000
Finland	12 581 800 000
Ireland	11 145 400 000
Slovakia	5 768 000 000
Slovenia	2 993 200 000
Luxemburg	1 752 800 000
Cyprus	1 373 400 000
Estonia	1 302 000 000
Malta	511 700 000
Total	700 000 000 000

Source: (European Council, 2012)

Competitiveness Pact

The Global Crisis, which also prevails within EU, inflicted a heavy blow on the EU states' competitiveness. To overcome this problem, Europe 2020 Strategy for Smart Sustainable and Inclusive Growth which determined the policies to be followed in EU was accepted by European Commission on 3rd March 2010 (Toygür, 2010:1). The strategy remarks 3 priorities as follows that support each other with the aim of putting the optimistic scenario into practice (Akbaş & Apar, 2010:3):

1. *Smart Growth*: A knowledge- and innovation-based economy
2. *Sustainable Growth*: A green and competitive economy that uses the sources more productively.
3. *Inclusive Growth*: A high employment economy that integrates economic, social and marginal aspects.

The essential objective of the pact is to recover the economic structures of the other member states while establishing such institutions as European Stability Mechanism and to strengthen the competitiveness of the real economies of the EU-member countries through the sameness as much as possible within the structures of the countries in the Union. To achieve this goal, the strategy's aims are as follows:

● To increase the rate of employment up to %75 for the population of 20-64 years,

● To reserve the %3 of GDP for r&d activities,

● To decrease the level of greenhouse gas emission minimum %20, or %30 if possible, compared to that in 1990,

● To increase the proportion of renewable energery up to %20 for the energy consumption of EU and to get even efficiency,

● To decrease the proportion of those who drop out of school at early ages down to %10 and increase the population rate of college graduates from %31 to %40,

● To rescue 20 million people from the poverty risk (European Commission, 2010).

The member states were made to adapt the objectives of Europe 2020 Strategy to their national goals. Besides, yet another important innovation brought by the Strategy 2020 is that each of the member states must macroeconomically coordinate with European Commission before setting the next year's budget (T.C. Sanayi ve Ticaret Bakanlığı, 2011:2). In this regard, Europe 2020 Integrated Guidelines form a framework for the reforms that the member countries will make. These guidelines are as follows (T.C. Sanayi ve Ticaret Bakanlığı, 2011:2) :

● To ensure the quality and sustainability of public finance,

● To discuss macroeconomic imbalances,

● To reduce the imbalances in Euro-using countries

● To optimize the supports for the fields of research, development and innovations,

● To use the sources more efficiently and decrease the level of greenhouse gases,

● To modernize the industrial infrastructure to make EU internal market function precisely and to enhance workplace environments and the rights of consumers,

● To increase participation in labor market and reduce structural unemployment,

● To develop qualified labor force that can meet the market's requirements and encourage business quality and life-long education,

● To enhance the performance of educational and learning systems at all stages and increase the participation in higher education,

● And to encourage social inclusion and combat poverty.

The guidelines show that the aim is to strengthen the competitiveness of the whole Europe through economy and employment policies. The member states, in accordance with these guidelines, will bring the priorities and objectives of Europe 2020 Strategy into agenda by making national reformation programmes (Akbaş &

Apar, 2010:7). EU Council will be in charge of the management of the strategy while EU Commission will assess the advances related to the objectives and provide exchange of views on the policies to be implemented (Akbaş & Apar, 2010:7).

Euro Plus Pact

Competitiveness Pact, developed by Germany and France, was criticized by the Southern members and those whose economic states were comparatively weak due to its strictly binding terms. These countries think that the restrictions to be placed by the pact in the fiscal policy will negatively effect their economies- which are already fragile. Consequently, the original version of the pact proposed by Germany and France was declined by the EU leaders and, as a result, they decided to soften some terms of the pact (Avrupa Birliği Genel Sekreterliği, 2011:22). It was decided to soften the content of the pact–which was a reason of opposition in EU– and a new document, called 'Euro Plus Pact', was submitted in this context (Avrupa Birliği Genel Sekreterliği, 2011:23). The document, accepted on 11th March 2011, was signed by the Eurozone states as well as Denmark, Poland, Latvia, Bulgaria and Romania (Avrupa Birliği Genel Sekreterliği, 2011:23).

With Euro Plus Pact, the member states decided to perform collaboratively in the fields of competitiveness (price policy and productivity), taxation policy, public finance and financial stability. This decision can be considered as an important step to solve the problems in the zone, and, determination and coordination in applying the decision are of prime importance in removing the structural differentiation among the countries (Barlas et. al, 2011:9). The pact aims to assure the sustainability in public finance and establish a competitive economy and a reliable financial system (Avrupa Birliği Genel Sekreterliği, 2011:24).

Euro Plus Pact focuses on the national regulation fields which are important in both removing the imbalances prejudicial to the integration of EU and strengthening competitiveness. In this regard, the decisions that European Council made in Euro Plus Pact are as follows (European Commission, 2011:12-20):

1. Compatible policies must be made while strengthening the existing economic governance within EU and providing added value.

2. The decisions that were made on the financial stability are individually not sufficient for high-speed growth and further employment, therefore, EU economies must be modernized to strengthen competitiveness. Europe 2020 Strategy and Euro Plus Pact are based on this point.

