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**ABSTRACT**

**THE IMPACT OF  
EUROPEAN CENTRAL  
BANK ON ECONOMY  
OF EUROZONE.**

**MODERN THREATS  
AND CHALLENGES  
OF EURO IN WORLD  
ECONOMY.**

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**Subject:** The impact of European Central Bank on economy of eurozone. Modern threats and challenges of euro in world economy.

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## **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 additionally a zone of territorial and national assortment, with 550 million individuals in 28-part states sharing 4.4 million square kilometers. Its monetary qualities assortment from complex assembling and innovation to farming and incredibly famous 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.

## **Chapter 1. Foundation of European Union**

### **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 amid the initial segment of the twentieth century.

European mainland was the performance center of contentions amid the principal semi of this century, which caused a large number of people's dead and bunches of destroy. 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 emerged from the protection developments, which had fought totalitarianism during the World War II. French Foreign Minister Robert Schuman pushed ahead coordinating the coal and steel enterprises of Western Europe in 1950, which came about with setting up European Coal and Steel Community in 1951 – the progenitor of the present European Union **The European Coal and Steel Community (1952)**

At initial six originator individuals (Germany, Belgium, France, Italy, Luxembourg and the Netherlands) made a typical market in coal and steel between the themselves and European reconciliation exercises were restricted with this basic market. Group was a method for securing peace by uniting victors and beaten inside an institutional structure in that post-war period, which would make participating as equivalents feasible for them. It comprised of four European foundations:

- High Authority, as official body, direct the part states and their organizations, with nine individuals
- Council, a law-production body
- Parliamentary Assembly, examining and controlling the High Authority's exercises and made out of agents from the part 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)**

Albeit every one of the three European arrangements had a typical Parliamentary Assembly and a typical Court of Justice from the earliest starting point, it was just in 1967 when a typical Council and a typical Commission (as official, and as successor of the High Authority) have been built up.

## **Main Treaties**



### **First enlargement (1973)**

Ireland, United Kingdom and Denmark applied for involvement to the European Community (at this time it was called like this) after the accomplishment of the six originator members. In 1972, they were lastly acknowledged in 1972 next problematic discussions during which France used its veto once in 1961 and again in 1967, under President de Gaulle. The amount of Member States increased from 6 to 9 in 1973 with this first enlargement which was linked to an extending of the Community's assignments; it was given duty regarding natural, social and provincial issues.

### **European Monetary System (1979)**

First and foremost 1970s at what time the United States ceased dollar convertibility the requirement for financial association and money related meeting ended up evident. This denoted the start of a time of worldwide fiscal precariousness, stressed by the two oil emergencies in 1973 and 1979. Trade rates settled The making of a European Monetary System in 1979. It empowered the Member States to give each



other common help, urged them to seek after strict monetary arrangements and advantage from the train constrained by an open financial zone.

### **Second (1981) and third enlargement (1986)**

Greece, Spain and Portugal accessed in 1981 and 1986 respectively and after these nations disposed of their fascisms and changed into a law based framework, the south borders of Community expanded. The European Community started to performance a more important role globally in the 70s and 80s, signing new contracts with the nations in Africa as well as in the Southern Mediterranean, the Pacific and the Caribbean, which called later the capital of Togo and were connected by 4 consecutive Lomé Agreements (1975, 79, 84 and 1989) to the Community. World exchange set out on another period of its advancement with the treaty which marked in Marrakech in April 1994 between every one of the individuals from GATT and gave a birth to the basis of the WTO. The European Union wound up mindful that as the world's greatest exchanging accomplice working in a advanced profile on the global stage ought to prompt the point of finding a typical remote and security approach in the global stage as single European face and voice.

### **Single Act from 1986**

In the mid 1980s worldwide dejection and inward differing on the dispersion of the money related weight gave a birth to a time of "Europessimism". This gave path, from 1985 advances, to a more hopeful perspective of the expectations for reviving the Community: Based on a White Book attracted up 1985 by the Commission oversaw by Jacques Delors, the Community set itself the mission of shaping a solitary market by 1 January 1993. The Single Act, contracted in February 1986 and in drive since July 1987, acknowledged this yearning target and declared new activities for receiving connected enactment, in particular the annulment of the veto of part states in internal market strategy questions and the presentation of an alleged

"qualified dominant part" (with votes related, however not directly, to the number of inhabitants in the part states). It connected in 1987, 1 July.

### **Maastricht Treaty (1991)**

The Berlin Wall ruined and Germany united on 3 October 1990, the political construction of Europe transformed after deliverance from Soviet control, breakdown of the Soviet Union and following democratisation of the nations of Eastern and Central Europe in December 1991. The Associate States strongminded to support their connections and in December 1991 they agreed a new Treaty, the core characteristics of which were approved at the Maastricht European Committee.

