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FUNDAMENTAL FLAWS IN THE ARCHITECTURE OF THE EUROPEAN CENTRAL BANK: THE POSSIBLE END OF THE EURO ZONE AND ITS EFFECTS TO EAST AFRICAN COMMUNITY (EAC) COUNTRIES

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Abstract

European countries embarked on a European integration programme that saw the formation of the Euro, which has emerged as a major currency (Blair, 1999) that was introduced in 1998. With the Euro, came the establishment of the European Central Bank. Thus this study seeks to investigate the flaws in the formation of the European Central Bank that surfaced during the major economic crisis in Europe. The crisis revealing the gaps in the formation and structure of the European central bank have created major challenges for the Economic and Monetary Union (EMU). Through an extant review of literature the study will examine the East African Community Countries, investigating the ties they have to the euro zone to analyse how the crisis has affected them. Furthermore, the study will analyse what would happen to the growth patterns of the East African Countries and the various prospects they may have should the Eurozone come to an end.

Keywords: European Central Bank, Euro-zone, East African Community Countries

1. Introduction

The ECB is the sixth out of seven institutions of the European Union as listed in the treaty designed by the E.U (Europa, 2004; ECB 2004a). It is the central bank for the Euro and is the embodiment of modern central banking; price stability is regarded as the overriding objective of its monetary policy (Blair, 1999). It is independent with a clear and mandate, and the bank is accountable for the execution of this mandate (ECB, 2004b; ECB, 2010). The bank's capital stock is owned by the central banks of all 17 EU member states (Blair, 1999). The treaty of Amsterdam in 1998 saw the establishment of the ECB, and is headquartered in Germany (Yale press, 2008). The key tasks of the ECB are to "define and implement the monetary policy for the euro zone, to conduct foreign exchange operations, to take care of the foreign reserves of the European system of central banks and promote smooth operation of the financial market infrastructure and the technical platform for securities in Europe" (ECB, 2010, p.15).

The ECB's corporate structure is defined by an executive board comprising of the President, Vice President and four members nominated by the euro zone countries (ECB, 2004a). Decisions are influenced by the governing council which is made up of the executive board members including the heads of the euro zone central banks (ECB, 2010). The system functions as a web, with the ECB in the middle formulating the monetary policy and the central banks on the outside implementing it (Civitas, 2011). In June 2011, Italian Mario Draghi was voted to be the next President of the ECB for the period November 2011 to October 2019

(Bethell, 2012). This sparked controversy for as it stands executive board now contains two Italians and there is no French presence (ECB, 2012; Bethell, 2012). The euro has been regarded as one of the experiments in monetary history that are most exciting (Jonung and Drea, 2010). In the euro adopted countries, the national central banks do not issue out currency anymore, though the duties they still perform include economic forecasting, operation of part of the payment system and financial supervision (European Commission, 2012). The concept of the euro was founded on the optimum currency area theory that was made popular by the economist Robert Mundell in 1961. He believed that a currency area that comprises of different countries with their own currencies, the rate of employment for the poor countries is dependent on the richer countries, with the inflation rate being set by central authorities that will be able to allow for unemployment in the poor countries (Mundell, 1968; Hunter, 1991; Scott, 1998).

2. Literature Review

2.1. Arguments against the ECB Formation

The idea of forming a European Central Bank was met with a lot of skepticism; although the bank has been formed there were questions and issues raised by those concerned about the future of Europe with the Central Bank in play. Civitas (2011) cited some points against the formation of the ECB as:

- It is impossible to formulate a currency for countries with different growth strategies as they have different needs
- The powerful countries in the region influence decisions
- The different states will conduct their business separate from the requirements of the ECB

Further argument states that the Euro is to blame for the slow pace of Europe's efforts to repair its position especially where economic dynamism is migrating to countries like America and Asia (Yale press, 2008; Molle, 2006). The key issue is that of Germany, which is regarded as Europe's strongest economy where fixed European exchange rates provide disproportionate support for Germany's export-oriented economy (Blair, 1999) by making its industrial sales extremely competitive through-out most of Europe, increasing Germany's export surplus to record levels (Europa, 2004; IMF, 2010). It is argued that the common currency has exposed shortcomings in economic policy (Darvas, 2012) among member countries that can no longer be rectified by devaluation therefore they need to be corrected by painfully longer-term adjustments for-instance through lower- wage rises, increased working hours and job losses (Sleight, 2012; IMF, 2012).

