ABSTRACT

THE IMPACT OF EUROPEAN CENTRAL BANK ON ECONOMY OF EUROZONE.

MODERN THREATS AND CHALLENGES OF EURO IN WORLD ECONOMY.

Graduation Thesis

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Contents

ABSTRACT

Eurozone is one of the major economic powers in the world economy and European central bank has a big impact on eurozone's economy. There are a lot of problems in Eurozone and its effects can be seen in the downtrend of Euro in comparison with US dollar which started in 2008 and continuing. The reaction of European central bank to Economic events is so important for the eurozone economy. There are a lot of arguable decisions of European central bank which gave a birth to today’s problems. This research identifies the roots of these problems in Eurozone and the impact of European Central Bank in critical situations. Processes in Eurozone takes a special place in news, political and economic discussions almost every day. Specially Brexit period captured screens for a long time. Because what happens in Eurozone effects directly and indirectly to almost every part of world economy.

Introduction

The European Union is an assembly of nations with fabulous infrastructure, natural resources and human resources. It is also an area of regional and national variety, with 550 million people in 28-member states sharing 4.4 million square kilometres. Its economic strengths variety from complex manufacturing and technology to agriculture and world-renowned tourism. This variety in economic strengths is questionably Europe's supreme advantage yet is also its biggest challenge. Europe's administration of this variety, and the pressure between union, alliance, and variance, has driven the current financial crisis.

The ECB is an authorised EU institute at the heart of the Eurosystem as well as the Single Supervisory Mechanism for banking regulation. The Eurosystem is responsible for:

-defining and applying monetary policy

-directing foreign exchange operations

-holding and handling the euro area's foreign currency reserves

-indorsing the smooth process of payment systems

The ECB carries out specific responsibilities in the parts of banking supervision, banknotes, statistics, macroprudential policy and financial steadiness as well as international and European cooperation.

<u>Chapter 1. Foundation of European Union</u>

European Dream as a real objective in political sphere

The thought of uniting Europe was a dream in people's mind until it became a real objective in political sphere. Most philosophers and visionaries like Victor Hugo, for example, dreamed a peaceful 'United States of Europe' as a society with humanistic ideals. The imagination was devastated by the terrible wars that destroyed whole continent during the first part of the 20th century.

European continent was the theatre of conflicts during the first semi of this century, which caused millions of humans' dead and lots of ruin. There were bloody wars in Europe during the centuries, from 1870 to 1945 only France and Germany fought three times. Due to European leaders the only way is economic and political integration to secure the peace between European countries. New Europe vision would overwhelm antagonistic nationalism, finally arose from the resistance movements, which had fought totalitarianism during the World War II. Robert Schuman (French Foreign Minister) moved forward integrating the coal and steel industries of Western Europe in 1950, which resulted with establishing European Coal and Steel Community in 1951 – the ancestor of today's European Union

The European Coal and Steel Community (1952)

At first six founder members (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) created a common market in coal and steel between the themselves and European integration activities were limited with this common market. Community was a way of securing peace by bringing winners and beaten together within an institutional structure in that post-war period, which would make cooperating as equals possible for them. It consisted of four European institutions:

• High Authority, as executive body, regulate the member states and their companies, with nine members

• Council, a law-making body

• Parliamentary Assembly, discussing and controlling the High Authority’s activities and composed of representatives from the member states

• Court of Justice

European Economic Community, European Atomic Community (1957)

The founder members decided to form besides a European Atomic Community, for research in peaceful utilisations specially the use of nuclear energy and an economic community, built around the free movement of goods, services and workers in 1957. They abolished customs duties on manufactured goods and established common policies, especially in agricultural policy and foreign trade policy.

Fusion of the institutions (1967)

Although all three European treaties had a common Parliamentary Assembly and a common Court of Justice from the beginning, it was only in 1967 when a common Council and a common Commission (as executive, and as successor of the High Authority) have been established.

Main Treaties

First enlargement (1973)

Ireland, United Kingdom and Denmark applied for membership to the European Community (at this time it was called like this) after the success of the six founder members. In 1972, they were finally admitted in 1972 following problematic discussions during which France used its veto once in 1961 and again in 1967, under President de Gaulle. The number of Member States increased from six to nine in 1973 with this first enlargement which was linked to a deepening of the Community's tasks; it was given responsibility for environmental, social and regional matters.

European Monetary System (1979)

In the early 1970s when the United States discontinued dollar convertibility the need for economic union and monetary convergence became apparent. This marked the beginning of a period of global monetary instability, strained by the two oil crises in1973 and 1979. Exchange rates stabilised The creation of a European Monetary System in 1979. It enabled Member States to give each other mutual support, encouraged them to pursue strict economic policies and benefit from the discipline forced by an open economic area.

Second (1981) and third enlargement (1986)

Greece, Spain and Portugal accessed in 1981 and 1986 respectively and after these countries got rid of their dictatorships and transformed into a democratic system, the south borders of Community expanded. The European Community began to play a more significant role globally in the 1970s and 1980s, signing new contracts with the nations in the Southern Mediterranean as well as in Africa, the Caribbean and the Pacific, which named after the capital of Togo in Africa and were connected by four successive Lomé Conventions (1975, 1979, 1984 and 1989) to the Community. World trade embarked on a new phase of its development with the treaty which signed in Marrakech in April 1994 between all the members of GATT and gave a birth to the foundation of the WTO. The European Union became aware that as the world's biggest trading partner working in a higher profile on the global stage should induce the aim of finding a common foreign and security policy in the international stage as one European voice and face.

Single Act from 1986

In the early 1980s global depression and internal disagreeing on the distribution of the financial burden gave a birth to a period of "Europessimism". This gave way, from 1985 forwards, to a more optimistic view of the predictions for revitalising the Community: Based on a White Book drawn up in 1985 by the Commission managed by Jacques Delors, the Community set itself the mission of forming a single market by 1 January 1993. The Single Act, contracted in February 1986 and in force since July 1987, accepted this aspiring target and announced new actions for adopting linked legislation, namely the abolition of the veto of member states in inner market policy questions and the introduction of a so-called “qualified majority” (with votes related, but not in a linear way, to the population of the member states). It applied on 1 July 1987.

Maastricht Treaty (1991)

The Berlin Wall ruined and Germany united on 3 October 1990, the political structure of Europe transformed after deliverance from Soviet control, disintegration of the Soviet Union and following democratisation of the countries of Central and Eastern Europe in December 1991. The Member States determined to strengthen their connections and in December 1991 they negotiated a new Treaty, the main features of which were approved at the Maastricht European Council.

The Treaty came into force in November 1993 with following programme:

• new common policies,

• monetary union by 1999,

• a common foreign and security policy

• European citizenship,

• internal security.

Fourth enlargement (1995)

European Union welcomed three further countries on 1 January 1995. Austria, Finland and Sweden added new soul the Union with their specific characters, further dimensions were opened up at the heart of central and northern Europe.

The Union of Fifteen now faced two major challenges:

• achievement in enlargement to include Cyprus, Malta and ten countries of central and eastern Europe.

• Economies of the Member States should be provided with better convergence and the conditions for permanent job creating growth in the result of use of the dynamics of monetary union which, based on the creation of the Euro on 2 May 1998.

Amsterdam Treaty (1997)

The Member States signed a further treaty (which modified and strengthened the Union's policies and powers, particularly in foreign policy, the free movement of persons, judicial cooperation and public health) in Amsterdam in October 1997 (in force since May 1999) after applying a review clause in the Maastricht Treaty. The Union's immediate democratic voice - The European Parliament was granted additional powers, confirming its role as joint legislator.

