ABSTRACT

Eurozone crisis: What’s that got to do with AFRICA: OSUAGWU UGOCHUKWU*

The eurozone debt crisis is threatening to undermine the economic fabrics of not only the 17 countries that signed up to the currency, but also the rest of the key member states such as the United Kingdom, Sweden and Denmark who have not. The reverberations of any economic fallout from that will also be felt deep in New York and Washington; the heartlands of Western capitalism. The Barack Obama administration waits with bated breath as the November presidential election looms. How did Europe get into this financial cesspit in the first place?

Having a European currency has been an ambition of many European leaders since the end of World War II. After many treaties and conferences across four generations, the decision was finally made to adopt the euro at the Maastricht Conference of the EU leaders in 1992. The introduction of the currency was thus, more of a celebration of politics than sound economics. Greece, the object of so much of the current debate, did not join until 2001, but it was in time before the coins and notes went into circulation on January 1, 2002. This was an opportune time for Greece to join in the bonanza of the property boom spreading like wild fire across Western Europe and North America. This precipitated an unprecedented bank lending tied to a hike in property prices. It was a good time for aspiring entrepreneurs and the middle class to have a taste of the good life. Many major European banks suddenly found themselves on the brink of collapse due to the absence of liquidity and spiralling foreclosures on “bad loans”, regarded as fraudulent lending in some quarters.

To arrest this situation, the EU leaders hurriedly agreed a package of 200bn euro stimulus plan to help struggling EU states under the financial strain. By the end of that year, though, Greece’s debt had reached 300bn euros, the highest in its history. This figure translates into some 113 per cent of the country’s GDP, the credit rating agencies promptly downgraded the country’s banks and government bonds as fear mounted that it was about to default on its debts. As things stand now, Greece PLC is effectively bankrupt. The dilemma became a crisis as the country could no longer pay its ways without support from the other eurozone countries, especially, Germany. To make things worse, Ireland, Portugal, Spain and Italy were also vulnerable if only
slightly so. The markets are not known for their enduring patience; they tend to be rather volatile and dealers look into financial data through myopic lenses at the best of times. Speculation soon began to hover around what would happen in the case of a Greek default. What happens to the euro? If Greece is forced out of the euro, what then would be the fate of other similarly vulnerable countries in the region? Is this the beginning of the end for the currency?

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