When looking at the history of currency union's, member states had some misgivings because currency unions have had very little success in the past and from the beginning there was no guarantee that the ECB would perform well. Coincidentally, the Euro was viewed as a recipe for economic stagnation (Massa *et al.* 2011) and higher levels of unemployment especially if the ECB pursued the deflationary monetary policy (Bethell, 2012). From the formation of the ECB it was predicted that the monetary union will not succeed and currencies that find themselves to in difficulty may be forced to cancel their membership and re- establish an independent currency and an inflationary monetary policy (Alesina and Grilli, 1992; Chatterjee, 2003). The example is given of Ireland how they chose to leave the Sterling currency area suggesting that leaving a currency union is beneficial as compared to joining one (Kirkby, 2012).

From the time the European union was being established it was noted that there are structural differences within the countries of Europe (Goodman, 1996) meaning that there will be economic shocks such as a crisis of supply of primary products which will lead to imbalances and there will be no mechanism to restore the balance (Schwartz, 1990; Calomiris, 1998). To add to this since there will only be one interest rate that is meant to apply to all countries in the region, this means that individual countries that increase their debt will raise interest rates in all other countries (Molle, 2006), EU countries may have to increase their intra- EU transfer payments to help regions in need (Moeller, 2011; Darvas, 2012). It was stated that it may prove

difficult to maintain a currency union than ending one in the sense that adjusting to a new currency will involve substantial costs for businesses and banks (Tsoukalis, 1993). Adjustments to economic divergence by migration of labor or capital will be costly and there is no European currency commitment to relieve these costs (Douglas and Xavier, 2002).

Some reasons against the ECB formation were noted by Schwartz (1990) and Dornbusch (1996), to be that:

- Recessions make it difficult for devaluation and export to take place
- Steps have to be taken to counter the inequalities that exist in the different states
- Differences among the member states will create difficulties for national economies to come up with recovery plans
- The interest rates will not be suitable for the whole region

Further reasons against the ECB were highlighted to expose the structural defect within the euro system, namely that there is a monetary union that is in place and it does not work in line with a fiscal union. In the zone's system, countries are required to follow a similar fiscal policy, but they do not have common treasury to enforce it (Canale, 2010). There is also the problem that the euro zone system has a difficult structure for quick response as it is a requirement to have unanimous agreement for decision-making from all member states. This leading to failure to prevent contagion to other areas, as it would be hard for the countries in the region to respond quickly to the problem (Europa, 2004). Furthermore, the link between the fiscal policy and the monetary policy of the ECB was predetermined to put the currency in a precarious position as the success rate of the single currency was noted to be dependent on the ability of the national fiscal bodies to ensure there is discipline (Jordan, 1997). Constraints on individual member states were predicted to arise in the future due to the exclusion of the monetary policy from the fiscal policies.

From onset the ECB had a clear mandate in Article 105 of the Maastricht treaty in that their primary goal was to maintain price stability (Blair, 1999), however it was argued that although this mandate may be beneficial towards the goal of long-term credibility, but it did not address how future conflicts between national interests may be resolved, because of the imbalance of power in the structure of the ECB (Wynne, 1999). Research carried out on the Maastricht treaty's ambiguousness in exchange rate policy revealed that the instability in the policies adopted, as there was a loophole that left abundant room for conflict to arise between price stability and exchange rate stability meaning that the independence of the ECB would be threatened (Goodfriend, 1999; Wynne, 1999). Some critics questioned the success of the ECB and the Euro in the long run as it depended on whether employment opportunities would be accessible across national borders and whether wages and prices would be flexible (Eudey, 1998). Prior to the formation of the currency area, it was argued that Western Europe did not have a conducive environment that would be suitable for a common currency (Meade, 1957; Eichengreen, 1993), as the mobility of labor was nonexistent as such a more effective way to promote internal stability and balance of payment system would be to have a system of flexible exchange rates. It was believed that the flaws in the architecture of the ECB was comprised of policy mistakes that were made by an ECB executive board that did not have the essential experience to begin with and this was seen through the ECB's failure to release inflation forecasts and they brushed over policy disagreements between the ECB officials (Eichengreen, 2000).