Nice Treaty (2000)

This treaty signed in February 2001 and came into force in February 2003. Its main success is the institutional adaptation to the next, upcoming enlargement of 10 new member states. Unanimous adoption of the European Charter on Fundamental Rights, more than 50 articles containing treasury of personal liberty, social and economic rights in the overall tradition of European law were the main of the results of the Nice Summit Meeting.

Fifth enlargement (2004)

Since 1st May 2004, the EU includes 25 Member States. The new ones are the Czech Republic, the three Baltic republics: Estonia, Latvia and Lithuania, then Poland and Slovenia, Slovakia, Hungary as part of former Yugoslavia as well as Malta and Cyprus. There must be undertaken some transitional work for the Turkish part of Northern Cyprus, North has approved a United Nation proposal of reunification of the island, but Greek Southern part has rejected the plan.

EU Constitution, Monetary Union and Single Market

EU Constitution (adopted on 18th June 2004)

After an elaboration phase in Convention, with EU Commission and Member States' governments participation, European and Member States' Parliament members, under the chairmanship of the former French President Valéry Giscard d'Estaing, in 2002 and 2003, the governments of the EU were not immediately unanimously in favour of a draft which should provide for a longer time for a legal framework Constitution for the EU. They discussed everything during a session of the European Council in Dublin/Ireland from December 2003 to June 2004, Heads of State and Governments accepted the EU Constitution.

EU administration and policies mean respect for the diversity of national traditions and the forging of a separate identity, a constant balancing of national and common interests. They have been positively established by the fact that :

• there is a single market with free movement for capital, services, goods and persons – with more persons than the Russia and United States together

• there is a common area without border controls (with some exceptions) and visa within the EU

• there is Euro - EU common currency (with some exceptions)

If one analyses the history of the EU,

• some giant mega plans can be seen, like Single Market, Monetary Union, etc.,

• and within these mega projects an acceleration within the previous years – after several years where no decision could be undertaken, for instance in the 1970s (except the summary of direct popular election of the European Parliament).

Some of these mega project cycles can be defined – for the past, present and future:

1985-1993 EU Single Market

Single market plan on-going for the EU already some years earlier than 1985 (the dates stated characterise only a rough frame). There were some matters in the Single Market, which had to be brought up-to-date or made faultless even if the Single Market has been over in 1.1.1993.

1985-2002 European Monetary Union

For many experts The European Monetary Union has started already in the middle of the 80s when a group of European Parliament members (across all political groups) founded a working group on European currency questions (even temporarily before, as concerns the plan of the former Luxemburg Prime Minister Pierre Werner from the early 70s). Later followed the elaboration of a concept (which ended with the Maastricht Treaty) under the presidency of the President of the EU Commission, Jacques Delors (former French Minister for Finance and Economy). There is a particular timing for the introduction of the Euro in the Maastricht Treaty. European Monetary Institute (which is predecessor of the European Central Bank and opened in 1999) had been founded in Frankfurt/Main, the crucial steps came for citizens and companies after 1994.

1989-2015 Company Cooperation

There was a not very noticeable start date of an unorganised wave of company cooperation after the Single Market, from 1994. Every small and medium sized enterprise, about 15 million in the EU understand that cooperation is a main factor. This is specially important for both research-intensive companies and research institutions like universities. Any quantification is impossible because there is no administrative regulation for company cooperation and every company does what it considers as essential

Chapter 2. European Central Bank and Eurozone

History and Structure of ECB

Europe has had a new currency, the euro since 1 January 1999. On that date the euro replaced 11 countries' national currencies: France, Ireland, Italy, Belgium, Germany, Spain, Luxembourg, the Netherlands, Austria, Portugal and Finland. Then it replaced the national currency of Greece on 1 January 2001. These 12 countries are known together as the euro area. Three of the European Union (EU) Member States: Denmark, Sweden and the United Kingdom have not yet adopted the euro.

Tremendous benefits for both businesses and consumers provided by the introduction of a single currency for more than 300 million European citizens. It makes easier the trading of services and goods between the participating countries, thus gives strength to the Single Market in the European Union. The risk of fluctuating exchange rates is restricted to trade with countries outside the euro area for importing and exporting companies.

Travellers also profit from introduction of the euro banknotes and coins in January 2002, people do not need to exchange money or pay exchange fees when travelling in euro area countries. In addition, prices across the euro area directly comparable in the result of the use of the same currency in 12 countries. Cross border competition and greater prosperity throughout the euro area should be increased at the result of all these new developments.

In the euro area the euro is intended to be at least as steady as any of the former state currencies. It is the duty of the European Central Bank (ECB) to maintain price stability in the euro area as a whole. The national central banks of the euro area countries and the ECB are working together to achieve this, to put into action a stability-oriented single monetary policy. Of course, preserving price constancy by spending policies and pursuing sound tax are main roles of governments, as do wage representatives by observing prudence.

There are several economic criteria like sound public finances, low interest rates, low inflation and stable exchange rates which countries must meet if they want to adopt single currency. The political independence of their national central banks must also ensure. The criteria which known as the Maastricht criteria laid a solid basis for the new currency before it was started.

The guardian of price constancy in the euro area is The European Central Bank (which is one of the youngest central banks in the world - established on 1 June 1998). However, European Central Bank has inherited the credibility and applied the stability-oriented monetary policy for the euro area after expertise all of the euro area national central banks.

Treaty which establishing the European Community is the legal base for the ECB and the European System of Central Banks (ESCB). The ESCB is composed of the ECB and the 15 EU Member States's national central banks According to this Treaty. The Statute of the European Central Bank and of the European System of Central Banks is involved to the Treaty as a protocol.

ECB headquarters is in Frankfurt am Main, Germany and There are around 1,100 (August 2002) staff members. They Employed from all 15 EU countries and work in close collaboration with the staff of the national central banks to formulate and implement ECB's decision-making bodies' decisions.

The Governing Council is the highest decision-making body of the ECB. It consists of the 12 governors of the national central banks of the euro area and the six members of the Executive Board. Both of them (Governing Council and the Executive Board) are managed by the President of the ECB.

Formulating the monetary policy for the euro area is the key task of the Governing Council. Specifically, it has the authority to regulate the interest rates at which commercial banks may get liquidity (money) from their central bank. Thus the interest rates may influenced by the Governing Council indirectly throughout the euro area economy, including the rates those that savers earn on their deposits and commercial banks charge their customers for loans.

The President, the Vice-President and four other members consists the Executive Board of the ECB. All are selected by common consensus of the Heads of State or Government of the states which form the euro area.

The Executive Board is in authority of implementing the monetary policy as created by the Governing Council and gives the essential orders to the national central banks for this purpose. Day-to-day business of the ECB and the meetings of the Governing Council also managing by The Executive Board.

The General Council is the third decision-making body of the ECB. It contains the President and the Vice-President of the ECB and the 15 national central banks' governors of the EU Member States. The advisory and co-ordinating functions of the

ECB and preparations of the possible enlargement of the euro area is contributing by The General Council.

The ECB and the 12 national central banks in the euro area together form the Euro system. Governing Council chose this term to describe the arrangement by which the European System of Central Banks (ESCB) carries out its responsibilities within the euro area.

This distinction between the Euro system and the ESCB will need to be made as long as there are EU Member States which have not yet implemented the euro.

The three Member States' national central banks which have yet to implement the euro (Sweden, Denmark and the United Kingdom) do not take part in decision-making regarding the euro area's single monetary policy. These Member States keep their own national currencies and conduct their own monetary policies.