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

- new common policies,
- monetary union by 1999,
- a common external and safety policy
- European citizenship,
- interior safety.

### **Fourth enlargement (1995)**

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

The Association of Fifteen now confronted two noteworthy difficulties:

- achievement in enlargement to include Cyprus, Malta and ten nations of focal and eastern Europe.

- Economies of the Part States ought to be given better merging and the conditions for perpetual occupation making development in the aftereffect of utilization of the progression of money related association which, in view of the formation of the Euro in 1998, 2 May.

### **Amsterdam Treaty (1997)**

The Member States signed a further treaty (which modified and fortified the Association's strategies and forces, especially in remote approach, the free development of people, legal participation and general wellbeing) in Amsterdam in October 1997 (in constrain since May 1999) subsequent to applying an audit provision in the Maastricht Settlement. The Association's prompt fair voice - The European Parliament was allowed extra powers, affirming its part as joint lawmaker.

### **Nice Treaty (2000)**

This settlement marked in February 2001 and came into compel in February 2003. Its primary achievement is the institutional adjustment to the following, up and coming broadening of 10 new part states. Consistent appropriation of the European Contract on Major Rights, in excess of 50 articles containing treasury of individual freedom, social and financial rights in the general convention of European law were the primary of the consequences of the Pleasant Summit Meeting.

### **Fifth enlargement (2004)**

Since first May 2004, the EU incorporates 25 Part States. The fresh ones are the Czech Republic, Baltic nations: Latvia, Estonia and Lithuania, at that point Poland and Slovenia, Slovakia, Hungary as a feature of previous Yugoslavia and additionally Malta and Cyprus. There must be attempted some transitional effort for the Turkish piece of Northern Cyprus, North has endorsed an Assembled Country proposition of reunification of the island, however Greek Southern part has rejected the plan.

# **EU Constitution, Monetary Union and Single Market**

## **EU Constitution (adopted on 18th June 2004)**

After an elaboration stage in Tradition, with EU Commission and Part States' legislatures interest, European and Part States' Parliament individuals, under the chairmanship of the previous French President Valéry Giscard d'Estaing, in 2002 and 2003, the administrations of the EU were not instantly collectively for a draft which ought to accommodate a more extended time for a lawful system Constitution for the EU. They talked about everything amid a session of the European Committee in Dublin/Ireland from December 2003 to June 2004, Heads of National and Administrations acknowledged the EU Constitution.

EU organization and strategies mean regard for the decent variety of national customs and the manufacturing of a different character, a consistent adjusting of national and normal interests. They have been decidedly settled by the way that :

- there is a solitary market with free development for capital, administrations, products and people – with a greater number of people than the Russia and Joined States together
- there is a typical territory without fringe controls (with a few special cases) and visa inside the EU
- there is Euro - EU normal cash (with a few exemptions)

In the event that one investigations the historical backdrop of the EU,

- some mammoth uber plans can be seen, similar to Single Market, Money related Association, and so forth.,
- and inside these uber ventures a quickening inside the earlier years – following quite a while where no choice could be attempted, for example in the 1970s (with the exception of the outline of direct well known race of the European Parliament).

A portion of these super task cycles can be characterized – for the present, past and future:

#### EU Single Market (1985-1993)

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

#### **European Monetary Union (1985-2002)**

For many experts The European Financial Association has begun as of now amidst the 80s when a gathering of European Parliament individuals (over every single political gathering) established a working gathering on European cash questions (even briefly previously, as concerns the arrangement of the previous Luxemburg Executive Pierre Werner from the mid 70s). Later took after the elaboration of an

idea (which finished with the Maastricht Settlement) under the administration of the Leader of the EU Commission, Jacques Delors (previous French Pastor for Fund and Economy). There is a specific planning for the presentation of the Euro in the Maastricht Bargain. European Money related Establishment (which is ancestor of the European National Bank and opened in 1999) had been established in Frankfurt/Primary, the vital advances desired residents and organizations after 1994.

### **1989-2015 Company Cooperation**

There was a not extremely perceptible begin date of a sloppy influx of organization collaboration from 1994, after the Single Market. Each little and medium measured venture, around 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 business cooperation and each business does what it considers as essential

## Chapter 2. European Central Bank and Eurozone

### History and Structure of ECB



European Union has had a fresh currency - euro since 1 January 1999. On that time the euro swapped 11 countries' national currencies: France, Ireland, Italy, Belgium, Germany, Spain, Luxembourg, Austria, the Netherlands, Finland and Portugal. Then it swapped the national money of Greece on 1 January 2001. These twelve nations are known together as the euro zone. 3 of the European Union Member States: Sweden, Denmark and the United Kingdom have not yet implemented the euro.