2.2. History of the Euro Crisis

Prior to the crisis taking root it was assumed that sovereign debt from the zone was safe (Mafi-Kent and Sobel, 2006). Banks took up large quantities of bonds from weaker economies such as Greece which offered a small premium and the assumption was they were equally sound (IMF, 2010). With the development of the crisis it became apparent that Greece and possibly other countries' bonds offered substantially more risk (Canale, 2010). Contributing to this apparent lack of information about the risk of European debt was conflict of interest whereby the banks were earning a lot of money through underwriting bonds (Esрати, 2011). It is believed that the crisis should be regarded as both political and economic, and to make it worse a large

number of withdrawals have occurred in banks in the zone states such as Greece and Spain (Moeller, 2011). Bank deposits in the zone are insured, but by agencies of each member government therefore should banks fail; it is unlikely the government will be able to fully honor their commitment especially in Euro's (Blair, 1999), the possibility has become greater that these countries might abandon the currency and return to their national currencies (Vaubel, 2004). In looking at the causes of the Euro crisis Spethman and Steiger (2004), cited a few reasons

- A shortage central monetary institutions
- Nationally different real interest rates
- Securities that are non- marketable
- Where the lender of last resort is not available

Profligacy is what the German's feel the euro crisis is about, with Greece being the instigator of the negative tones in the region by lying to the rest of the member states about their circumstances and yet still continuing to live extravagantly. This affected troubled euro zone members like Italy, Spain, Portugal and Ireland who had enjoyed a period of low interest rates for about a decade. Most of the euro zone countries succumbed to the financial crisis due to the fact that they operated with current account deficits that were unsustainable. As a result domestic spending was fuelled by low interest rates at the same time managing to hold down inflation in goods and wages, thus imports became somewhat cheap but made exports highly expensive. The statistics of the euro zone countries standing in relation to the budget deficit and public debt is seen in Figure 1 compiled by Eurostat (2012).

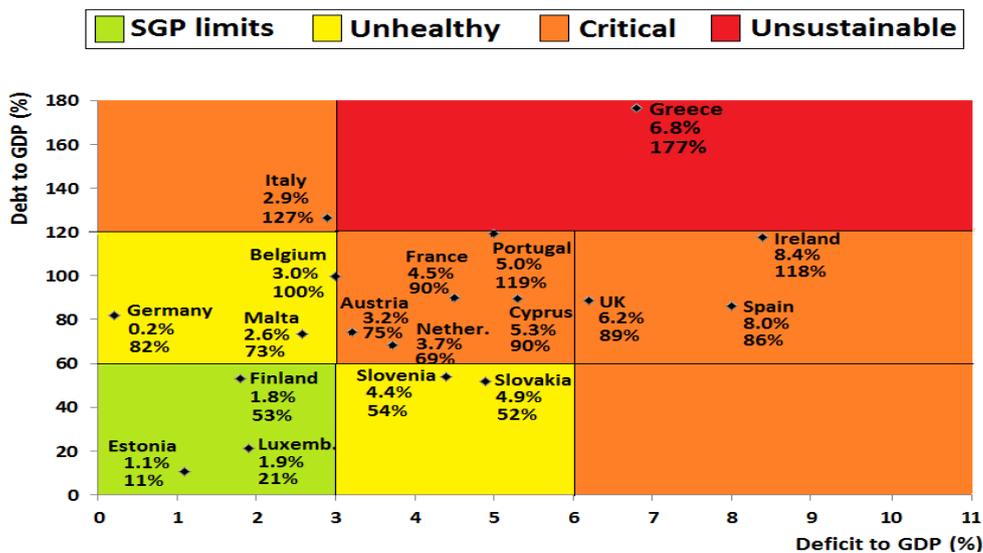


Figure 1. Budget deficit and public debt to GDP - 2012
Source: Eurostat (2012)

In essence, the European Sovereign debt crisis also called the euro zone crisis refers to the predicament that most countries in the euro zone had fallen into whereby it became impossible for them to re-finance or pay back their government debt. The causes of the crisis are different from one country to another for example in Greece, they had public sector wages and pension funds that were high and unsustainable causing levels of debt to rise. A lot has transpired over the years that kept on increasing the level of the debt crisis in the euro zone. Table 1 lists but a few examples of what has been taking place over the past years that contributed to the euro crisis as it stands today,