After providing that it fulfils the convergence criteria an EU country that wishes, can adopt to the euro at a later stage. Before a country can join the euro area, the ECB is obligatory to give its opinion on the level of convergence.

Monetary policy operations can be performed by a smoothly functioning banking system which the Eurosystem depends on. About 8,000 credit institutions (commercial banks, savings banks and other financial institutions) in the 12 participating countries can act as a network for monetary policy transactions aimed at either increasing or decreasing the supply of liquidity to the euro area.

The Euro system has a vital interest in the steadiness and efficiency of the banking industry. Monitoring developments in the banking sector closely is therefore natural for the Eurosystem, as foreseen by the Treaty founding the European Community, even though national authorities hold responsibility for banking supervision in their hands.

The rudimentary responsibilities of the Eurosystem are:

• to determine and implement the monetary policy for the euro area;

• to conduct foreign exchange processes and to hold and manage the official external reserves of the euro area countries;

• to issue banknotes in the euro area; and

• to indorse the smooth process of payment systems.

Further tasks are:

• to gather the essential statistical information either from national authorities or directly from economic agents, e.g. financial institutions;

• to review developments in the banking and financial sector; and

• to indorse a smooth exchange of information between the ESCB and supervisory authorities.

STABILITY

Protecting the purchasing power of the euro through maintaining price stability is primary objective of the Eurosystem. The most significant contribution that monetary policy can make to accomplishing a favourable economic environment and a high level of employment is ensuring stable prices. Both deflation and inflation can be very costly to society socially and economically.

As stipulated by the Treaty establishing the European Community, without prejudicing its main objective of price stability, the Eurosystem also acts in accordance with the principles of an open market economy and supports the general economic policies in the European Community.

The ECB has publicised an exact definition of its primary goal, in order to make it easier for the public to measure the success of the single monetary policy. They defined price stability as a year-on-year increase in consumer prices of below 2%.

It is well known that, price changes cannot be fully regulated by monetary policy in the short term, since it takes time for monetary policy action to feed through to variations in the price level. Prices are affected by a variety of other factors, such as changes in the prices of raw materials or variations in indirect taxation in the short term. Therefore, the purpose is to preserve a steady price level over the medium term. Other very short-term effects like seasonal fluctuations should not be seen as alerting a deviation from the objective of price stability.

INDEPENDENCE

The ECB's position

Independence is vital to any central bank for operational success. The Eurosystem enjoys full independence in performing its tasks in line with the provisions of the Treaty establishing the European Community: neither the national central banks in the Eurosystem, nor the ECB, nor any member of their decision-making bodies shall search for or take instructions from any other body. The governments and the Community institutions and bodies of the Member States are bound to respect this principle and must not try to affect the ECB's decision-making bodies or the members of the national central banks.

All the competencies and instruments essential to conduct an efficient monetary policy owned by Eurosystem. The Eurosystem may not grant any loans to national government entities or Community bodies. This protect it further from political intervention.

The ECB has its own independent budget from European Community. This allows the administration of the ECB to act freely from the financial interests of the Community.

The capital of the ECB has been contributed and paid up by the national central banks, does not come from the European Community. Amount of each national central bank's subscription is determining the share of each Member State in the gross domestic product and in the population of the European Union.

The members of the ECB's decision-making bodies can be fired only for serious misconduct or powerlessness to perform their duties, they have long terms of office.

CREDIBILITY AND ACCOUNTABILITY

An independent central bank must be open and clear about the explanations for its activities to maintain its credibility. Central bank must also be accountable to democratic organisations. The Treaty establishing the European Community imposes exact reporting responsibilities on the ECB without encroaching on the ECB’s independence

A consolidated weekly financial statement of the Eurosystem is being published by the ECB. The financial and monetary transactions of the Eurosystem during the preceding week is being reflected by this. At least once every quarter the ECB must print reports on the actions of the ESCB. Annual Report must be drawn up by ECB on these activities and on the monetary policy of the previous and current year and present it to the EU Council, the European Parliament, the European Commission and the European Council. The publications of the ECB are accessible on request and may also be seen on the ECB’s website. The website suggests the full range of ECB publications, and links to the 15 EU national central banks’ websites.

STRATEGY AND INSTRUMENTS

The ECB pursues its primary objective of maintaining price stability with the specific way which is laid down in what is called the monetary policy strategy.

Monetary policy strategy has chosen by The Governing Council which ensures as much continuity as possible with the plans pursued by the national central banks former to Monetary Union. At the same time, a completely new situation appeared after the introduction of the euro.

The strategy rests on two pillars. The first pillar:

A prominent role for money. Statement of a reference value for the growth of the money supply in a broad sense signalled this, inflation being seen as ultimately the result of too much money chasing a limited amount of services and goods.

The second pillar

A broadly based calculation of the outlook for future price developments and the risks to price steadiness in the euro area. A wide range of economic indicators, which provide information on future price developments, used in making this assessment. Some of such indicators are the exchange rate, wages, various measures of economic activity, long-term interest rates, price and cost indices, fiscal policy indicators, and business and consumer surveys.

All in all, the combination of the two pillars of the ECB's strategy guarantees that economic, monetary and financial developments are closely analysed and monitored. This comprehensive analysis allows the ECB to set its interest rates at a level that best serves the preservation of price stability. The ECB's monetary policy also supports the external value of the euro, as measured by its rate of exchange compared to other currencies by maintenance the euro's purchasing power in this way. However, the exchange rate itself is not a policy objective.

The Eurosystem has a set of monetary policy instruments, in order to reach its primary objective of preserving price stability. Influencing market interest rates, managing the liquidity situation in the banking system and signal the general direction of monetary policy are the purposes of these. Governing Council of the ECB is formulator of Monetary policy. With most of the operations being carried out by the national central banks, Its implementation is largely decentralised.

Chapter 3. Eurozone Crisis and European Central Bank

CRISIS IN GENERAL

The effects and threats of the crisis are great. Five of the member states face strong sovereign debt and have been ensconced in cycles of bailouts and austerity since 2009. This has led to powerful disharmony in the region, causing some to question the sustainability of the EU and to suggest the separation of individual member states from the Union. Particularly in hard-hit countries such as Spain wrong investments and real estate and banking bubbles have cost some citizens their life savings. Unemployment figures were at 5% in Germany at the lower end. But in Greece and Spain, however, the figures touched 27% For youth, the situation is even more terrible, with Europeans aged 15-24 were unemployed at a rate of over 22%. Although all of Europe is well aware that there is a problem, there is disagreement as to the reasons and solutions. There has been argument of the possibility of member states going bankrupt, and leaving either the Union or the Eurozone. We have attempted to understand key dynamics and problems within a broader context, in order to look for new perceptions into the crisis. European unity has included monetary, political and economic variations for the region. The construction and dynamics of the European Union reflects Europe's powerful national identities. Politically, the most authorized entity in the EU government - the European Council, represents the member states and expressively influences the agendas of the Parliament and European Commission. Meanwhile, the burden of economic alteration has fallen typically on the Southern nations. In the past decade, the free market has opened up groundbreaking economic chances. At the same time, 17 formerly autonomous nations has been shifted into a united monetary policy under the European Central Bank (ECB) by the common currency. This monetary policy, whose Keynesian give attention on low inflation most closely bring into line with the historical monetary policies of the German Bundesbank, has created fiscal subjects for southern nations who historically have used inflation as a way to growth the competitiveness of exports and to finance public expenses. Southern nations have fight with the loss of manufacturing jobs to Asia for decades with the loss of monetary autonomy, as well as with increasing force to offer the same social defences and benefits as wealthier Northern nations. Without adequate gains in economic competitiveness the burden of this monetary policy has left Southern nations to rely on tourism, other service industries, and bailouts to finance national debt. Vulnerability has also been increased by national to outside speculative investment. Therefore, the common European monetary policy that has associated with growth in the northern countries—while removing the historical release regulator in the southern nations used for huge debt bubbles which were sponsored by the north—created a new cycle of indebtedness in the south. (Figure 1 illustrates relative sovereign debt in Europe compared to GDP in 2012). European market for southern goods has been further distressed by slow overall growth and market panic—leading consumers to purchase lower-quality, low-priced imports over European products, and depressing tourism— further driving down southern incomes even as severity measures are imposed by the north. The north hold accountable the south for overspending, and the south balks at never-ending debt and crippling austerity measures. Financial distress has taken its toll on EU citizens through determined and enormous unemployment, and feelings of weakness and discord.