Tremendous benefits for both businesses and consumers provided by the introducing of a solo currency for over 300 million Eurozone people. It makes easier the trading of services and goods between the contributing nations, thus gives strength to the Single Market in Eurozone. The risk of changeable exchange rates is restricted to trade with republics external the euro area for importing and exporting companies.

Travellers also profit from introducing of the euro coins and banknotes in January 2002, people do not need to exchange currency or pay exchange fees when travelling in euro area countries. In addition, prices crossways the euro area straight similar in the result of the use of the same currency in 12 countries. Cross border race and larger success through the euro area should be increased at the outcome of all these new progresses.

In the euro zone the euro is proposed to be at least by way of steady as other former state currencies. It is the duty of the European Central Bank to preserve price steadiness in the euro zone as a whole. The euro area countries central banks and the ECB are working together to achieve this, to put into action a constancy-focused on single monetary policy. Preserving price constancy by spending policies and pursuing sound tax are main roles of governments, of course, as do wage representatives by observing prudence.

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

The guardian of price constancy in the euro zone is The European Central Bank (which is one of the youngest central banks in worldwide - founded on 1 June 1998). However, European Central Bank has congenital the credibility and applied the stability-focused on monetary policy for the euro zone after expertise all of the euro zone states' central banks.

Treaty which founding the European Community is the legal base for the ECB and the Eurozone System of Central Banks (ESCB). The ESCB is set of the ECB and 15 EU Member States's national central banks due to this Agreement. The Statute of the Europe Central Bank and of the Eurozone System of Central Banks is complicated to the Agreement as a protocol.



ECB head office is in Germany (Frankfurt am Main) and There are about 1,100 (August, 2002) operate members. They Employed from altogether 15 EU nations and work in close collaboration with the staff of the states' central banks to formulate and implement ECB's executive bodies' decisions.

The Representing Board is the most elevated basic leadership body of the ECB. It comprises of the 12 governors of the national banks of the euro region and the six individuals from the Official Board. Them two (Representing Committee and the Official Board) are overseen by the Leader of the ECB.

Detailing the money related strategy for the euro territory is the key errand of the Overseeing Gathering. In particular, it has the expert to control the financing costs at which business banks mayget liquidity (cash) from their national bank. Subsequently the financing costs may impacted by the Overseeing Committee in a roundabout way all through the euro territory economy, including the rates those that savers gain on their stores and business banks charge their clients for credits.

The President, the VP and four different individuals comprises the Official Leading group of the ECB. All are chosen by basic agreement of the Heads of State or Legislature of thestates which shape the euro territory.

The Official Board is in specialist of actualizing the money related approach as made by the Overseeing Committee and gives the basic requests to the national banks for this purpose. Day-to-day business of the ECB and the gatherings of the Representing Chamber likewise overseeing by The Official Board.

The General Chamber is the third basic leadership body of the ECB. It contains the President, the VP of the ECB, the 15 national banks' governors of the EU Part States. The warning and co-ordinating elements of the ECB and arrangements of the conceivable extension of the euro zone is contributing by The General Committee.

The ECB and the 12 national banks in the euro region together shape the Euro framework. Overseeing Committee picked this term to depict the course of action by which the European Arrangement of National Banks (ESCB) completes its duties inside the euro territory.

This refinement between the Euro framework and the ESCB should be made insofar as there are EU Part States which have not yet actualized the euro..

The three Member States' national central banks which have yet to implement the euro (Sweden, Denmark and the UK) try not to participate in basic leadership with respect to the euro region's single money related arrangement. These Part States keep their own particular national monetary standards and direct their own financial arrangements.

In the wake of giving that it satisfies the merging criteria an EU nation that desires, can embrace to the euro at a later stage. Prior to a nation can join the euro region, the ECB is required to give its assessment on the level of union.

Financial arrangement activities can be performed by an easily working saving money framework which the Eurosystem relies upon. Around 8,000 credit organizations (business banks, funds banks and other money related foundations) in the 12 taking an interest nations can go about as a system for financial strategy exchanges went for either expanding or diminishing the supply of liquidity to the euro zone.

The Euro framework has an essential enthusiasm for the unfaltering quality and effectiveness of the managing an account industry. Observing advancements in the managing an account part intently is along these lines normal for the Eurosystem, as anticipated by the Bargain establishing the European People group, despite the fact that national experts grasp duty regarding saving money supervision.

The simple duties of the Eurosystem are:

to decide and execute the fiscal strategy for the euro territory;

to direct remote trade forms and to hold and deal with the official outside stores of the euro region countries;

to issue banknotes in the euro region;

and to endorse the smooth procedure of installment frameworks.

Additionally errands are:

to assemble the basic measurable data either from national specialists or specifically from financial operators, e.g. budgetary organizations;

to audit advancements in the saving money and monetary part;

and to endorse a smooth trade of data among the ESCB and managerial specialists.

