

Regional Economic Blocs as an Approach to Preventing and Confronting Global Financial Crises – the Case of European Union -

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Abstract:

This study aims to investigate how regional economic blocs have contributed to the prevention and confrontation to global financial crises. Accordingly, the topic was addressed by defining financial crises and their transmission channels, highlighting the role of regional economic blocs in confronting and preventing these crises, and examining the case of the European Union. The study derives its importance from the importance of the topic of financial crises and regional economic blocs. With the challenges it poses, it leads every time to finding innovative solutions to confront them, and also contributes to illustrate lessons. The study relied on descriptive analytical and quantitative approaches. The study reached several results, maybe the most important of which is that these blocs play an important role in confronting and preventing crises due to the material and human resources they possess. In addition, the European Union succeeded in containing the sovereign debt crisis, but this required a period of time because the various mechanisms were not activated before the crisis. This success was through a number of measures to confront the crisis were taking.

Keywords: Financial crises, regional economic blocs, monetary policy, European Union, sovereign debt crisis

Jel Classification Codes : E52,F02,F15,F36,O52

Résumé:

Cette étude vise à examiner comment les blocs économiques régionaux ont contribué à la prévention et à la confrontation aux crises financières mondiales. En conséquence, le sujet a été abordé en définissant les crises financières et leurs canaux de transmission, en soulignant le rôle des blocs économiques régionaux dans la confrontation et la prévention de ces crises, et en examinant le cas de l'Union européenne. L'étude tire son importance de l'importance du sujet des crises financières et des blocs économiques régionaux. Avec les défis qu'elle pose, elle conduit à chaque fois à trouver des solutions innovantes pour les affronter, et contribue également à tirer des leçons. L'étude s'est appuyée sur des approches descriptives, analytiques et quantitatives. L'étude a abouti à plusieurs résultats, dont le plus important est que ces blocs jouent un rôle important dans la confrontation et la prévention des crises en raison des ressources matérielles et humaines qu'ils possèdent. De plus, l'Union européenne a réussi à contenir la crise de 2010, mais cela a pris du temps car les différents mécanismes n'ont pas été activés avant la crise. Elle a réussi grâce à l'adoption de plusieurs mesures pour face à la crise.

Mots clés : Crises financières, blocs économiques régionaux, politique monétaire, Union européenne, crise de la dette souveraine

Jel Classification Codes : E52, F02, F15, F36, O52.

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I. Introduction

Regional economic blocs have become a reality that imposes itself on the global scene, despite the general agreement to encourage international trade within the framework of multilateralism, which culminated in the establishment of the World Trade Organization starting on January 1, 1995.

These regional economic blocs played an important role in encouraging international trade and reducing tariff and non-tariff barriers that hindered trade exchanges. It also constituted an important means of maintaining the financial and monetary stability of the member states of the bloc, in light of the international environment that witnessed many global financial and economic crises. This prompted the following problem to be raised:

How did regional economic blocs contribute to preventing and confronting global financial crises?

The following sub-problems branch out from this problem:

- 1- What are the effects of global financial crises and what are their transmission channels?
- 2- To what extent are the regional economic blocs prepared to prevent and confront these crises?
- 3- What is the nature of the sovereign debt crisis of 2010 and what are its effects on the European Union?
- 4- To what extent did the European Union succeed in preventing and confronting the sovereign debt crisis of 2010?

The importance of the study:

The study derives its importance from the importance of the topic of financial crises and regional economic blocs. With the challenges it poses, it leads every time to finding innovative solutions to confront them, and also contributes to drawing lessons. So, they contribute to understanding how these blocs transform into barriers that stop the spread of recurring global financial crises in the capitalist system. A good understanding of these mechanisms helps enhancing the efficiency of these blocs in facing recurring shocks, and also contributes to formulating more flexible global economic policies in responding to various challenges they encounter.

This study comes to highlight and evaluate the role of regional economic blocs in preventing and confronting global financial crises. Especially, since the studies that have addressed this topic have focused on the role of these blocs as a channel for the spread of the crisis and have ignored their role in avoiding crises and mitigating their severity.

Study objectives:

- Explaining the effects of global financial crises on regional economic blocs;

- Explaining the role of regional economic blocs in reducing the effects of these crises;
- Clarifying the pioneering role of the European Union in this field, especially since it has reached the highest levels of integration;
- Explaining the challenges facing regional economic blocs and trying to draw lessons from them.

Study methodology:

Due to the nature of the problem under study, a descriptive-analytical approach and a quantitative approach were adopted:

- The descriptive analytical approach was relied upon when describing global financial crises and regional economic blocs and analyzing the measures taken to reduce the effects of these crises;
- The quantitative approach was also relied upon by studying the state of various economic indicators before and after the financial crisis. That is, those indicators in which the defect occurred and led to the crisis, as well as the status of the various macroeconomic indicators and the extent to which they were affected by the crisis.

II. The phenomenon of global financial crises and their transmission channel

The issue of financial crises is one of the issues that is constantly discussed, because these crises occur periodically, costing economies that suffer huge losses, and their impact may extend to a large number of economies in the world.

II.1 The theoretical framework of global financial crises

The concept of crisis is widely used in many fields to which it is attributed. The term was employed in politics, health, and the foreign relations of countries.