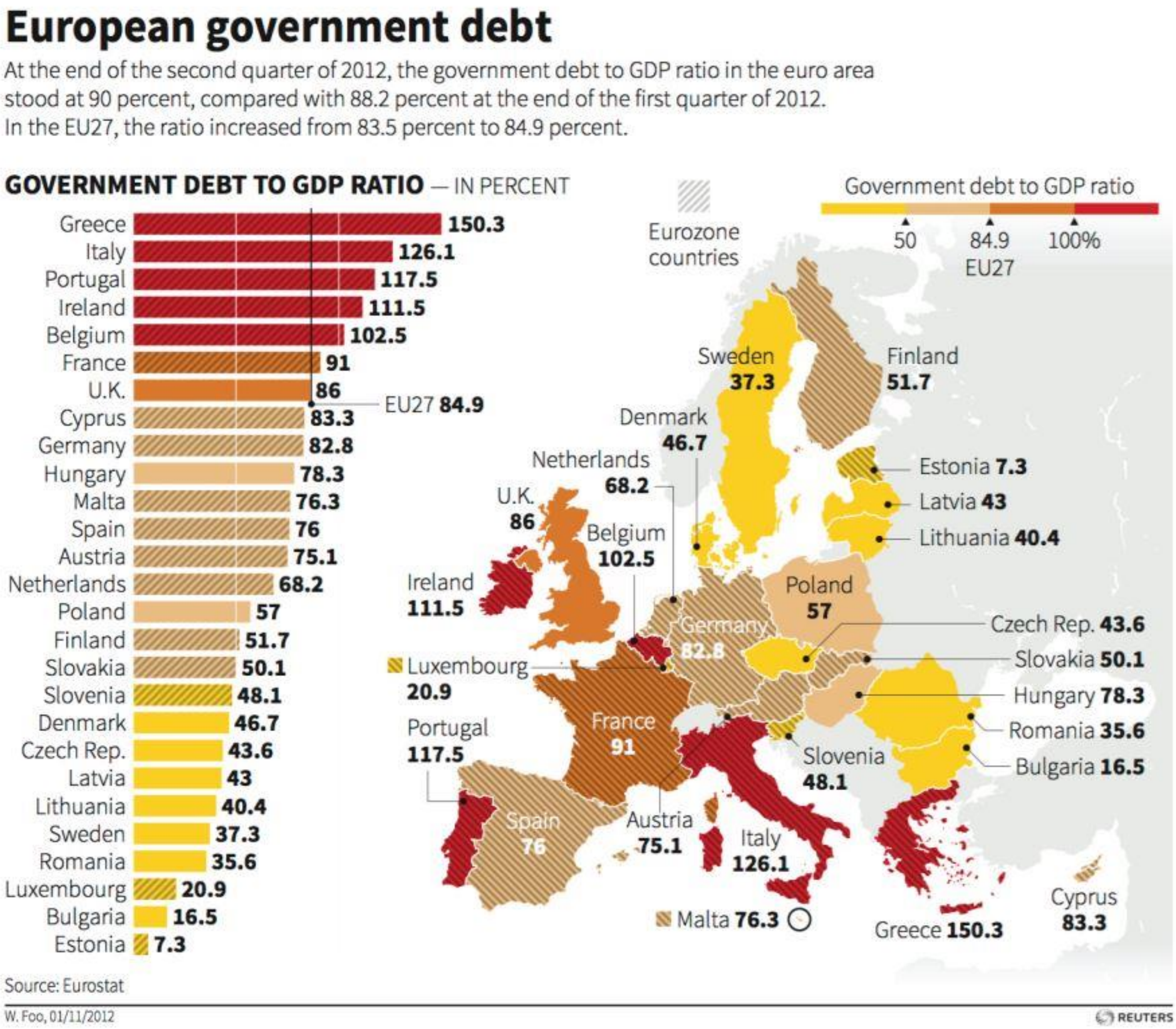


Figure 1: European sovereign debt vs. GDP (Source: Thomson Reuters)

Quantitative View of Crisis

Most analysts trace the start of the European sovereign debt crisis to 5 November 2009, when Greece exposed that its budget deficit was 12.7% of GDP (IMF's projected figures, 2012), more than double what the nation had formerly revealed. However, the real roots of the crisis can be drew to the very constructions that administrate Europe's organisations and to the group of actors that administrate European institutes.

The formation of the European Union as we recognise it today began with approval of the Maastricht Treaty on 7 February 1992. The Maastricht Treaty supplies imposed severe economic necessities, recognised as "convergence criteria," that member countries are required to meet before they could gain entry to the common currency zone that has come to be branded as the eurozone.

Among these convergence criteria are:

Price developments: These necessities are intended to guarantee that member states have low and steady inflation. Inflation in the year previous potential admission to the eurozone can only be 1.5% more than the average of the three best-performing member states (The Maastricht Treaty, 1992, February 7). In repetition, the amount of inflation used to regulate if this criterion is encountered is the previous 12-month usual of the Harmonized Index of Consumer Prices — the EU-wide inflation index.

Fiscal developments: These necessities are intended to guarantee a potential member state has a strong fiscal disorder. Between the necessities are budget deficits that cannot exceed 3% of GDP unless a state discover itself in excellent and provisional conditions. Total sovereign debt amounts cannot exceed 60% of GDP (The Maastricht Treaty, 1992, February 7). Both of these standards are surrendered if there is indication of considerable and incessant declines.

Exchange-rate developments: These necessities are intended to guarantee constancy of a member state's currency exchange rate beforehand gaining admission.

Specifically, a potential member cannot have diminished its currency comparative to any other member state's currency for the previous two years. Additionally, the currency must skill in a narrow band of ±2.25% around other member states' currencies (The Maastricht Treaty, 1992, February 7).

The Maastricht Treaty was unsuccessful, but, to deliver implementation devices should a member state fail to meet the convergence principles. As an alternative of implementation devices, the only delivery is for the European Commission to formulate a account for the view of the Financial and Economic Committee, a form set up under the terms of the Treaty.

Admission to the eurozone assured big economic plunders as nations whose sovereign credit ratings were lesser than those of the strongest member states would be able to borrow money as if they too had the greater rating. In addition, the common currency held the potential of stopping trading partners from diminishing their currency, forcing all eurozone members to compete on a level playing field. And with a European economy that contained a common currency, but that excepted central fiscal policy, it obligatory individual states to proactively manage their trade balance, in case such inequities result in extra debt.

Thus, the connection of marvellous economic rewards for admission to the eurozone with no implementation mechanism for states failing to meet the convergence standards shaped an incentive-rich environment for states to overload themselves with debt without much fear of retaliation.