3.The commitments the member states will make to their economic and financial conditions will regularly bu supervised with the participation of all the entities of the Commission. Eurogroup and European Parliament will play a strict role in this respect in line with their powers.

4. The Union will regard financial and economic convergence policies to strengthen competitiveness.

5. National efforts will be supported by EU and EU funds will be conveyed to growth and employment within the predetermined limits.

6. The completion of single market is a primary objective and it is EU's competitive power. Thus, competitiveness and employment should be encouraged, financial stability should be strengthened and contributions to the sustainability of public finance is to be made.

The pact proposes necessary reforms to establish a work environment of 'flexicurity' in order to improve employment within EU, decreasing informality, to enhance life-long learning and to lessen the burden of tax on labor force (European Commission, 2011:19). In addition, The pact points that the stability of the field of finance and banking sector are of particular importance for Eurozone (European Commission, 2011:20). The pact also places emphasis on the coordination of tax policies. The states, within the scope of tax policies, are supposed to combat fraud and evasion of tax. Besides, the pact decided that the member states must take any possible precaution to develop a corporation tax scheme, to maintain the consistency of national tax systems, to assure financial stability and to contribute to the competitive power of European firms. A loop system, under the name of a European Semester, which encloses a one-year period was establised to monitor the member states' commitments to achieving the Strategy 2020. Accordingly, European Commission will detailedly analyze whether the member states, by their national programmes, apply the economic and structural reforms[1] which have been projected to be performed in European Semester and will make suggestions for the next 12-18 months (European Commission, 2012f).

Conclusion

17 of the EU members faced a series of economic problems, called European Debt crisis, although they converted their national currencies to a common currency to establish a powerful economic structure. The focus of these economic problems is either the existing fiscal rules' lack of an inspection mechanism or the failure to apply these rules efficiently. Particularly, the improvidence and lack of inspection and sanction in applying Maastrich Convergence Criteria, which establish the fiscal rule of monetary union, and Stability and Growth Pact exposed the countries in the Eurozone to debt crisis, and, the presence and future of monetary union became a matter of debate.

The financial policy of the Eurozone countries that aimed to unite economic force was not conducted by a centralized institution, though, the monetary policy implementations were dependent on Central Bank. However, this caused an incompatibility of economic policies. The financial system's irregularity and lack of inspection that came to light in the wake of the 2008 Global Crisis made rehabilitation works inevitable in both global and EU aspects. The first instance of these works in EU is Balance of Payments Facility. The other works are Pooled Loan Mechanism, European Financial Stability Mechanism, European Financial Stability Facility, European Stability Mechanism, Competitiveness Pact and Euro Plus Pact.

Balance of Payments Facility aimed to preserve the financial stability and balance of the EU single market. Pooled Loan Mechanism was an exclusive pool founded to provide Greece with loan for once. European Financial Stability Mechanism was established to supply financial aid to any member of EU that is in financial straits. European Financial Stability Facility is a special mechanism that aims to combat the debt crisis. European Stability Mechanism is a permanent facility to provide financial stability in Eurozone. Competitiveness Pact aims to strengthen the competitiveness of the EU countries' reel economies by providing a possible sameness of the EU states' structures. The objectives of Euro Plus Pact are to assure the sustainability in public finance and establish a competitive economy and a reliable financial system.

These restructuring efforts have become the most common tactics for crisis economies and stability programmes in that they can establish fiscal discipline, assure macroeconomic stability, provide reliability of financial policy by closing the budget deficits and deaden the effect of economic conjuncture through a sustainable fiscal policy. With the establishment of transparency which means an accountable financial system through fiscal discipline, it is predicted that budget deficits will be closed and public debt stock-GDP ratio will be pulled down to a reasonable level. In this respect, as a result of the violation of the financial tranparency and public opinion being misinformed, confidence in policy-makers died away and risk

[1] Each of the member states of the pact, in line with the Strategy 2020, has determined overall objectives on employment, r&d activities, decreasing the proportion of those who drop out of school at early ages, lowering the level of greenhouse gas emission, increasing the proportion of renewable energy, reducing the number of people at risk, preventing poverty and social exclusion, and, they submitted the objectives to the Commission. Besides, the member states have made yearly commitments on employment, competition, sustainability of public finance and financial stability. The Commission, in return, has made examinations as to whether these commitments have been performed at the end of each European Semester, and, made suggestions. For the member states' commitments and the results of European Semester, see also: European Commission, **Backround on the Euro Plus Pact**, 9 December 2011, p.73-99, http://ec.europa.eu/europe2020/pdf/euro_plus_pact_background_december_2011_en.pdf, 09.10.2011, online.

perception multiplied. Thus, Papandreou's government, which came to power in 2009, inaccurately claimed that the country's budget deficit-GDP ratio was actually not %6.7 but %12.7–which brought the future of European Economic and Monetary Union into question. The framework, in establishing fiscal discipline, should be well-determined, smooth and comprehensible, compatible with the objective, realiable to support structural reforms and flexible enough to adapt to monetary policy.

In conclusion, Eurozone, which establishes monetary discipline by means of European Central Bank, has formed financial stability mechanisms in order to constitute a rule-based financial structure. However, whether these mechanisms will serve for stability is dependent on their compatibility with the objective and high credibility–which will be showed by future applications.

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