II.1.1. The nature of global financial crises

Crisis is defined linguistically as distress, severity and drought. (Manzur, Lisan al-Arab). Accordingly, the financial crisis is financial severity and distress, the political crisis is political severity and distress, and the disease crisis is health severity and distress. The crisis in the English language means a serious and decisive situation or a turning point for better or worse (Al-Ramlawi, 2011, p. 7).

Technically, there have been many definitions that deal with the term crisis, and below provides some of them:

A crisis is a critical point where the fate of development is determined, affecting life or death, war or peace, problem resolution or explosion. (Al-Ramlawi, 2011, p. 8).

A crisis arises from environmental changes that generate crises and includes a degree of seriousness, threat, lack of time, and surprise. It requires the use of innovative management methods, speed and accuracy in reaction, and produces future effects that carry with them opportunities for improvement and learning

(El-Sherif, 1998, p. 49).

Accordingly, a crisis can be defined as a sudden event that results in the creation of an abnormal situation characterized by danger and requires speed treatment with innovative administrative methods to contain its future effects.

The financial crisis does not deviate from this context, as it is defined as a sharp and sudden disturbance in some economic balances that leads to the collapse of a number of financial institutions and its effects extend to other sectors. (Farid, 2011, p. 43) It can also be defined as those fluctuations that affect, in whole or in part, the overall financial variables, the volume of issuance, the prices of stocks and bonds, the total loans and bank deposits, the exchange rate, and express a comprehensive collapse in the financial and monetary system. (Al-Ramlawi, 2011, p. 11).

Therefore, the financial crisis is that sudden imbalance that affects some economic balances and affects all financial variables in a way that could lead to the collapse of the financial and monetary system in a country or group of countries or affect most countries in the world, and then it becomes a global financial crisis.

II.1 .2. Types of financial crises

The financial crisis can take several forms depending on the sector in which the imbalance occurs, therefore it can be divided into:

A. Monetary crises:

It occurs when the prices of a currency change due to speculative attacks, making it unable to perform its function as a store of value and medium of exchange. As was the case in Thailand, which caused the outbreak of the East Asian crisis in 1997.

B. Banking crises:

Banks face crises when they cannot provide loans or recover deposits. Liquidity crises occur when banks cannot meet daily withdrawal requests, leading to banking crises. Credit lending crises occur when banks refuse to lend deposits, causing a financial crisis.

C. Financial market crisis:

A bubble occurs when an asset's price rises due to excessive acquisition, causing a temporary panic. If a wave of selling occurs, the asset's price falls, leading to a collapse, causing a lack of confidence that spreads to other assets, ultimately causing financial market collapse.

D. Debt crisis:

Debt crises occur when a country struggles to meet its external debt due to macroeconomic imbalances like high inflation and current account deficit.

Mexico's 1982 crisis involved negotiating with loan donors to reschedule debts in exchange for IMF-dictated reforms.

II.1.3. Causes of financial crises

A. The cyclical nature of the capitalist system:

Western economists often use the term cycle to describe economic fluctuations and stumbles, confirming the belief that crises are natural and usual in the capitalist system. (El-Makawy, 2012, p. 50). This is what Menksi argued, who believes that the financial sector in the capitalist system is characterized by fragility, and this fragility varies in degree depending on the stage the economy is going through. (El-Makawy, 2012, p. 66). The transition from recession to growth will alter investor and bank behavior, leading to increased borrowing and lending without sufficient hedging or loan recovery, potentially causing a financial crisis and reverting to depression.

B. Separation of the Real Economy from the Financial Economy:

Cash flows and credit have taken an upward trend since the mid-seventies as a result of the trade-off between using capital in production or directing it to loans, and also between speculation and investment. Since the returns on using capital for loans and speculation are greater than directing it to production and investment, the financial economy has increased and become clearly separate from the circle of the real economy.

C. Corruption in the global economic system:

As a result of the inaccuracy of the information provided about some organizations, which leads to directing investments in the wrong way, which ultimately results in a collapse of confidence. If any of these projects fail, they will create huge repercussions in the financial and monetary market, causing a crisis in this sector whose impact extends to the real economy.

The expansion of directing capital to loans also led to further expansion and leniency for both lenders and borrowers. This led to an increase in the volume of doubtful loans. (Farid, 2011, p. 58)

II.2 Channels of transmission of global financial crises

The world has witnessed the occurrence of many financial crises, the negative effects of which have spread from one country to another as a result of the interconnection between the world's economies.

II.2.1. Financial markets

Financial markets are the primary channel for global financial crises due to their strong connection. Investment decisions impact buying and selling operations, raising or lowering security prices. Technological advancements allow for quick transmission of events, impacting other markets.

Going back to the global financial crisis of 2008, after stock prices in the United States witnessed a decline of 23% of their value, the markets of London, Frankfurt, Paris, and others witnessed a collapse in stock prices. The financial

markets in the Middle East countries also witnessed a decline in stock prices estimated at 58% in the period from 9/15/2008 to 3/12/2009. (Belag, 2011, p. 184)

II.2.2. The banking system

Given the expansion of the activity of large banks to different countries, the possibility of them being affected by the crisis and being transferred from one market to another is very possible. These banks may face a liquidity crisis or a credit crisis as a result of investors' default, which makes collecting their loans difficult, and obtaining deposits from customers is weak, which reduces their ability to lend.