In fact, as was later exposed, Greece was able to falsehood its way into the eurozone. Eurostat reported that Greece's 2003 budget deficit had actually been 4.6% of GDP, rather than the previously reported 1.7% of GDP. Additionally, the three Greek budget deficits of 2000–2002 were all revised upward by more than 2%. Meanwhile, total government debt figures were revised upward by more than 7% (Eurostat, Revision of the Greek Government Deficit and Debt Figures, 2004, 22 November). As the authors of the report stated bluntly: "Data revisions of such a scale have given rise to questions about the reliability of the Greek statistics on public finances" (Eurostat, Revision of the Greek Government Deficit and Debt Figures, 2004, 22 November).

Though it would be easy to wholly blame Greece for the European sovereign debt crisis of 2009–2012, Greece's debt glitches are best observed as a spark on a stack of kindling. The International Monetary Fund approximations that, from 2006 to projected year-end 2012, total debt in the eurozone will have increased from €5,870 billion to €8,714 billion, an increase of €2,844 billion (International Monetary Fund, 2006). By comparison, GDP has grown from €8,568 billion in 2006 to an estimated €9,687 billion in 2012, an increase of €1,119 billion (International Monetary Fund, 2006).

In other words, it is predictable that total debt heights in the eurozone will have full-grown 2.5 times faster than GDP.

Using the IMF's expected statistics for 2012 debt and GDP, here are the compound annual growth rates for debt and GDP for each member of the eurozone (International Monetary Fund, 2006):

	Debt to GDP	Rank
Austria	73.9%	8
Belgium	94.3%	5
Cyprus	66.4%	11
Estonia	5.6%	17
Finland	50.3%	13
France	89.4%	6
Germany	81.9%	7
Greece	189.1%	1
Ireland	115.4%	3
Italy	121.4%	2
Luxembourg	21.5%	16
Malta	66.1%	12
Netherlands	66.5%	10
Portugal	111.8%	4
Slovak Republic	46.9%	15
Slovenia	47.2%	14
Spain	70.2%	9

Figure 2. Projected Debt to GDP Growth Rates 2006-2012

(Source: International Monetary Fund, 2006)

As you can see each member of the eurozone's debt is increasing quicker than its GDP — an unmaintainable place in the long term.

Below are the IMF's forecasts of debt-to-GDP ratios for 2012:

	Debt CAGR 2006-2012	GDP CAGR 2006-2012	Debt/GDP CAGR 2006-2012
Austria	5.2%	2.8%	1.85
Belgium	3.9%	2.9%	1.35
Cyprus	4.2%	3.8%	1.11
Estonia	7.0%	3.4%	2.06
Finland	6.4%	2.9%	2.24
France	6.9%	1.9%	3.71
Germany	4.6%	1.8%	2.51
Greece	9.0%	0.4%	23.36
Ireland	22.8%	–1.4%	(15.86)
Italy	3.1%	1.3%	2.51
Luxembourg	23.7%	4.7%	5.04
Malta	5.0%	4.6%	1.10
Netherlands	7.2%	2.1%	3.44
Portugal	9.3%	0.9%	10.48
Slovak Republic	10.4%	3.8%	2.72
Slovenia	11.9%	3.1%	3.78
Spain	10.5%	1.8%	5.80

Figure 3. Debt-to-GDP Ratios for 2012 (Source: International Monetary Fund, 2006)

Nearly all eurozone members — 13 of 17 countries — have debt levels exceeding the convergence criteria maximum of 60%. Among this group are the large economies — Germany (81.9%), France (89.4%), Italy (121.4%), and Spain (70.2%). The projected 2012 debt of these four nations alone totals €6,732 billion, versus projected 2012 GDP of €7,410 — a debt-to-GDP ratio of 90.9%, a full 51.4% higher than the 60% maximum required by the convergence criteria (CFA, 2006).

Thus the European sovereign debt crisis is actually a European crisis, and not just a crisis for the Greeks to resolution. Furthermore, a litany of unsettled subjects is residual for European leadership to address before the crisis ends. One example being the large number of loans issued pre-The Great Recession denominated in Euro, US dollars and Swiss francs to EU members' citizens where the euro is not their home currency. Another factor driving the European sovereign debt crisis is the health of the balance sheets of Europe's banks, which hold hundreds of billions of euros of eurozone sovereign debt. According to a 23 July 2010 stress test, directed by the Organization for Economic Co-operation and Development (OECD), Europe's major financial institutions have €286.2 billion in trading book exposures and €1,400.5 billion of banking book exposures. Combined, this amounts to €1,686.7 billion of exposure. Put another way, total eurozone sovereign debt in 2010 was reported to be €7,862, meaning that eurozone banks hold 21.5% of the debt of eurozone member states (European Banking Authority, 2010).

On 27 October 2011, eurozone members approved a new bailout mechanism. One pillar of the plan was to increase tier 1 capital ratios (CT1) from 5% to 9% at an estimated cost of €106 billion to the largest banks in Europe. From these figures, one can deduce that CT1 levels are currently €132.5 billion. If increased from 5% to 9% then CT1 levels will be €238.5 billion. By comparison, the largest European banking institutions held €1,686.7 billion of eurozone sovereign debt in 2010. This means that CT1 is large enough only to absorb a decline in European sovereign debt of 14.1%

(or €238.5 ÷ €1,686.7), an amount well below the declines experienced in other major financial crises (European Banking Authority, 2010).

Finally, according the European Banking Authority (EBA), Europe's 16 largest financial institutions hold €386 billion of potentially suspect credit market and real estate assets. This compares to an estimated €339 billion of total debt holdings from Portugal, Ireland, Italy, Greece, and Spain by these same institutions. Again, this €386 billion of holdings by these 16 banks compares to the current CT1 of Europe's largest 90 banks of just €132.5 billion (European Banking Authority, 2010).

A Broader View of the Crisis

The Eurozone crisis is about the economy if you only give attention to the media. The crisis is about over-leveraged countries and individuals accumulating extreme debt based on the boundaries of the current conversation. Southern Europe had an easy access to credit at the lowest interest rates in history when they joined the eurosystem. Companies and individuals built up debt massively in Spain and Italy in this story, who borrowed more than they could manage to pay for and used the money to buy houses and automobiles, as well as to pay for vacations. Debt had become so widespread that by 2011, total debt as a percentage of annual economic output had risen above 300% for France, Italy, and Spain and above 250% for Greece (Global Finance, 2013). Even in fiscally conservative Germany, total debt as a percentage of annual economic output was approximately 240% (Global Finance, 2013). However, the European economic crisis is about much more than liquidity, fiscal policy, interest rates, bailouts and taxation, upon closer analysis. A human element to the crisis is potentially more significant than the financial elements, but it is often disregarded. On the people of the European Union, the effect of the financial crisis can be seen everywhere. The statistics are alarming: present levels of unemployment are not only make disable the economy, but also break the hope, spirit and optimism of European residents. A March 2013 poll by Pew Charitable Trusts found only 41% support for the European Union among Europeans, with particularly low approval ratings in countries where unemployment is highest (Gardner, A. Opinion Poll Shows Support Is at an All-Time Low for EU, 2013, May 16). These are all indications of a fundamental root reason that goes much deeper than fiscal policy. For the European Union to reach its stated goal of developing the "huge resource that is the EU to ensure Europeans can draw maximum advantage from it," systemic alteration that sustainably incorporates both monetary and human capital is necessary (How the EU works, European Union, 2013). The European Union has the potential to achieving interdependence, peace, cooperation, sustainability and mutual prosperity, serve as a model of a cooperative economic area, and a high quality of life for all. In order to accomplish the EU's true potential—politically and economically, for its citizens and communities —it will be important to move dynamics to benefit the interests of the whole EU while regarding and leveraging the varied strengths and needs of all of its members. To be successful, interferences must centrally consider the potential and needs of the EU's 550 million people, and in particular its young people, who are currently estranged from the economic and political systems at alarming rates.