## **STABILITY**

Ensuring the obtaining energy of the euro through keeping up value steadiness is essential goal of the Eurosystem. The most critical commitment that fiscal strategy can make to achieving a great monetary condition and an abnormal state of business is guaranteeing stable costs. Both flattening and expansion can be expensive to society socially and financially.

As stipulated by the Arrangement building up the European People group, without prejudicing its fundamental goal of value steadiness, the Eurosystem additionally acts as per the standards of an open market economy and backings the general financial strategies in the European People group.

The ECB has pitched a correct meaning of its essential objective, keeping in mind the end goal to make it simpler for general society to gauge the achievement of the single money related strategy. They characterized cost strength as a year-on-year increment in customer costs of beneath 2%.

It is outstanding that, value changes can't be completely directed by money related strategy for the time being, since it makes time for financial arrangement move to sustain through to varieties in the value level. Costs are influenced by an assortment of different components, for example, changes in the costs of crude materials or varieties in aberrant tax assessment for the time being. Subsequently, the reason for existing is to protect a relentless value level over the medium term. Other here and now impacts like occasional variances ought not be viewed as cautioning a deviation from the target of value soundness.

# INDEPENDENCE

## The ECB's place

Autonomy is imperative to any national bank for operational achievement. The Eurosystem appreciates full autonomy in playing out its undertakings in accordance with the arrangements of the Bargain building up the European People group: neither the national banks in the Eurosystem, nor the ECB, nor any individual from their basic leadership bodies might scan for or take directions from some other body. The administrations and the Group establishments and assemblages of the Part States will undoubtedly regard this standard and must not endeavor to influence the ECB's basic leadership bodies or the individuals from the national banks.

Every one of the abilities and instruments fundamental to direct a proficient financial strategy possessed by Eurosystem. The Eurosystem may not give any advances to national government elements or Group bodies. This shield it advance from political intercession.

The European Central Bank has its own particular free spending plan from European People group. This permits the organization of the ECB to act openly from the monetary interests of the Group.

The wealth of the ECB has been contributed and paid up by the national banks, does not originate from the European People group. Measure of every national bank's membership is deciding the offer of every Part State in the GDP and in the number of inhabitants in the European Association.

The individuals from the ECB's basic leadership bodies can be let go just for genuine unfortunate behavior or frailty to play out their obligations, they have extended terms of office.

## **CREDIBILITY AND ACCOUNTABILITY**

A free national bank must be open and clear about the clarifications for its exercises to keep up its believability. National bank should likewise be responsible to majority rule associations. The Arrangement setting up the European People group forces correct revealing duties on the ECB without infringing on the ECB's freedom

A solidified week by week money related articulation of the Eurosystem is being distributed by the ECB. The budgetary and money related exchanges of the Eurosystem amid the former week is being reflected by this. At any rate once every quarter the ECB must print gives an account of the activities of the ESCB. Yearly Report must be drawn up by ECB on these exercises and on the financial approach of the past and current year and present it to the EU Board, the European Parliament, the European Commission and the European Gathering. The distributions of the ECB are available on ask for and may likewise be seen on the ECB's site. The site recommends the full scope of ECB distributions, and connections to the 15 European Union national banks' sites.

## **STRATEGY AND INSTRUMENTS**

The ECB seeks after its essential goal of keeping up value soundness with the particular way which is set down in what is known as the financial approach technique.

Financial approach system has picked by The Representing Committee which guarantees however much coherence as could reasonably be expected with the plans sought after by the national banks previous to Money related Association. In the meantime, a totally new circumstance showed up after the presentation of the euro.

The technique lays on two columns. The primary column:

A conspicuous part for cash. Articulation of a reference an incentive for the development of the cash supply in an expansive sense flagged this, swelling being viewed as at last the aftereffect of an excess of cash pursuing a constrained measure of administrations and products.

The second column

An extensively based count of the viewpoint for future value advancements and the dangers to value consistent quality in the euro region. An extensive variety of monetary markers, which give data on future value improvements, utilized as a part of making this evaluation. Some of such pointers are the swapping scale, compensation, different measures of financial action, long haul loan fees, cost and cost files, monetary arrangement markers, and business and purchaser overviews.

All things considered, the mix of the two mainstays of the ECB's technique ensures that monetary, money related and budgetary improvements are firmly broke down and checked. This thorough investigation permits the ECB to set its loan fees at a level that best serves the conservation of value security. The ECB's fiscal strategy likewise bolsters the outside estimation of the euro, as estimated by its rate of trade

contrasted with different monetary standards by upkeep the euro's buying power along these lines. In any case, the conversion scale itself isn't a strategy objective.

The Eurosystem has an arrangement of money related strategy instruments, so as to achieve its essential target of saving value security. Impacting market financing costs, dealing with the liquidity circumstance in the keeping money framework and flag the general course of fiscal arrangement are the motivations behind these. Representing Board of the ECB is formulator of Financial strategy. With the greater part of the tasks being completed by the national banks, Its execution is to a great extent decentralized.