Moreover, banks that provided loans against guarantees represented by bonds will be vulnerable to collapse if these bonds default and their value declines significantly. This was also the case for the American investment bank Lehman Brothers, which declared preventive bankruptcy despite the efforts made by American officials in the Treasury Department and the US Federal Reserve to rescue it. (Kamal S. Mohamed & Sabaa, 2018, p. 302) whose bankruptcy is considered the symbolic beginning of the global financial crisis of 2008.

II.2.3. International trade

It is considered one of the most important channels for transmitting the global financial crisis as a result of the contraction in the volume of trade exchanges, which has a significant impact on the decline in the growth rate.

Table (01): Global economic growth rate by geographical distribution 2007, 2008, 2009

	2007	2008	2009
Industrialized Countries	2.7	0.2	-3.2
USA	1.9	00	-2.6
Japan	2.4	-1.2	-5.2
European Union	2.9	0.5	-4.1
Newly industrializing Asian countries	5.8	1.8	-0.9
Central and Eastern European countries	5.5	6	2.2
Commonwealth and Independent States Group	9	5.3	-6.5
Russia	8.5	5.2	-7.9
Asian developing countries	11.4	7.7	6.9
China	14.2	9.6	9.1
Latin American and Caribbean countries	5.7	4.3	-1.7
Middle East and North Africa countries	6	5	2
Sub-Saharan African countries	7	5.5	2.6
The world	5.3	2.8	-2.6

Source: (OPEC, 2010, p. 32)

From the table, the global extent of the financial crisis of 2008 is clear, as growth rates witnessed a noticeable decline in all parts of the world, the lowest of which was in Russia in 2009 at a rate of -7.9%. While despite the low growth rate in China, it maintained a growth rate of no less than 9%, which means that it did not enter a recessionary phase, unlike countries in which the growth rate was known for negative rates or those in which the growth rate did not exceed 3%.

II.3. The effects of global financial crises

Global financial crises cause huge losses and severe impacts on the global economy, especially the economy from which they started.

II.3.1. The impact on investment, exports and domestic product

The financial crisis leads to a decrease in investments, as investors become convinced of the necessity to withdraw their investments to avoid the crisis. Investments are also affected due to the decline in capital flow resulting from the banking system's inability to provide loans or lack of trust in loan applicants due to panic caused by the crisis.

The crisis's decline in financial assets will lead to reduced loans for private borrowers, resulting in decreased investments and domestic production. This decline will impact the export process due to decreased international demand and limited production, as production is directed to the local market.

II.3.2. High unemployment rate and decrease in emigrant remittances:

The financial crisis affects the immigration movement, both legal and illegal. It also affects the labor market, which is affected by layoffs, in addition to reducing salaries and delaying their payment, which makes it difficult for emigrants to transfer money to their families.

The crisis leads to a significant increase in the unemployment rate as a result of precautionary measures taken by investors or taken to confront the crisis. In Russia, for example, the unemployment rate rose by 50% in the second quarter of 2009 compared to the same period in 2008, as a result of the 2008 global financial crisis. (Swinnen & Van Herck, 2025)

II.3.3. Impact on the exchange rate

The financial crisis causes fluctuations in the exchange rate, due to the decrease in foreign currency supply whose countries are suffering from the crisis, and as a result their value will rise against the local currency. This will lead to people and companies defaulting on their debts, especially those related to foreign currencies. The crisis worsens with high inflation due to currency revaluation to boost export competitiveness. This measure will lead to a rise in prices similar to the reduction adopted.

III. Regional economic blocs and global financial crises

Regional economic blocs have become a reality that imposes itself globally, despite the prevailing trend towards multilateralism and openness that culminated in the establishment of the World Trade Organization (WTO).

III.1. The theoretical framework of regional economic blocs

Regional economic blocs have existed since ancient times, serving specific benefits under prevailing circumstances. Germany used them to unify states and form the German nation-state, while Britain linked its economy to its colonies.

III.1.1. The emergence and development of regional economic blocs

The emergence of regional integration agreements goes back hundreds of years. For instance, there was a customs union in the region of France in 1664, and there was also a free trade agreement between Austria and five neighboring countries during the 18th and 19th centuries. The emergence of customs unions coincided with or preceded the existence of modern countries such as Germany, Italy, and the United States of America (USA). (Weber, 2015, p. 4)

The emergence of regional economic blocs in the 19th century dates back to the bloc that arose between the German states before the unification of Germany, in addition to the bloc of the English colonies with Britain within the framework of the Commonwealth, (Mahadi, 2002, p. 17). The emergence of blocs began after World War II in the 1950s and continued to rise in the mid-eighties and early nineties, driven by the success of European experiences and the USA's stance on these regional blocs.

Therefore, it can be said that the regional economic blocs have passed through two stages: traditional regionalism and modern regionalism.

A- Traditional regionalism: This approach to integration was adopted beginning in the 1950s, when a group of countries with geographical proximity and economic homogeneity formed economic blocs with the goal of achieving development by removing customs restrictions between these countries while keeping them connected to the rest of the world. This stage extended from the end of WWII to the end of the Cold War.

B- Modern regionalism: These are blocs that began to appear beginning in the mid-eighties of the twentieth century, when blocs were formed between a group of countries that were economically disparate and geographically distant, in contrast to the first stage. These blocs sought to obtain the privileges of lifting customs restrictions and free movement of production factors in exchange for joining the bloc, in order to increase the ability of their products to penetrate the markets of the bloc's member states.