Dynamics and Causes

Individual countries had single monetary policies before the euro - the single currency approved by 17 of the European Union member states. The Northern countries mostly seek for low inflation. However, The Southern countries, at times used inflation to undervalue the external cost of their exports and/or to pay off debt to kickstart the economy after inactive periods. The euro required a common monetary policy, by sharing a common currency and the European Parliament was created as a democratic body to address common matters on the face of it. Wabbly trade balances were fuelled by combining the region under a common monetary policy under the ECB and concentrating on keeping inflation low rather than combining the nations under a common fiscal and economic policy. To relieve tension in the system, inflation was removed as a tool. There has not been a rigorous, effort to equalize economic competitiveness or to create a sustainable interdependent but diverse economic region since then. Systemic imbalances has been magnified by the result that have led to the current, polarizing crisis. Low interest Individual Monetary Policies Become One With the advent of the single currency in an effort to spur economic growth, international financiers treated all the member states as secure markets and overflowed them with cheap money. Was it completely foolish for firms and governments to take benefit of those resources to fuel their growth? Perhaps—but as we know they were not alone in this country. With a large quantity of expenses being done by the smaller economies in the south, this debt was mainly an investment way for wealthy countries in the north. In the words of American government professor Stephen A. Hall (Hall, P. 2013, July): "Easy access to low-interest rates led to a systemic focus on short-term boosts to GDP through spending, rather than long-term investments that would materially improve economic competitiveness". This has had the most calamitous affects on those that join the crisis with less competitive economies to begin with, but occurred in many European countries. Northern

European economies are usually based in particular finance, product design, manufacturing and other knowledge-based and capital-based activities, which make them less sensible to economic downturns in the post-colonial globalized economy. On the other hand, Southern European economies are generally based more on low-skilled manufacturing, tourism and agriculture, a group of commerce less capable of enduring an economic crisis.

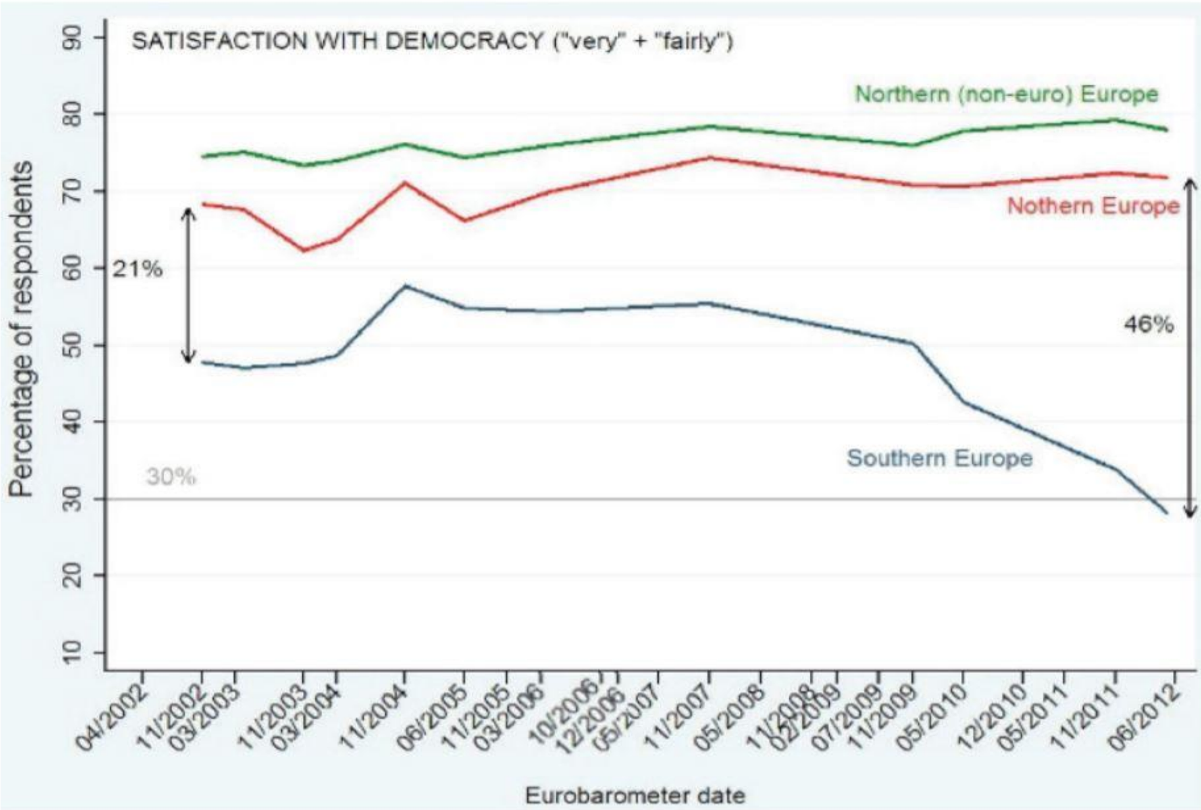
Common Market, Common Currency

Within the free economic area, the common Euro further diminished barricades to trade by inspiring more symbiotic trade within the EU. Leading up to the crisis, this led to speculative bubbles and wastefulness in the Southern nations and wealth making for the capital-based nations. the option of inflating the currency to pay off debt was removed by the common monetary policy, further aggravating the bubbles within a closed loop. For the first time, the Northern nations were quite straight impacted by the Southern nations' economic woes as the single currency was directly affected. A lot of factors effects this result. in Germany, wage regulations and other competitiveness developments allowed for competitive pricing but not in other countries. Southern products were not competitively-priced anymore in the Eurozone without similar competitiveness or wage-fixing developments in Southern Europe or the ability to expand their currencies relative to other countries.

Growth was slowed and tax revenues was reduced by the 2008 global financial crisis, thus growing sovereign debt. Moreover, the potential growth of credit expansion was increased by the presence of a central bank as a safety guarantee, leading to the potential birth of booms and making high risk investments even more likely. This caused in a further savings rate reduction, reducing long-term growth prospects. Now, severity measures are adding extra stress.

Human and Social Elements

The economic crisis effects—and has also been effected by—the way in which Europe's people imagine about the economy. Very often, public is not informed about elementary financial and economic principles. In the collective point of view, this activates many individual financial choices which lead to the rise of bubbles and further strengthen the financial crisis. Also, despite extensive travel between the countries and increased movement of young people to follow work chances, stereotypes about national arrogances and characteristics persevere and impede communication and collaboration. In addition, due to minor birth rates and extended life durations the population is aging in many countries. In several countries, young people have been breathing with high joblessness rates for much of their young maturity. This has late influences on their employability and leadership skills even if occupations become available. Figure 4a and 4b demonstrate the growing divide between the perspectives of the citizens of Northern compared to Southern Europe.



