

# Co-Integration in the Euro Zone Equity Markets: Effects of 2010 Sovereign Debt Crisis, Success or Failure?

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## Abstract

The elimination of local currencies by the creation of European Monetary Union manifested the fall of an important barrier against financial integration. Nonetheless, 2010 Eurozone sovereign-debt crisis, considered as a paradigm shifting event, led some to believe that it triggered a reversal of the integration process. Even though co-integration of equity markets among the Euro Zone countries have attracted the attention of numerous studies, the researches examining the same topic but relying on Shariah indices and specifically focusing on the effect of 2010 Eurozone sovereign debt crisis are not many. The study collects data for five stock markets' Shariah indices, namely Germany, Belgium, Denmark, France and Italy starting from 6th September 2010 to 7th June 2013. Employing time series econometrics (known as eight steps), the study derives results suggesting that there is a strong long-run (theoretical) relationship, i.e. cointegration, among Euro Zone stock markets even after the crisis, which is believed due partly to the fact that the indices chosen are Shariah-compliant that have unique common characteristics compared to their conventional peers. As policy implications of the empirical results, it is not possible to make permanently high profits from the portfolios that are diversified only within Euro Zone markets and approximately four-decade of effort exerted by the European political institutions to create one common market is yielding optimistic results.

## Keywords:

Stock Market Cointegration, Islamic Index, Euro Zone, Portfolio Diversification, Single Common Market.

## Highlights

- The elimination of multiple currencies for financial integration in European Union.
- Islamic indices based on Shari'ah screening methodology.
- 2010 Eurozone sovereign-debt crisis.
- Co-integration tests and Time series econometrics.
- Limited portfolio diversification opportunities.
- Optimism in creating a common market.