Unlike traditional regionalism, modern regionalism is primarily political. The policy areas that have become covered by these agreements have increased from less than 10 areas represented by traditional trade policies, such as the

abolition of customs tariffs in the late 1990s, to move, beginning in the first decade of the 21st century, to cover between 10 and 20 political areas by including Trade-related regulatory issues such as subsidies or technical barriers to trade. The number of these areas has recently increased to more than 20 policy areas to include policies not directly related to trade, such as labor, environment and movement of people. (Malloo & AllK, The Evolution of Deep Trade Agreements, 2020, p.6).

This type of regionalism plays an essential role in linking the members of the bloc and the global multilateral system. (Mahadi, 2002, p. 22) This explains why countries belong to more than one regional bloc.

Table (02): Belonging to economic blocs according to different regions of the world

Regions Belonging	East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa	Nordic countries
Countries that belong to at least a regional bloc	26	26	35	20	8	48	11
Average number of affiliations per country	2	6	8	5	4	4	11
Maximum number of affiliations	7	12	29	13	9	9	29

Source: (Bank, 2005, p. 24)

Regionalism is a common trend among countries worldwide, with Sub-Saharan Africa and Latin America being two of the most regional regions. Sub-Saharan Africa has 48 countries with at least one regional bloc, while Latin America and the Caribbean has 35 countries with an average of 8 blocs per country, and some countries belong to 29 blocs.

This new approach shares similarities with the multilateral framework in certain aspects: regionalism benefits multilateral integration-supporting segments like exporting companies, and is facilitated by regional bloc agreements on World Trade Organization laws and dispute settlement mechanisms, which are largely non-discriminatory, promoting regional and multilateral integration. (Ruta, 2023, p. 31)

However, regionalism during conflict may increase tensions by lifting protectionism with non-members instead of deepening trade connections with members, raising the wall of protectionism with others. (Ruta, 2023, p. 31)

III.1.2. Stages of economic integration

The forms that economic blocs take vary according to the stage that has been agreed upon or reached, pending the completion of further efforts to transition from one stage to another. Economic integration passes through five stages according to the division adopted by the economist Bella Ballessa in 1965.

Table (03): Stages of economic integration according to Ballessa Bella

Stages main characteristics	Preferential trade agreement	free trade zone	customs union	Common Market	Economic and Monetary Union
Low customs duties					
Elimination of customs duties between Member States					
Tariff harmonization					
Freedom of movement of factors of production and coordination of various economic policies					
Consolidation of economic policies between Member States and creation of a single currency					

Source: (Bella, 1966, p. 23)

Preferential trade agreements involve countries exchanging privileges, such as reducing customs tariffs to facilitate trade exchanges within economic diplomacy. Free trade zones allow countries to lift customs barriers, allowing for liberalized trade exchanges within the bloc. Customs unions allow member states to unify customs tariffs with non-member states, expanding the market and dividing labor among member states (Sittah, 2004, p. 11).

Common markets abolish customs barriers, unifying countries with respect to each other, and allowing free movement of production factors. These conditions allow people to obtain products and investors to optimize their products, increasing competitiveness. Economic and monetary unions aim for complete integration through unified economic, financial, monetary, and social policies through supranational institutions. This cooperation may culminate in a unified currency, giving the bloc an advantage in dealing with currency fluctuations, as seen in the European Union.

III.1.3. Justifications for establishing regional economic blocs

Countries establish regional economic blocs to achieve development by increasing their benefits, with several examples presented.

A. Economic justifications

There are many economic advantages that accrue from the establishment of economic blocs, which primarily prompts countries to join them:

- Striving to improve production in quantity and quality by raising competitiveness and efficiency of products within the bloc as a result of increased competition and optimal exploitation of production factors;
- Raising the level of well-being among the population members of the bloc by enabling them to obtain goods and services of high quality and lower price;
- Liberalizing foreign trade between member states and improving international terms of exchange for their benefit;
- Increasing its attractiveness to foreign investments as a result of the expansion of the bloc's market and the freedom of movement of production factors within it in a way that leads to optimal exploitation of them;
- Increasing the growth rate as a result of the previous effects, particularly if a favorable political and economic climate is present.

B. Political justifications

- Strengthening the international negotiating position of bloc's countries grants them privileges due to their strength, which they would not have obtained alone;
- Engaging in the integrated process will influence commitment to macro policy reforms and encourage local public opinion to support the reform process;
- Strengthening the position of member states at the international level and making their voices heard in international forums, especially with regard to their position on some international issues and events.

C. Military and historical justifications

- The establishment of regional economic blocs helps reduce the probabilities of conflict by creating common interests that must be preserved;
- The establishment of regional economic blocs helps reduce military tensions and reduce the tendency towards armament by creating an atmosphere of trust and inspiring hope for future achievements;
- The creation of regional economic blocs helps to preserve and strengthen historical connections.

III. 2. The regional economic blocs role's in preventing global financial crises

The global financial crises put regional economic blocs to a real test that reveals the strength and resilience of the integrated structure. These crises pose a challenges to these blocs that are working hard to prevent and confront them.

III.2.1. Strengthening cooperation within regional economic blocs

A. Coordination of economic and financial policies

Cooperation on the formulation of economic and financial policies would contribute to greater coordination among Member States to ensure financial stability and avoid conflict that could lead to volatility. It is also an effective tool

for studying and analyzing the various shortcomings of locally adopted policies so that they are not a starting point for the crisis or a contributing factor to its spread. This coordination requires the presence of highly efficient bodies that constantly work to analyze various developments and propose appropriate solutions and mechanisms to confront any emergency.