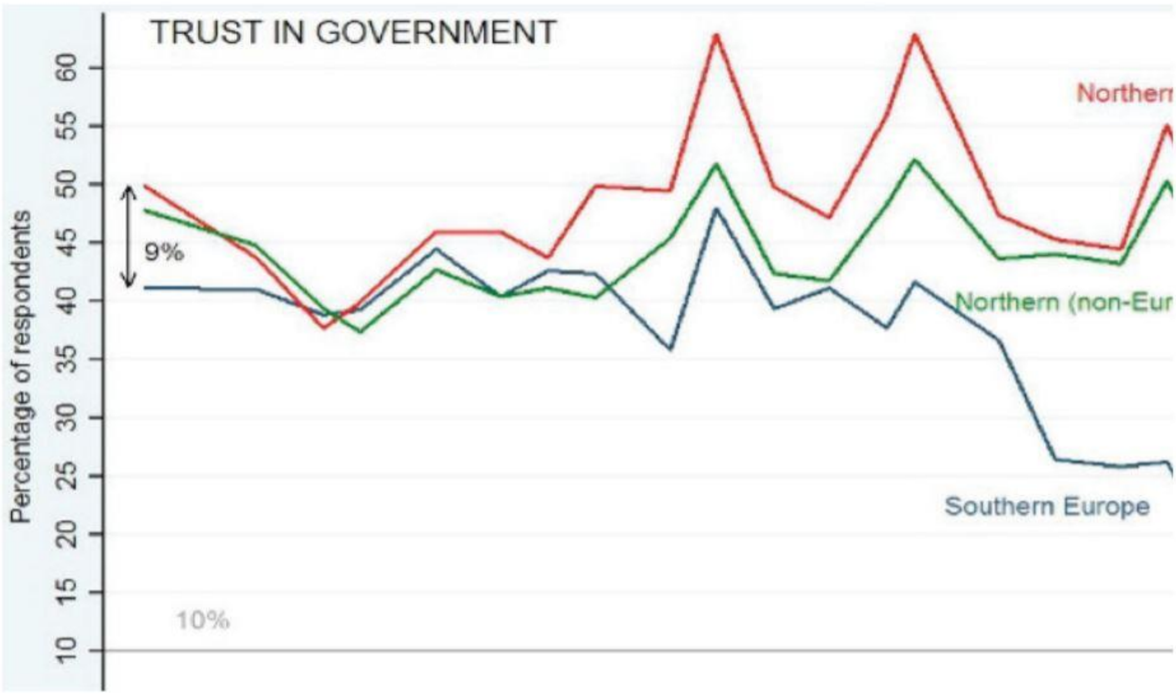


Figure 4a and 4b: Europeans trust in government has dramatically declined since the onset of the crisis—particularly in the nations that have been hardest-hit. In

Southern Europe, the crisis and responses to it have eroded trust in government. (Source: Eurobarometer 2002-2012/EUROPP European Politics and Policy)

Proposed Actions

The Leverage Point

Europe’s youth are at a junction. Nearly eight million—or one in seven—young Europeans are jobless and not in school or job training (The Economist, 2013, July 18). What started as a financial crisis has become a social disaster, with Europe’s youth hit hardest. The present main plan to address this problem is Germany’s guarantee of eight billion euros for work training programs, which would shape upon present EU enterprises such as the ERASMUS program to inspire international education. While improved education and potential contact to other countries will provide optimistic experiences for youth, and help to improve their employability, where will the occupations come from? Will job exercise address the complexity of the problem with youth joblessness? In addition to training programs, generating homegrown chances will be a job making imperative. To demonstrate our opinion, we will turn to a case study that shows the difficulty of the crisis, the harshness of its influence on communities and individuals, and what we believe is an area of huge potential to contrary the acute and ongoing cycles that boost the crisis over the short, medium, and long-term. In Ireland, pubs have long been a support of communities both city and countryside. They serve as social centres, assembly places, and centres to experience and protect history, arts and culture. They may feature dance, music and local plays. They are assembly places for whole families, and they help to newscaster towns and villages.

Due to influences of the crisis, Irish pubs are presently closing at a rate of one per day, and as many as 1,500 have already closed (Hampson, R. 2012, September 24). These are cultural and social foundations that have occurred for decades or centuries. When they disappear, societies misplace a serious source of community connection, support and history during an already problematic period. At peak of pub closings, austerity dealings have led the government to close post offices and even police stations. At the same time, numerous native commerce have closed, leaving rural groups in growing separation. Thirteen years after of net growths in immigration for Ireland during the boom, the state has returned to three years of net emigration. About three thousand young Irish are leaving per month (Leaving the debts behind, 2013, Jun 12). The issues that influence pub closings are complex: dropping wages, increasing costs of beer, and perhaps a decreasing willingness to spend gas on the journey. Additional influences include a new legislation allowing for discount liquor stores, a new smoking ban in pubs and a national crackdown on drunk driving.

The Potential

As native institutions, pubs generate occupations and steady communities. A closed pub represents hopelessness and conclusions at a time when Ireland is already dealing with severe joblessness, austerity reductions, loss of young people, raised suicide rates, a reduction in quality of life, and trouble imagining a optimistic future. Looking alone at the collection and difficulty of factors impacting pub closings can be intimidating and does not yield an noticeable solution. However, despite this difficulty and potential to overcome, a pub in the rural town of Kilfynn settled a solution that has kept them open. The owner, Mike Parker, at the idea of his father, began offering free drives home to patrons. This has permitted his rural customers to avoid drunk driving while also dropping their cost of a tour to the pub. This is a uniquely native explanation that replies to the society's exclusive needs and subjects during a critical time. The outcome is people working organised at a community level to reply to the problem and to build locally. In isolation, Mike Parker's interference will not turn the Irish economy from place to place. However, the meeting of thousands of young people in similar native problem-solving—engaging with the public, preserving and producing chance, replying to local needs, and remaining in their country with a sense of future and possibility— can steady the freefall, progress individual lives, and, over time, turn the Irish economy from place to place.

Innovation-driven Entrepreneurship

A second sample of native chance, focused on technology-driven and innovative entrepreneurship, can be seen in BugSense. BugSense is a company originated in Greece in 2011 on $100,000 in start-up support. It offers analytics on how efficiently mobile phone applications are working. In only two years, BugSense constructed a customer base that contains Fortune 500 clients—that list contains Yahoo!, Trulia, and Skype. BugSense is presently being acquired by Splunk, a U.S.-based transnational corporation that delivers gears to mine big data (Williams and Alex, 2013, September 16). This sample proves that, even in a nation overwhelmed by a debt crisis and social unrest, businesspersons were able to grow a valuable invention that meets a specific and present need, and to build a fruitful business to launch that product. They attained this fast and under un-ideal circumstances. Igniting this kind of vision and energy can help branch development, provide career chances, and meet real needs. Europe's cultured staff, relatively strong R&D structure within universities, and multivalent view of the international economy, could provide an enormous incubator for new ideas and industries. For this purpose, we suggest taking a possible "lost generation" and rotating it instead into a generation of native, dedicated, creative problem-solvers.