## Chapter 3. Eurozone Crisis and European Central Bank

### **CRISIS IN GENERAL**



The impacts and dangers of the emergency are incredible. Five of the part states confront solid sovereign obligation and have been tucked away in cycles of bailouts and starkness since 2009. This has prompted intense disharmony in the locale, making some inquiry the maintainability of the EU and to recommend the partition of individual part states from the Association. Especially in hard-hit nations, for example, Spain wrong speculations and land and keeping money bubbles have taken a toll a few subjects their life funds. Joblessness figures were at 5% in Germany at the

lower end. Be that as it may, in Greece and Spain, be that as it may, the figures touched 27% For youth, the circumstance is considerably more ghastly, with Europeans matured 15-24 were jobless at a rate of more than 22%. Albeit all of Europe is very much aware that there is an issue, there is difference with regards to the reasons and arrangements. There has been contention of the likelihood of part states going bankrupt, and leaving either the Association or the Eurozone. We have endeavored to comprehend key progression and issues inside a more extensive setting, with a specific end goal to search for new recognitions into the emergency. European solidarity has included money related, political and monetary varieties for the locale. The development and flow of the European Association mirrors Europe's capable national personalities. Politically, the most approved substance in the EU government - the European Chamber, speaks to the part states and expressively impacts the motivation of the Parliament and European Commission. In the interim, the weight of financial change has fallen ordinarily on the Southern countries. In the previous decade, the free market has opened up pivotal monetary possibilities. In the meantime, 17 some time ago self-ruling countries has been moved into a unified financial strategy under the European National Bank (ECB) by the normal cash. This money related approach, whose Keynesian give consideration on low swelling most intently carry into line with the authentic financial arrangements of the German Bundesbank, has made monetary subjects for southern countries who verifiably have utilized expansion as an approach to development the aggressiveness of fares and to fund open costs. Southern countries have battle with the loss of assembling employments to Asia for a considerable length of time with the loss of financial self-governance, and in addition with expanding power to offer an indistinguishable social safeguards and advantages from wealthier Northern countries. Without satisfactory picks up in financial aggressiveness the weight of this money related arrangement has left Southern countries to depend on tourism, other administration ventures, and bailouts to fund national obligation. Weakness has additionally been expanded by national to outside theoretical speculation. In this way, the basic European money

related approach that has related with development in the northern nations—while evacuating the recorded discharge controller in the southern countries utilized for tremendous obligation bubbles which were supported by the north—made another cycle of obligation in the south. (Figure 1 represents relative sovereign obligation in Europe contrasted with Gross domestic product in 2012). European market for southern merchandise has been additionally upset by moderate general development and market freeze—driving shoppers to buy bring down quality, low-valued imports over European items, and discouraging tourism—additionally driving down southern livelihoods even as seriousness measures are forced by the north. The north consider responsible the south to overspend, and the south scoffs at endless obligation and devastating grimness measures. Budgetary pain has incurred significant damage on EU subjects through decided and colossal joblessness, and sentiments of shortcoming and disagreement.

# European government debt

At the end of the second quarter of 2012, the government debt to GDP ratio in the euro area stood at 90 percent, compared with 88.2 percent at the end of the first quarter of 2012. In the EU27, the ratio increased from 83.5 percent to 84.9 percent.