Table 1. History of the ECB, timeline

Year	Event
1999	The euro currency is made official
2001	The member states joined by Greece
2002	ECB introduces coins and notes
2008	200billion stimulus plan is approved as back up due to financial crisis to aid growth of European countries
2009	-Orders are issued to Greece, France, Spain that they have to reduce budget deficits -alarm bells start going off concerning some of the member state`s debts -Greece acknowledges their debt has accumulated to 300billion euro, double the euro zone limit
2010	-Greek accounting procedure is condemned for irregularities by the EU -Spain, Ireland, Portugal and Greece begin to raise concerns over their high debts -110billion euro given as a bailout package to Greece by euro zone members and IMF -Irish Republic also given bailout of 85 billion euro - speculation that Portugal will be next in line for a bailout
2011	-European Stability Mechanism worth 500billion Euros is set up as a bailout fund. -Portugal given 78billion euro in bailout fund -Greece given bailout of 109billion euro -European Commission President Jose Manuel Barroso states the debt crisis is affecting even countries outside the euro zone -ECB buys Spanish and Italian government bonds to bring down borrowing costs -talks of Greece failing to meet budget cut targets, speculation of a euro zone rescue plan emerges -Speculation of Greece leaving the euro zone -banks encouraged to raise capital to guard against any future government default losses -European union countries meet to try and forge an inter-government treaty that will have new budget rules to aid in crisis -plans for the treaty fail due to objections from Hungary and U.K
2012	-9 euro zone countries and the bailout fund is downgraded by the credit rating agency Standard & Poor -fiscal pact is signed by 25 EU countries which will make it harder for countries to break budget deficits -euro zone backs Greeks 130billion euro second bailout -Spain raises concern as their governments 10year borrowing costs rise to 6% -Spain announces it will be applying for 100billion euro bailout -Speculation France and Italy will soon also need a bailout -Finance ministers and IMF agree to bailout Greece with loan installments totaling 43.7 billion euro with the IMF insisting that Greece`s debt should be cut by 20%

Source: ECB (2012)

Greece presently has received another bailout however, the health of the euro zone is still at risk as it may be some time before the zone starts to recover, but this too is subject to whether defaulting countries that have received a bailout will perform better and pay off their loans as the fear gripping most countries in the EU is that Greece will once again not be able to pay and if the euro zone suffers any further it will affect the other countries as well. Most countries now doubt the leadership skills and expertise of the leaders of countries in the euro zone and those appointed to manage financial decisions, with the ECB coming under scrutiny as contagion is generally the fear for most of the other countries. All the fears and speculations are of a possible breakup of the euro zone as most countries would take this route should the need arise in order to save their nations from downfall. The ECB has come up with measures

that they hoped would alleviate the debt crisis such as the bond purchase program (ECB, 2012) that began in 2010 (Figure 2).

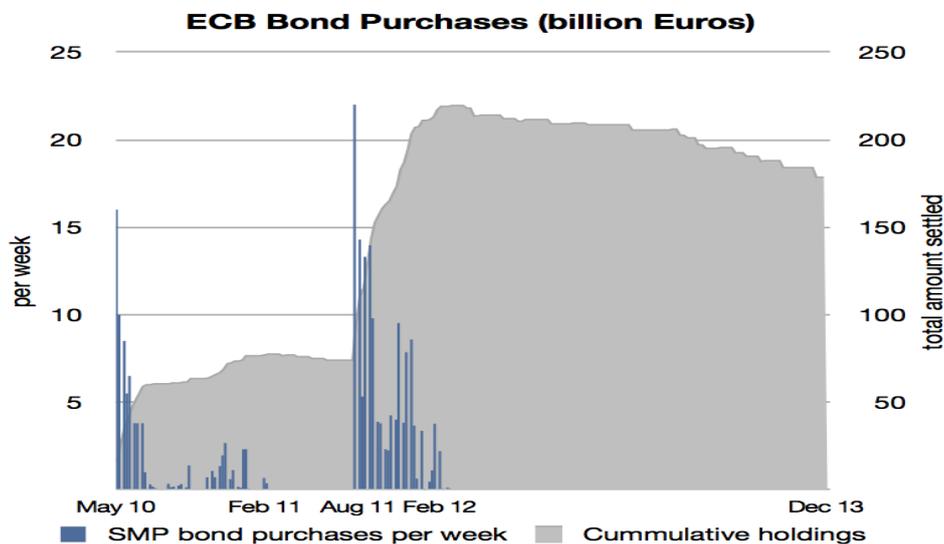


Figure 2. ECB bond purchases

Source: ECB (2012)

This securities market program was aimed at the reduction of volatile behavior of the financial markets while improving liquidity. To do this the ECB absorbed a liquidity amount of 219.5 billion euro to counter inflation from their actions of buying government and private debt securities of the same amount.