B. Developing infrastructure, economic resources and creating local alternatives

The development of economic infrastructure in regional blocs, including transport and communication, will facilitate local investments, enhance their independence, competitiveness, and attract foreign investments. In times of crisis, this will reduce its risk of exposure to fluctuations as a result of reducing its connection abroad. It also works to speed up the transfer of information, allowing prediction and action before crises occur.

Regional economic blocs facilitate economic diversification and create local alternatives, which reduce the risk of crises in countries due to their connections to different markets and cyclical fluctuations.

C. Exchanging information periodically in order to monitor potential risks

This allows the formation of a true picture of the economic and financial situation within the markets of the bloc countries, which would help in conducting a deep economic analysis that allows monitoring any imbalance that may occur. It also allows identifying the possible effects of various global trends on the regional economy and reacting quickly to them to ensure prevention of any potential crisis.

III.2.2. Activating the early warning system mechanism for crises

Regional economic blocs developed an early warning system for global financial crises, analyzing global economic trends to monitor risks and supervise financial transactions. This system set restrictions and controls to prevent crises, ensuring the bloc's safety and stability, which can only be achieved through emphasizes the importance of complete transparency, accuracy, and full disclosure of operations and transactions. (Al-Khodairy, 2009, p. 129)

The early warning system is crucial for building blocs and must be highly efficient for effective crisis management. It should develop proactive strategies, develop different perceptions of crises, and conduct exercises and simulations of the plans drawn up to confront these crises.

III.2.3. Bodies responsible for oversight and supervision

The formation of regional economic blocs entails the creation of bodies and institutions that work on the proper functioning of the agreements signed between all parties, and work to play a supervisory role over the progress in implementing the provisions of these agreements, as well as the suitability of the measures taken with what is agreed upon.

These bodies and institutions also have an important role in studying the current situation and trying to anticipate the future in order to ensure that no imbalances occur that would lead to crises.

III.2.4. Governance as a financial stability mechanism

The proper functioning of management, monitoring, and supervision institutions in regional economic blocs requires the establishment of rules and principles known as governance, which aims to achieve a set of goals, including:

- Effective monitoring and evaluation of the performance of the various parties to the Regional Economic Blocs Agreement;
- Implementing standards of transparency and disclosure to enhance situational assessment and avoid risks associated with non-disclosure. (Mourad, 2018, p. 5)
- Promoting a culture of commitment to agreed-upon laws, rules and standards;
- combating corruption, ensuring equal benefits from bloc advantages, and creating a positive atmosphere within the bloc to boost foreign and local investment.

III.3.The regional economic blocs role's in confronting global financial crises

Despite regional economic blocs' preventive measures, many incidents have occurred, prompting the need for bloc members to find ways to confront these crises.

III.3.1. Increase coordination and install a crisis cell

Despite the precautions taken to prevent the occurrence and spread of crises to regional economic blocs, global economic history reveals many crises that affected a number of countries in the bloc or the entire region.

When crises occur and spread to the bloc's country or countries, the latter's bodies work to find quick and effective solutions to them, until they are contained. This prompts more coordination and the activation of a crisis cell that works to monitor all events, evaluate their effects, and try to know the directions they will take in order to find quick solutions to them.

III.3.2. Work to find the necessary financing and support and approve local financial policies

Crises usually lead to a deficit in the balance of payments of the affected countries, which requires working to finance this deficit. In addition to the traditional sources that have been relied upon in confronting successive global financial crises by resorting to international monetary and financial institutions such as the International Monetary Fund (IMF), countries Members obtain financing from the rest of the bloc's member states, whether in the form of loans or aids. The temporary deficit can also be financed by means of the institutions set up to manage and supervise the agreements. Whereas for ongoing crises, require adaptation and reform programs. (Al-Zaher, 2015, p. 113).

Financial crises can be caused by various factors, necessitating local reforms and policies that must be studied, evaluated, and approved by other bloc countries. This support restores confidence at both local and global levels, and can be further supported by creating an appropriate environment for their success.

III.3.3. Devaluation of the currency

In times of crises, countries resort to devaluing their local currency, in order to increase the competitiveness of their exports until the balance of payments is rebalanced. However, this measure usually results in some negative consequences, such as raising prices and inflation rate (Al-Zaher, 2015, p. 114)

The measure requires approval from all countries and can be used as a remedial measure if the bloc relies on a unified currency.

IV. The European Union and the sovereign debt crisis of 2010

The 2010 sovereign debt crisis tested the European project's construction, revealing its strength over seven decades of construction.

IV.1. Sovereign debt crisis of 2010 - Overview-

In 2010, the sovereign debt crisis began when Greece was unable to meet its debt obligations, forcing it to seek assistance from the EU and the IMF.