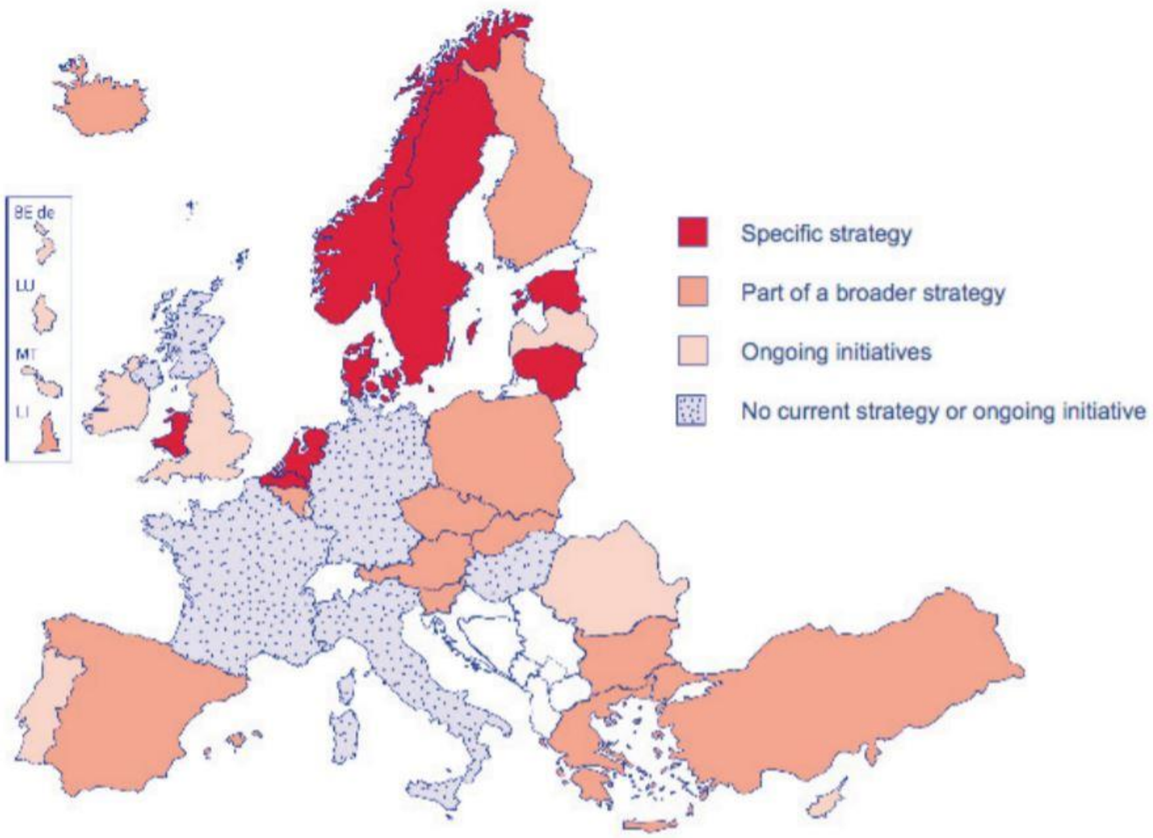


Figure 5: National strategies for entrepreneurship education across Europe

(Source: Eurydice/European Commission)

The Goal

Steadying Europe in the short and long-term will need the investment and appointment of young people. Right now, local groups have an profusion of problems to resolve. We are certain of that the best solution is a top-down investment in a bottom up method. The purpose of commercial education will be to involve young people to resolve local problems, and to involve them in a way that will keep them as donors to their home communities. Key elements will be: educating for authorisation; teaching skills that they know will continue a lifetime; direct appointment with native businesses; appointment with EU grant chances and an increased awareness of EU residency; and an incubator model and continuing provision to ensure that education is translated into act with the best opportunities of success. Our assignment is to take the descending spiral of unemployment, youth disconnection, and departure, to a optimistic spiral of appointment, chance, growth and local investment.

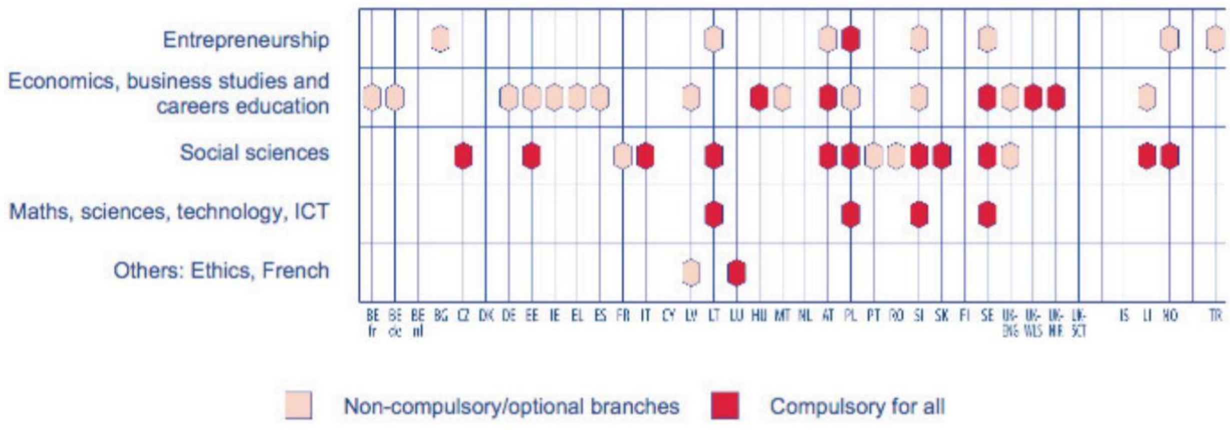


Figure 6: Integration of entrepreneurship education in European high schools. The economies currently in greatest crisis in Europe generally have lower rates of compulsory entrepreneurship education Source: Eurydice/European Commission

Conclusion

People could think about it in this way: the euro was formed in the confidence that it would additional prosperity in Europe, and that in turn would result to more political unity, more provision for the European mission. In fact, it's led to an economic crisis. Development in Europe, in the Eurozone in specifically, has been terrible; even the best performing nations would get a 'D' if you were grading them.. Even though the crisis itself started in the United States, the United States is sensibly well on the way to retrieval. Not so for Europe; it moves from this crisis to another (Joseph Stiglitz, an American economist and a professor at Columbia University, 2017).

There is greater deepness of the downturn than "Great depression" in real crisis states - Greece, Spain, Portugal and Ireland. In Spain the unemployment rate is down, finally, to 20% and they call it a victory, youth unemployment is close to 50% in Greece. They thought they had resolved the problem a year ago and GDP has continued to weakening, so their GDP is now 25% below what it was before the crisis. It is clear that thing have not worked out the way that predicted. There are two main sources of these problems:

-First of them is bad policymakers. Analysis show that is comes from the idea of eurozone itself. It was a political organization and things become even worse with bad policy mistakes.

-Second one is about structure of Eurozone project. Structural reform of individual countries do not have effect, Eurozone itself needs structural reform. Unlike the United States in Eurozone European Central Bank focused only inflation and do not do anything about unemployment. Secondly, in Eurozone roots of every problems shown as "deficit" and deficits causes crisis, but it is not true because Spain and Ireland had a crisis but they had a surplus before the crisis. These wrong attempts make economies weaker, tax revenues went down and depts become deeper than when they began. Another real problem in Eurozone is that rather than convergence, there is divergence- poor countries becoming poorer and strong countries becoming stronger. That must be reversed. If one country has problems and difficulties it means this country needs structural reforms, but if rest of eurozone have problems it means the problems are common and there is need to structural reform in Eurozone itself.

There are some important and difficult steps which must be taken to do structural reforms in Eurozone. First, the Eurozone countries must have more common economical tools like deposit insurance, Eurobonds etc. which would lead to convergence of countries. If this will not work, the EU has a lot of strengths; it could has free mobility of goods, but this idea of a single currency, it is not ready for it now.

Second way could be an amicable divorce or “flexible euro”. For example: Eurozone must be separated two “euro region” - Northern euro and Southern Euro and etc. Leaving Euro will be very costly but current system is so costly too.

Finally, there must be a balance between surplus countries like Germany and deficit countries like Southern Europe. They must impose tax in surplus countries and this amount could be used to help deficit countries. There must be a system like common deposit insurance, Eurobond etc.

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