## GOVERNMENT DEBT TO GDP RATIO — IN PERCENT

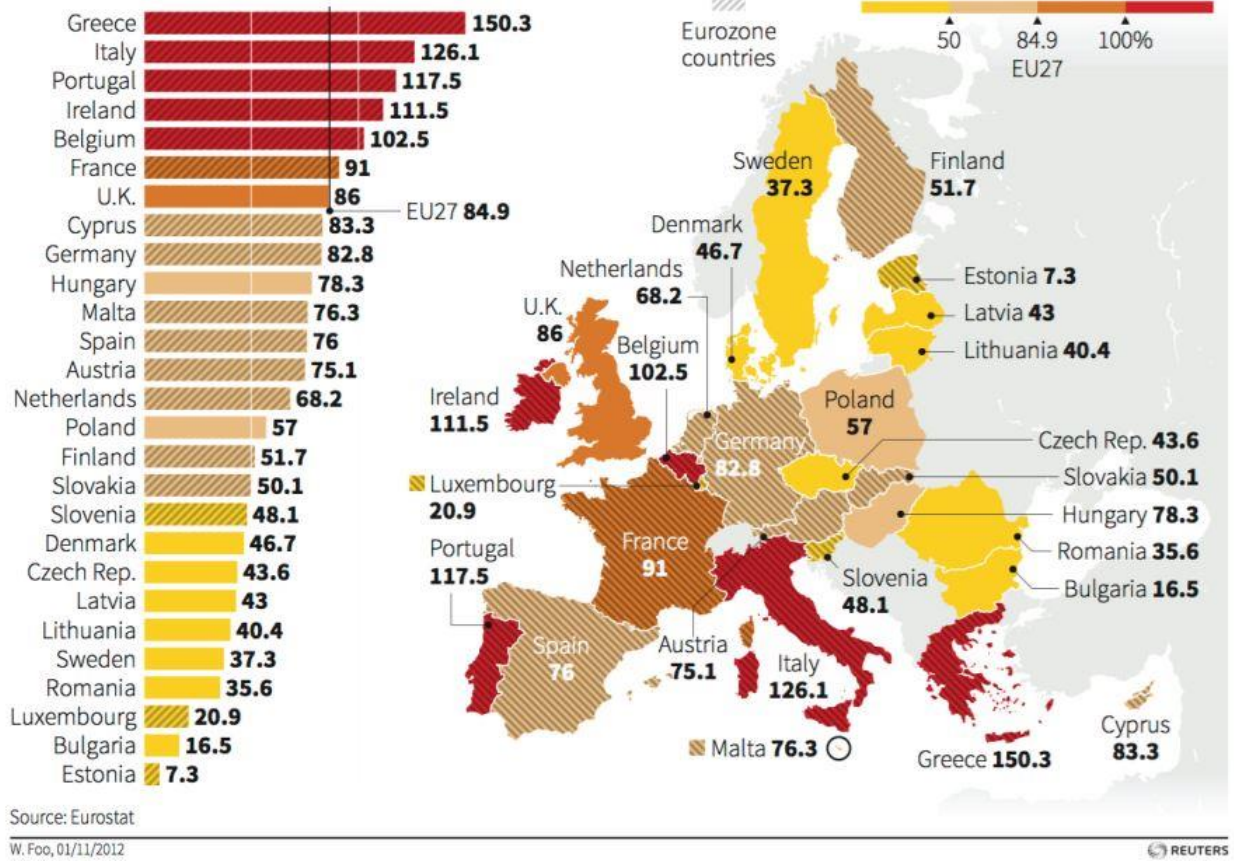


Figure 1: Europea sovereign obligation vs. Gross Domestic Product (Source: Thomson Reuters)

## Quantitative View of Crisis

Most experts follow the beginning of the European sovereign obligation emergency to 2009 (5 November), when Greece uncovered that its spending deficiency was 12.7% of Gross domestic product (IMF's anticipated figures, 2012), more than twofold what the country had once in the past uncovered. Notwithstanding, the genuine foundations of the emergency can be attracted to the very developments that administrate Europe's associations and to the gathering of performing artists that administrate European establishments.

The arrangement of the European Association as we remember it today started with endorsement of the Maastricht Bargain on February 7, 1992. The Maastricht Bargain supplies forced serious monetary necessities, perceived as "union criteria," that part nations are required to meet before they could pick up passage to the normal money zone that has come to be marked as the eurozone.

Among these joining criteria are:

Value improvements: These necessities are proposed to ensure that part states have low and consistent expansion. Expansion in the year past potential admission to the eurozone must be 1.5% more than the normal of the three best-performing part expresses (The Maastricht Bargain, 1992, February 7). In redundancy, the measure of expansion used to manage if this paradigm is experienced is the past year common of the Harmonized Index of Shopper Costs — the far reaching swelling file.

Fiscal developments: These necessities are planned to ensure a potential part state has a solid monetary issue. Between the necessities are spending shortfalls that can't surpass 3% of Gross domestic product unless a state find itself in astounding and temporary conditions. Add up to sovereign obligation sums can't surpass 60% of

Gross domestic product (The Maastricht Settlement, 1992, February 7). Both of these gauges are surrendered if there is sign of significant and ceaseless decreases.

Exchange-rate changes: These necessities are planned to ensure steadiness of a part state's cash conversion scale in advance picking up affirmation. In particular, a potential part can't have lessened its cash similar to some other part state's money for the past two years. Also, the money must expertise in a restricted band of  $\pm 2.25\%$  around other part states' monetary forms (The Maastricht Bargain, 1992, February 7).

The Maastricht Settlement was unsuccessful, however, to convey usage gadgets should a part state neglect to meet the union standards. As an option of usage gadgets, the main conveyance is for the European Commission to figure a record for the perspective of the Money related and Monetary Advisory group, a shape set up under the terms of the Arrangement.

Admission to the eurozone guaranteed enormous monetary loots as countries whose sovereign FICO assessments were lesser than those of the most grounded part states would have the capacity to obtain cash as though they too had the more noteworthy rating. What's more, the basic money held the capability of preventing exchanging accomplices from reducing their cash, constraining all eurozone individuals to contend on a level playing field. Furthermore, with an European economy that contained a typical cash, yet that excepted focal monetary strategy, it compulsory individual states to proactively deal with their exchange adjust, on the off chance that such disparities result in additional obligation.