IV.1.1. The roots of the sovereign debt crisis of 2010

The crisis of 2010 is a debt crisis that began in Greece and spread to a large number of European Union member states. The roots of this crisis go back to the excessive resort to borrowing by Greece in order to raise the level of economic performance to satisfy the Greek citizen and European Union institutions (Mahadi, 2002, p. 98). However, resorting to borrowing was not limited to Greece only, but also to most European Union countries, which led to the spread of the crisis

Table (04): Public debt and its ratio to GDP for a selected group of European Union countries in 2010

country	Public debt (US dollars)	Its ratio to GDP (%)
Germany	3 billion	83.2
Italy	2.6 billion	119.0
France	2.3 billion	81.7
UK	1.9 billion	80.0
Spain	908.4 million	60.1
Greece	467.3 million	148.8
Portugal	228.2 million	93.0
Ireland	210.6 million	96.2
Belgium	485.0 million	96.8
Austria	291.8 million	72.3
NETHERLANDS	527.7 million	62.7
Finland	124.0 million	48.4
Polonia	228.2 million	93.0

SWEDEN	208.2 million	39.8
Denmark	145.2million	43.6
Hungary	111.3	80.2
Esthonia	1.4	6.6

Source: (D.Sharma, 2014, p. 142)

It is noted from the table that the ratio of public debt to GDP is high in most European Union countries. Moreover, the majority of countries did not respect the ratio allowed in the European Stability and Economic Growth Pact, which is estimated at: 60% of GDP. This led to a loss of confidence in the European Union's economies and the ease spread of the crisis to other countries such as Ireland, Spain and Italy.

Greece ranks first in terms of the ratio of public debt to GDP, followed by Italy, Ireland, and Belgium. In terms of value, Spain comes in first place with a total debt of 908.4 million \$, which exceeds the total debts of Greece, Italy, Ireland and Belgium combined.

The most of powerful countries in the EU did not respect the permitted percentage, such as Germany, France, and the United Kingdom.

IV.1.2. The development of the 2010 sovereign debt crisis

The Greek economy faced a public debt crisis in April 2010, with a budget deficit reaching 14% and debt reaching 142.8% of GDP. The global financial crisis of 2010 led to a recession in the European Union, prompting Greece to increase public spending and borrowing to stimulate the economy.

The Greek government faced a high budget deficit and public debt, requesting assistance from the European Union and the IMF. However, European leaders refused to support the Greek economy, negatively impacting European markets. Some European Union countries believed the IMF was more suitable, while others saw it as a deficit. A collective program of 750 billion euros was agreed, divided between the EU and IMF. (Mahadi, 2002, p. 100).

In 2010, Ireland faced a banking crisis, causing many banks to near bankruptcy. The government developed a rescue program, exacerbated by a budget deficit and high public debt. The country borrowed 85 billion from the European Union in 2010, addressing the crisis and addressing the sector's financial issues.

In 2011, the sovereign debt crisis in Greece led to a collapse in European financial markets, resulting in a decline in debt valuation and investor confidence in the Eurozone.

The crisis affected Portugal, Spain, and Italy, due to high budget deficits and public debt, prompting them to seek EU assistance for loans and aid.

IV.1.3. Repercussions of the sovereign debt crisis of 2010

The sovereign debt crisis has had major repercussions on the European Union in particular and the rest of the world. In general, the most important of these reflections can be presented as follows:

A. Impact on the growth rate: The European Union region witnessed a recession beginning in 2009 as a result of the global financial crisis of 2008. The sovereign debt crisis deepened this recession as a result of measures taken by a group of countries, the most important of which was reducing public expenditures and raising taxes, which led to more austerity measures. Local banks also lost the ability to provide the necessary loans for investment, which clearly led to a decline in the growth rate and it became negative in the years 2011, 2012 and 2013 in a number of European countries such as Greece, Ireland and Portugal, as well as on average for the European Union region (Weber, 2015, p. 260).

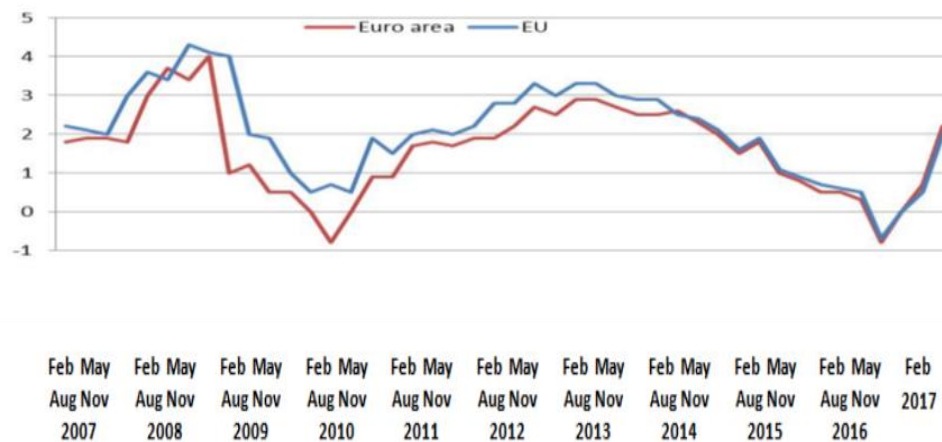
B. Impact on unemployment: The crisis has greatly affected the labor market in Europe, which was expected as a result of the low growth rate and the banking crisis witnessed by various European Union countries, especially with the presence of structural problems in some European economies in addition to the high unit cost of labor, which led to a decline in the competitiveness of these economies and deepened the crisis. It should be noted that the impact of the labor market in Europe on the crisis was uneven due to three main factors: the quality of institutions, the flexibility of labor markets, and structural factors (Weber, 2015, p. 263).