2.3. East African Community (EAC)

The year 1967 saw the formation of the EAC as the permanent tripartite commission for East African Co-operation. This union was short lived as it collapsed in 1977. Through mediation and various meetings the East African Community was once again considered in 1993, however full participation only began in 1996 when the Secretariat was launched in Tanzania (Deaton, 1999). The countries involved were Kenya, Uganda and Tanzania. A meeting to formally establish the EAC and to sign the treaty was held in Tanzania in 1999. Issues that came up at this EAC meeting was for the establishment of a treaty to ensure the understanding of foreign policy co-ordination (Morales, 2012) whereby there would be no tariff rates and to implement the 80% tariff reduction objective set out by the Common Market for Eastern and Southern Africa (COMESA), as well as to tackle how they can combine resources and fight terrorism in their region. At this meeting the admittance of Rwanda and Burundi into the EAC was postponed as it was argued by Tanzania that the joining criteria had not yet been established (Drummond and Ramirez, 2009).

The objective of the EAC strives to strengthen and improve relations between the three countries in a bid to create a single market which would involve few travel restrictions, improving communication among other things. Their goal is to have one currency, a common passport, a double taxation accord and a common flag (Africa-Union, 2012). They aim to achieve these goals through:

- promoting sustainable growth and development for the region
- establishing strong regional ties to promote development of the people
- enhancing private and civil society participation in the communities;
- encouraging women empowerment programs for the whole region
- promoting good governance
- promotion of peaceful activities throughout the region

Presently the EAC comprises of five countries, Burundi, Kenya, Rwanda, Tanzania and Uganda. The EAC is regarded as the starting point of what they hope to become the East African Federation whereby member states would be combined into one single state (African Union Commission, 2012). A common market for capital, labor and goods was launched by the EAC in 2010 with the hope of establishing the single currency by the end of 2012, plus having their political federation by 2015. Diversification exists among the EAC members in the form of incomes and social indicators. The population of the EAC ranging at about 133million people, with a nominal GDP of US\$79 billion (IMF, 2010). Of the EAC members, Kenya has the largest economy as their nominal GDP of US\$32.1 billion makes up 41% of the EAC's total GDP. Burundi is the poorest member of the EAC with a nominal per capita GDP of US\$180.

Table 2. EAC countries mineral resources

Uganda	copper, cobalt, hydropower, limestone, salt, arable land
Burundi	nickel, uranium, rare earth oxides, peat, cobalt, copper, platinum, vanadium, arable land, hydropower, niobium, tantalum, gold, tin, tungsten, kaolin, limestone
Kenya	limestone, soda ash, salt, gemstones, fluorspar, zinc, diatomite, gypsum, wildlife, hydropower
Rwanda	gold, cassiterite (tin ore), wolframite (tungsten ore), methane, hydropower, arable land
Tanzania	hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, nickel

Source: CIA World Factbook (2011)

The East African economies are rich in mineral resources as seen in Table 2, however the member states are plagued with large informal sectors which is bound in turn to affect the East African Community as a whole as the growth prospects of the economy are restricted by undeclared incomes from the informal sector (EAC, 2010). In a bid to increase growth in the community, an agreement for trade was signed between the U.S and the EAC in 2008, this U.S & EAC agreement has made it possible for fruitful trade deals to be established with trade deals amounting to \$1.4billion (EAC, 2010).

EAC Countries over the past years have developed strong macroeconomic management techniques. A reflection noted upon analysing the regions deficit indicators for the past ten years as can be seen from Table 3 below, the statistics revealing that the region has been doing well than expected considering the crisis.

**Table 3. East African community, deficit indicators, 2003-2011
(Percent of GDP)**

	2003	2005	2007	2009	2011
General government gross debt					
Burundi	171.96	137.0	132.0	35.3	35.3
Kenya	60.59	50.8	46	47.6	48.9
Rwanda	100.64	70.7	26.9	23.0	23.4
Tanzania	63.51	62.8	37.0	37.1	44.4
Uganda	99.57	75.3	23.3	22.2	29.2
Total external debt					
Burundi	170.32	131.2	111.3	20.7	21.2
Kenya	38.73	30.7	22.5	24.6	31.0
Rwanda	85.17	58.3	15.3	14.1	15.2
Tanzania	66.49	59.3	30.7	33.4	40.0
Uganda	63.75	47.9	12.3	20.1	25.0

Source: Gupta and McHugh (2012, p.63)