In this way, the association of magnificent monetary prizes for admission to the eurozone with no execution component for states neglecting to meet the merging norms formed a motivating force rich condition for states to over-burden themselves with obligation absent much dread of striking back.

Truth be told, as was later uncovered, Greece could lie its way into the eurozone. Eurostat detailed that Greece's 2003 spending shortfall had really been 4.6% of Gross

domestic product, as opposed to the beforehand announced 1.7% of Gross domestic product. Moreover, the three Greek spending deficiencies of 2000– 2002 were altogether reexamined upward by over 2%. Then, add up to government obligation figures were amended upward by over 7% (Eurostat, Update of the Greek Government Deficiency and Obligation Figures, 2004, 22 November). As the creators of the report expressed gruffly: "Information updates of such a scale have offered ascend to inquiries concerning the unwavering quality of the Greek insights on open accounts" (Eurostat, Amendment of the Greek Government Deficiency and Obligation Figures, 2004, 22 November).

In spite of the fact that it is anything but difficult to entirely reprimand Greece for the European sovereign obligation emergency of 2009– 2012, Greece's obligation glitches are best seen as a start on a heap of fuel. The Global Money related Store approximations that, from 2006 to anticipated year-end 2012, add up to obligation in the eurozone will have expanded from €5,870 billion to €8,714 billion, an expansion of €2,844 billion (Worldwide Financial Reserve, 2006). By examination, Gross domestic product has developed from €8,568 billion out of 2006 to an expected €9,687 billion out of 2012, an expansion of €1,119 billion (Worldwide Fiscal Reserve, 2006).

At the end of the day, it is unsurprising that aggregate obligation statures in the eurozone will have full-grown 2.5 times quicker than Gross domestic product.

Utilizing the IMF's normal measurements for 2012 obligation and Gross domestic product, here are the compound yearly development rates for obligation and Gross domestic product for every individual from the eurozone (Global Money related Reserve, 2006):



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

Figure 2. Expected Debt to Gross Domestic Products Growth Rates (between 2006-2012)

(Source: International Monetary Fund, 2006)



As should be obvious every individual from the eurozone's obligation is expanding faster than its Gross domestic product — an unmaintainable place in the long haul.

The following are the IMF's figures of obligation to-Gross domestic product proportions 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)

About all eurozone individuals — 13 of 17 nations — have obligation levels surpassing the union criteria most extreme of 60%. Among this gathering are the vast economies — Germany (81.9%), France (89.4%), Italy (121.4%), and Spain (70.2%). The anticipated 2012 obligation of these four countries alone sums €6,732 billion, versus anticipated 2012 Gross domestic product of €7,410 — an obligation to-Gross domestic product proportion of 90.9%, an entire 51.4% higher than the 60% greatest required by the joining criteria (CFA, 2006).

In this manner the European sovereign obligation emergency is really an European emergency, and not only an emergency for the Greeks to determination. Moreover, a reiteration of agitated subjects is leftover for European administration to address before the emergency closes. One illustration being the vast number of advances issued pre-The Incomparable Retreat named in Euro, US dollars and Swiss francs to EU individuals' natives where the euro isn't their home cash. Another factor driving the European sovereign obligation emergency is the wellbeing of the accounting reports of Europe's banks, which hold several billions of euros of eurozone sovereign obligation. As indicated by a 23 July 2010 pressure test, coordinated by the Association for Monetary Co-task and Improvement (OECD), Europe's major money related foundations have €286.2 billion in exchanging book exposures and €1,400.5 billion of saving money book exposures. Joined, this adds up to €1,686.7 billion of presentation. Put another way, add up to eurozone sovereign obligation in 2010 was accounted for to be €7,862, implying that eurozone banks hold 21.5% of the obligation of eurozone part states (European Keeping money Specialist, 2010).

On 27 October 2011, eurozone individuals endorsed another bailout component. One mainstay of the arrangement was to expand level 1 capital proportions (CT1) from 5% to 9% at an expected cost of €106 billion to the biggest banks in Europe. From these figures, one can find that CT1 levels are right now €132.5 billion. In the event

that expanded from 5% to 9% then CT1 levels will be €238.5 billion. By examination, the biggest European managing an account foundations held €1,686.7 billion of eurozone sovereign obligation in 2010. This implies CT1 is sufficiently substantial just to retain a decrease in European sovereign obligation of 14.1% (or  $€238.5 \div €1,686.7$ ), a sum well beneath the decays experienced in other major budgetary emergencies (European Saving money Expert, 2010).