C. The impact on the exchange rate of the euro currency: The euro exchange rate witnessed a significant decline after the financial crisis of 2010 as a result of a number of indicators, including the European Central Bank's holding of significant quantities of bonds, which it obtains as mortgages from European countries in exchange for obtaining liquidity. These bonds have been devalued by international rating agencies, and the countries concerned are still suffering from the effects of the sovereign debt crisis.

The mention of a number of European countries to withdraw from the single currency also had a significant impact on the decline in its value, bringing the price of the euro to 1.2165\$ in 2012, recording it is the lowest price since 2010. The decline also included the main interest rate, which fell from 1% to 0.75%, and the rate decreased. Deposit interest from 0.25% to zero. (Hamlaoui, 2017, p. 235)

D. The impact on the inflation rate: In the following figure, we will explain the development of the inflation rate in the period between 2007 and 2017 in the Eurozone.

Fig. (01): Annual inflation rate in the Eurozone and the European Union for the period from 2010-2017



Source: (Hamlaoui, 2017, p. 236)

The period from 2011 to 2014 witnessed a decline in the inflation rate in its Eurozone and the European Union from 2.7% to 1.5% as a result of the deflationary policies adopted by various European countries to confront the crisis.

The period witnessed a sharp fluctuation in the inflation rate as a result of various events that the world witnessed, but these rates were not at the level set by the European Central Bank.

IV.2. The European Union role's in preventing and confronting the sovereign debt crisis

The sovereign debt crisis has put the European Union in a position that requires taking effective initiatives to stop its repercussions and prevent it from spreading to other European economies.

IV.2.1. Monetary policy instruments

The European Central Bank (ECB), established on June 1, 1998, is the primary monetary institution in the European Union. It issues the euro, manages exchange rate policy, member state exchange reserves, and ensures payment system functioning. The ECB also monitors central banks in Eurozone countries adopting the Euro as their local currency, coordinating with local authorities. The central banks of EU countries can subscribe to the bank's capital.

A. Adopting low interest rates

The ECB has been reducing interest rates since the beginning of the 2008 global crisis, as an attempt to confront the recession and economic contraction left by this crisis. The bank made more than 10 successive cuts, bringing interest rates to their lowest level in 2013, where prices reached 0.25%, in response to the circumstances the region is experiencing in light of the sovereign debt crisis, especially since the annual inflation rate reached 1.2%, which is a very low level, and the unemployment rate rose to 12.1%. (Masyoud, 2019, p. 167)

B. Quantitative management programs

It is one of the unconventional monetary policy tools used by the central bank to revitalize the national economy. The ECB embodied this policy by:

- **Stock Market Program:** The ECB formed the first line of defense to confront turmoil and shocks in the financial and banking markets. It has become a last resort for lending. Since May 2009, it began purchasing high-coverage sovereign bonds for a total amount of 60 billion euros. In the summer of 2009, it granted one-year loans to banks in the Eurozone, with a total value estimated at 442 billion euros (D.Sharma, 2014, p. 148).

At the beginning of 2010, the stock market program began, through which sovereign bonds issued by member states in the troubled Eurozone were immediately purchased from secondary markets. Approximately 214 billion euros of these bonds were purchased in the period from 2010 to 2012. (Masyoud, 2019, p. 170). This program aims to address imbalances in financial markets and restore the effectiveness of monetary policy.

- **Sovereign bond purchase program:** With the appointment of Mr. "Draghi Bodly" as Director of the ECB, he announced the new policy and the firm conviction that the bank will do everything in its power to preserve the euro currency and provide everything required for that (D.Sharma, 2014, p. 148).

In 2012, the President announced a program to buy sovereign bonds from secondary markets to inject liquidity into Eurozone countries struggling with sovereign debt crises. This was in exchange for reforms and the promise of withdrawing guarantees if the government violated its obligations. The goal is to reduce interest rates and financial costs for European Union countries.

- **Expanded Asset Purchase Program:** It combines the Public Sector Asset Purchase Program, the Asset-Backed Securities Purchase Program, the Covered Bond Purchase Program, and the Institutional Sector Bond Purchase Program.

- **Long-term loans:** On February 29, 2012, the ECB began a second round of support for bank lending to the real economy, by granting loans at reduced interest rates for a period of three years to the European banking sector. The operation affected approximately 800 banks with a total amount of 529.5 billion euros. This program is in addition to the first MS 523 Banks program starting December 21, 2011, with a total amount of 485 billion euros (D.Sharma, 2014, p. 149). This is to spare the European banking sector from the collapse that occurred in the US A, beginning with the collapse of Lehman Brothers.

The package of measures taken within quantitative management programs has alleviated the severity of the debt crisis in the Eurozone as a result of alleviating investor fears and restoring confidence in the European banking sector and financial markets.

IV.2.2. Financial support for troubled countries

After the 2008 crisis, the European Union governments have implemented mechanisms to monitor rescue programs for member states that may face crises.

A. The European Financial Stability Fund (EFSF): The European Union established a temporary 750 billion Euro rescue fund in 2010 to provide financing to Eurozone countries to overcome the crisis. The fund was created temporarily between the EU and government institutions, aiming to secure funds from capital markets with guarantees from 17 Eurozone countries and redirect them to financial markets facing problems.

B. The European Stability Mechanism (ESM): The European Commission and the ECB establish a permanent mechanism under international law to oversee financial aid package negotiations for member states.

