Summary

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"Financial Market Crisis and the EURO Area – Risk of Disintegration and Consequences of Individual Member States Bidding Farewell"

The deficits of public-sector budgets as a result of spending(commitment)s occasioned by the salvaging of banks and the promotion of economic activity as well as by ensuring the functioning ability of crisis-ridden public welfare systems are threatening the solvency of various Member States of the EURO area. At the same time, the more stable Member States have to cope with the burdens of adaptation shifted onto them as higher interest rates, lower economic growth and a rate of inflation assumed to rise in subsequent years. Both framework conditions form the basis of two hypothetic scenarios of Member States bidding farewell to the EURO area illustrated by the examples of Italy and Germany. In addition to choosing the future exchange-rate system as well as to the production and provision of the new currency, it is necessary to take into consideration a two-tier rate of exchange. Dangers of disintegration on account of inflation would exist where EURO holdings are inadequately reduced and where Members increasingly bid farewell to the EURO area. Potential capital-movement and trade restrictions as well as violations of the ban on subsidies would endanger not only the Common Market, but also Europe's integration at a political level.