This is seen based on the fact that before 2008 when the crisis hit, the EAC Countries were doing well with their overall deficit ranging below 5% of GDP, meaning external debts were low as well. Higher public expenditure especially in the social sectors are a reflection of strong revenue performance. It is noted that the increased trade openness and their strong policy frameworks assisted in reducing the EAC's debt levels and somewhat buffering them from the global crisis (AfDB, 2010; Manasseh, 2012). The EAC Countries however appear to be chasing after a number of objectives all independent of each other. As a result the monetary policies for the EAC are inconsistent. As such inflation levels differ with the EAC countries and the inflation volatility ratings are not consistent for the whole region (Muwanga, 2012). The region seems to prefer to chase after low interest rates and high intermediation although they could have done more by consolidating macro stability (Gupta and McHugh, 2012; Morales, 2012)

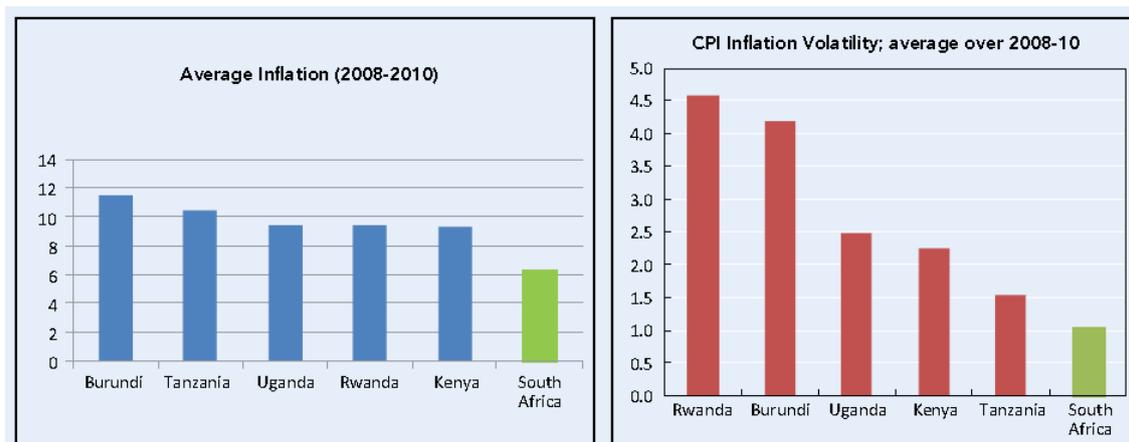


Figure 3. Inflation and inflation volatility in EAC countries

Source: Morales (2012, p.82)

East African countries alongside other African countries have been affected negatively by the constantly volatile inflation fluctuations as illustrated in Figure 3 above, thus their need to come up with monetary and fiscal policies to combat this is the best option for the region. The main objective during this current global crisis is to make their region investor attractive in order to draw in the investors that would also be running away from the uncertainty in the euro zone. The more investor's then inflation is likely to come down improving conditions economically in the EAC region. Unemployment is virtually too high in the region which is probably the cause of the booming informal sector or is the contributing factor for the number of people leaving the country to seek employment abroad.

2.4. Implications to EAC Countries

The fundamental flaws of the ECB that helped accelerate the crisis have caused a lot of pandemonium not just to Europe but to the world as a whole, as the whole world behaves as a global village as such there is a limited chance that the crisis was not going to spread worldwide. The EAC would like to believe that they are unfazed by the crisis due to the policies they implemented but not noticing that due to the fact that Europe is the second largest trade partner after the United States then there is no way spillovers of the crisis could not trickle down to East African Countries. The trends for foreign demand and export prices have been going down at a steady pace.