Table (05): Lending operations within the framework of the European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM)

Country \ Assistance	Beginning	The end	Amount (billion EUR)		
			Granted	Spent	Recovered
Ireland (EFSF)	DECEMBER 2010	DECEMBER 2013	17.7	17.7	-
Portugal (EFSF)	JUNE 2011	MAI 2014	26	26	-
Spain banking sector (ESM)	NOVEMBER 2012	DECEMBER 2013	41.3	41.3	17.6
Cyprus (ESM)	APRIL 2013	MARCH 2016	9	6.3	-
Greece (ESM)	AUGUST 2015	AUGUST 2018	86	62.2	2

Source: (Masyoud, 2019, p. 176)

It is noted from the table the large amounts allocated by the European Union to its member states suffering from a sovereign debt crisis. These loans in all their forms are granted for a period of three to four years at zero interest rates in order to relieve pressure on the budgets of these countries.

IV.2.3. Supporting the supervisory and surveillance role

It has supported the EU's supervisory and surveillance role in the wake of the sovereign debt crisis by adopting three proposals namely:

A. Single supervisory mechanism:

Which has been in effect since 2014, through which the role played by the ECB was supported, which was granted the role of direct supervision of banks in the Eurozone. The ECB has also become empowered to make appropriate decisions on credit institutions in Greece, and has been granted many supervisory responsibilities (Hadda & Kafi, 2019).

B. The only solution mechanism:

It is subject to the supervision of the previous mechanism, and is activated as soon as the presence of a bank threatened with bankruptcy is reported. The Single Solution Council takes appropriate decisions in order to solve otherwise,

by using the amounts allocated in the Single Solution Fund with the possibility of resorting to borrowing in the event that the Fund's resources are insufficient.

C. Consolidating banking legislation and reformulating legislation: to ensure the stability of the European monetary structure, through:

- Establishing common rules and foundations related to banking legislation and affecting the size of banking capital, the amount of available liquidity, and the required reserve ratio. With strict control over the incentive grants provided to the administrative body of banks.
- Adding a third paragraph to Article 136 of the Maastricht Treaty: It stipulates that the member states of the euro currency must adopt a stability mechanism to be used when necessary to protect stability in the region.

IV.3. Pauses on the measures taken to prevent and confront the debt and sovereign crisis

The 2010 sovereign debt crisis tested the European Union's readiness for international challenges, after they dealt with the 2008 global financial crisis and presenting an internal crisis.

IV.3. 1. Deficiencies revealed by the sovereign debt crisis

The sovereign debt crisis of 2010 revealed a set of shortcomings in the European financial and monetary structure, which we can identify as follows:

- Failure to impose the rules of monetary and financial discipline in the European Union by not adhering to the standards that were agreed upon under the "Maastricht Treaty".
- The lack of a system to supervise and monitor the financial and monetary sector due to the limited role of the Central Bank;
- Circulating false information and manipulating statistics in order to join the European Union, as is the case with Greece;
- The mechanisms of financial support and monetary stability were not effective. Although they were able to contain the crisis and prevent the collapse of the euro, they were slow and subject to complex consultations;
- The huge amounts of money allocated to confront the crisis, which were linked to structural reforms and austerity monetary policies for the affected countries that benefited from it, put pressure on the social front from inflation, unemployment, and the exchange rate, which strained public opinion;
- The differences in the economies of the countries of the Eurozone led to a difference in the degree of vulnerability to the crisis from one country to another.

IV.3.2. Measures to be taken for the stability of European unity

In light of these shortcomings, it can be said that working to complete the construction of the European Union requires strict measures, including:

- The need to work to ensure full compliance with the standards agreed upon under the Maastricht Treaty;

- Supporting the role of the ECB and upgrading its performance in order to ensure effective supervision and control of the financial and monetary sector;
- The importance of governance as a mechanism to ensure local and general stability within the European Union;
- The necessity of helping countries that benefited from conditional loans and subsidies, which had a negative impact on the social life of these countries, such as high inflation, unemployment rate, and exchange rate;
- Activating the early warning system mechanism and making it a priority in order to spare the region the costs resulting from global financial crises.

V. Conclusion:

This study analyzed the issue of global financial crises and their effects on various economies, especially the economies of the member states of the blocs. Accordingly, a number of assumptions can be drawn:

Financial crises often lead to decreased investment, exports, domestic output, high unemployment, reduced remittances, and fluctuations in local currency exchange rates, depending on the severity and specificity of the crisis.

Global economic interconnectivity leads to crises transferring through financial markets, banking systems, and foreign trade channels, affecting various countries' economies.

Regional economic blocs aim to prevent global financial crises by enhancing cooperation, activating early warning systems, establishing oversight bodies, and governing institutions.

However, when financial crises occur, members of regional economic blocs move to find ways to confront them, by increasing coordination, installing a crisis cell, finding the necessary financing, supporting and approving local financial policies, and devaluing currencies.

The sovereign debt crisis of 2010 is a debt crisis that began with Greece's inability to pay its foreign debts, which forced it to request assistance from the European Union and the IMF. Then this crisis successively spread to a number of member states of the European Union.

The sovereign debt crisis of 2010 had severe effects on the European Union: decrease in the growth rate, increase in the unemployment rate, a decrease in the euro's value, and decrease in the inflation rate.

The European Union successfully managed the sovereign debt crisis, but it took time due to the lack of activation of various mechanisms.

The European Union is implementing various measures to address the crisis, including using traditional and unconventional monetary policy tools, providing financial support to troubled European countries.

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