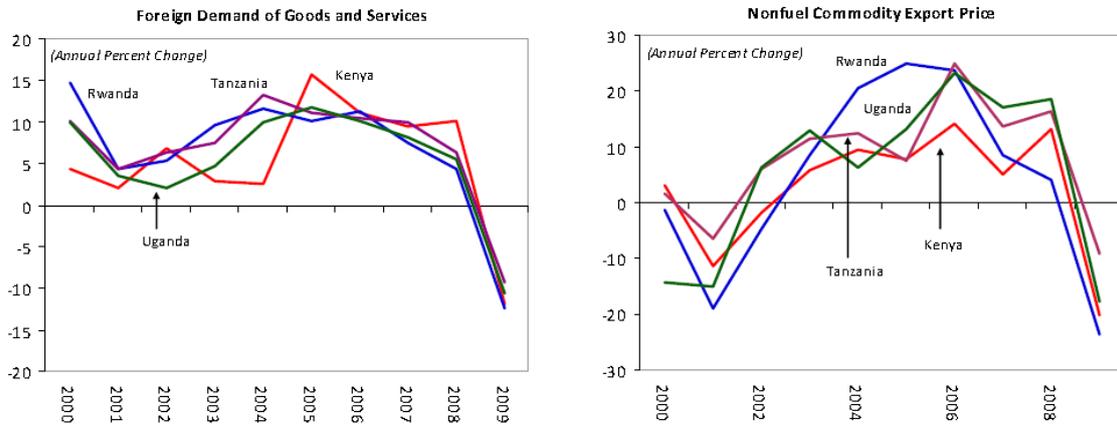


Figure 4. Foreign demand and export prices in the EAC
 Source: Morales (2012)

This is an expected occurrence due to the crisis based on the fact that East African countries all heavily depend on aid and humanitarian relief from Europe and due to this crisis and the stringent measures being taken by the European countries in order to try and stabilize the disharmony existing in their economy then they will cut down on government spending, reduce foreign direct investments as well as reduce volumes for trade as the people's spending levels will also be reduced in those countries as a result the amount of money whether in the form of aid or trade is bound to drastically reduce. Due to the crisis EAC have very little fiscal room to increase demand especially now as the EAC alongside all other African countries will be struggling to maintain or expand their economic growth and their trade. Figure 4 goes on to illustrate how the demand for African commodities is declining at a rapid pace so countries that depend on exports like oil for instance will suffer greatly for they are faced with increasing pressure to establish another source of revenue. Economically, this means the East African Community has to continue fighting high levels of inflation and the fact that the European economy is far from recovery means the EAC will need to find a way to bring down their rate of inflation as this will damage their already struggling region that may find itself in a position it cannot get out of if swift action is not taken to protect the region from spiraling into depths they cannot get out of. Statistics reveal that when the Euro was performing well then the EAC was also performing well and that is the time that the region managed to recover and establish fiscal policies that enabled their growth however, looking at the volatile aspect of the inflation predictions of the African region it reflects the inter-connectedness of the two regions EAC and Europe which the EAC would not like to acknowledge. The fact that their growth or downward trend is in tandem with what is happening in Europe indicates that the East African Federation that they seek to establish will not be as free from European influence as they would like to believe.

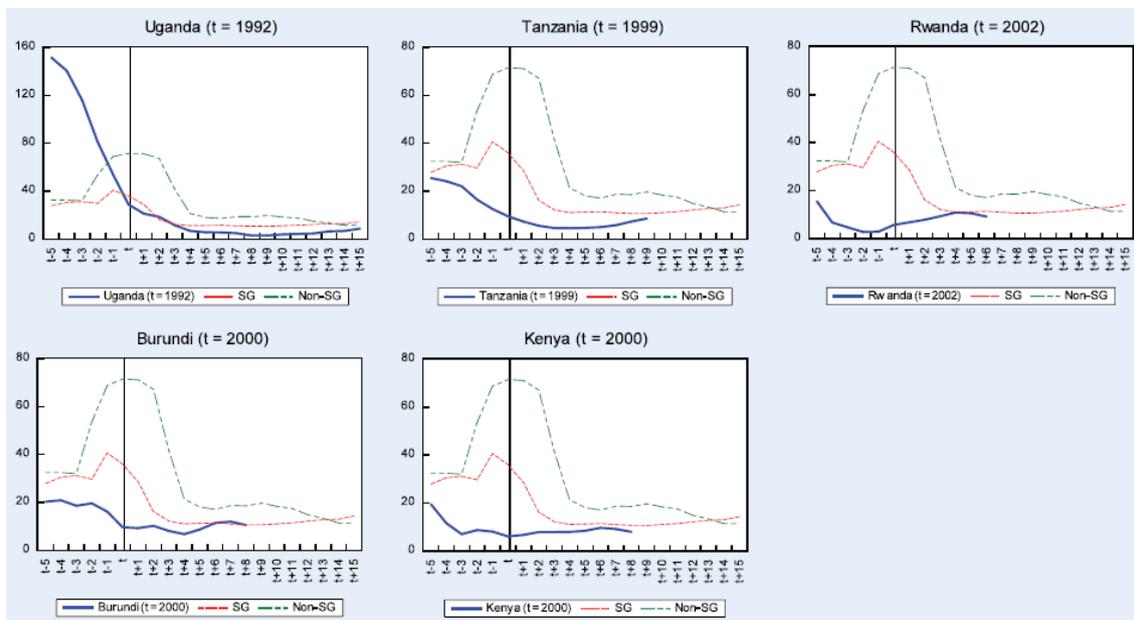


Figure 5. CPI inflation (Five-year moving average)
 Source: Gupta and McHugh (2012)

Furthermore, according to Figure 5 we see that the EAC acquired some Eurobonds when the euro zone was showing signs of growth and success, however with the crisis it is only normal that the EAC members along with the other affected countries in the world would try and get rid of large amounts of these bonds, however as it stands by virtue of being the bond holders these countries have put themselves at great risk and left themselves exposed to that which affects the euro. They may find themselves forced to hang on to the bonds as there will surely be a shortage of buyers at the present moment as there is no country or individual company that may want to purchase the bonds that the market at large has very little confidence in.

Most if not all countries in Africa are former colonies as a result very strong ties still exist, not just through trade alone but also in the migration of both skilled and unskilled labor to European countries. This benefited EAC countries in the form of revenue sent by the East Africans living and working abroad but not only that but the investments they were making back home assisted in the growth of the EAC countries, however this is surely going to reduce as the crisis has brought on astronomical unemployment levels not just in Europe but in all regions that are affected by spillovers. To top it off it will mean companies downsizing and some closing this will have a negative effect on immigrants as they are the first to be retrenched and demoted to make room for survival for the natural citizens of those countries. In this state of joblessness these East Africans will be forced to return home and the downward spiral will continue as unemployment and poverty levels will rise astronomically and will reduced aid coming in the crisis may just spiral out of control this is a reality Africa as a whole has to prepare for.

3. Suggestions

The East African Community has accomplished quite a lot from their treaty agreement which has enabled the growth of their region; their desire to form one federal state is a commendable one which if implemented correctly could possibly achieve quite a lot for the region. With the formation of the federal state the region hopes to implement a single currency, however the current crisis with the euro zone should not be taken lightly as their downfall or challenges can serve as a learning curve for the EAC. The euro zone established the single currency but neglected to put policies in place that would guard against such a crisis most importantly they did not have a fiscal policy that would align with the monetary policy that was laid out by the

European Central Bank. What the EAC can learn from this crisis is that having a single currency though noble an idea is not something that can be rushed into. The EAC members need to first sit down and come up with a monetary policy and fiscal policy that will apply to all their countries, furthermore, the countries cannot act independently of one another and set different agendas if they are to become a single state as this aspect of seeking different goals is what has affected the euro zone. For the EAC region to become one state it means they should consider pooling in all their resources and agreeing to develop their region as one state.

For the EAC region to have a single currency they should establish a central bank that sets out rules and regulations to other banks in the region, but the banks in different parts of the region should operate in line as though in one country applying to the same rules instead of having different rates and operational procedures as this creates differences in income levels, what is of utmost importance is that the richer parts of the region should strive to uplift the poorer parts of the region then when a level of stability is reached, the whole region then embarks on a growth strategy. With a united front which the euro zone lacks the EAC could become a very powerful region to contend with.

The EAC is plagued with high levels of participants in the informal sector, meaning there are more people in the shadow economy, therefore the EAC should strive to formalize this region or make the economy easier for new business entrants as this too uplifts the economy in the form of income generation and employment.

In order to reduce the levels of risk attached to the euro zone, the EAC needs to establish relations with other trade investors to take up the business that will be lost from Europe while they are on a recovery path, China or other African regions could prove worthwhile trade partners. The need to diversify risk is important now, should they wait to react to whatever effects of the euro crisis may come their way may not work well for them.

4. Conclusion

The European Central Bank was established on fundamental flaws that have affected the world today as can be seen in the crisis that presently exists. The flaw stemming from the ill preparedness for certain risks as such making it difficult for the relevant authorities in the ECB to come up with a solution in time, the fact that it was not taken into consideration that a single currency region operating with a single monetary policy should have anticipated the need for a similar policy for the fiscal policy. As it stands the euro crisis has affected a lot of countries with the East African Community also suffering from the spillover effects. Being of particular interest due to their desire to also establish a monetary union under their single federation, should The EAC succeed in coming together to form one single state? For them to succeed pitfalls noted from the euro zone should be noted as learning curves for them to establish their own currency. The chances of them succeeding are there should they consider unifying their operations and establishing policies that will be adopted by all the regions in the EAC and not forgetting that they should not be independent of one another, the richer region assisting the poorer and from there focusing on the growth of the nation as a whole.

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