At last, concurring the European Keeping money Specialist (EBA), Europe's 16 biggest monetary organizations hold €386 billion of conceivably presume credit market and land resources. This analyzes to an expected €339 billion of aggregate obligation property from Portugal, Ireland, Italy, Greece, and Spain by these same organizations. Once more, this €386 billion of possessions by these 16 banks looks at to the current CT1 of Europe's biggest 90 banks of just €132.5 billion (European Managing an account Expert, 2010).

## **A Broader View of the Crisis**

The Eurozone emergency is about the economy on the off chance that you just offer thoughtfulness regarding the media. The emergency is about finished utilized nations and people collecting extraordinary obligation in view of the limits of the present discussion. Southern Europe had a simple access to credit at the most reduced loan costs in history when they joined the eurosystem. Organizations and people developed obligation enormously in Spain and Italy in this story, who obtained more than they could figure out how to pay for and utilized the cash to purchase houses and vehicles, and also to pay for get-aways. Obligation had turned out to be widespread to the point that by 2011, add up to obligation as a level of yearly monetary yield had transcended 300% for France, Italy, and Spain or more 250% for Greece (Worldwide Fund, 2013). Indeed, even in financially preservationist Germany, add up to obligation as a level of yearly monetary yield was roughly 240% (Worldwide Back, 2013). Notwithstanding, the European financial emergency is about considerably more than liquidity, monetary arrangement, loan costs, bailouts and tax collection, upon nearer examination. A human component to the emergency is possibly more noteworthy than the monetary components, however usually slighted. On the general population of the European Association, the impact of the money related emergency can be seen all around. The measurements are disturbing: introduce levels of joblessness are make handicap the economy, as well as break the expectation, soul and positive thinking of European occupants. A Walk 2013 survey by Seat Magnanimous Trusts discovered just 41% help for the European Association among Europeans, with especially low endorsement evaluations in nations where joblessness is most astounding (Gardner, A. Conclusion Survey Shows Support Is at an Untouched Low for EU, 2013, May 16). These are for the most part signs of a central root reason that goes substantially more profound than monetary strategy. For the European Association to achieve its expressed objective of building up the "immense asset that is the EU to guarantee Europeans can draw greatest favorable position from

it," foundational adjustment that reasonably joins both financial and human capital is vital (How the EU works, European Association, 2013). The European Association can possibly accomplishing reliance, peace, collaboration, supportability and common thriving, fill in as a model of an agreeable monetary territory, and a high caliber of life for all. With a specific end goal to achieve the EU's actual potential—politically and monetarily, for its residents and groups — it will be critical to move elements to profit the interests of the entire EU while in regards to and utilizing the changed qualities and necessities of the majority of its individuals. To be fruitful, obstructions should halfway think about the potential and necessities of the EU's 550 million individuals, and specifically its youngsters, who are at present offended from the monetary and political frameworks at disturbing rates.

## **Dynamics and Causes**

Singular nations had single financial arrangements previously the euro - the single cash affirmed by 17 of the European Association part states. The Northern nations for the most part look for low swelling. In any case, The Southern nations, on occasion utilized expansion to underestimate the outer cost of their fares or potentially to pay off obligation to kickstart the economy after idle periods. The euro required a typical fiscal approach, by sharing a typical money and the European Parliament was made as a just body to address normal issues on its substance. Wobbly exchange adjusts were fuelled by joining the district under a typical money related strategy under the ECB and focusing on keeping swelling low instead of consolidating the countries under a typical financial and monetary arrangement. To diminish strain in the framework, swelling was evacuated as a device. There has not been a thorough, push to adjust financial intensity or to make a manageable reliant however assorted monetary district from that point forward. Fundamental irregular characteristics has been amplified by the outcome that have prompted the current, polarizing emergency. Low premium Individual Fiscal Arrangements End up One With the coming of the single cash with an end goal to goad monetary development, global agents regarded all the part states as secure markets and flooded them with shoddy cash. Is it safe to say that it was totally stupid for firms and governments to take profit of those assets to fuel their development? Maybe—yet as we probably am aware they were not the only one in this nation. With an expansive amount of costs being finished by the littler economies in the south, this obligation was essentially a speculation path for well off nations in the north. In the expressions of American government educator Stephen A. Lobby (Corridor, P. 2013, July): "Simple access to low-loan costs prompted a foundational center around here and now lifts to Gross domestic product through spending, instead of long haul ventures that would tangibly enhance monetary aggressiveness". This has had the most catastrophic effects on those that

join the emergency with less aggressive economies in the first place, however happened in numerous European nations. Northern European economies are generally situated specifically fund, item configuration, producing and other learning based and capital-based exercises, which make them less sensible to financial downturns in the post-pilgrim globalized economy. Then again, Southern European economies are for the most part construct more with respect to low-talented assembling, tourism and agribusiness, a gathering of business less equipped for persevering through a monetary emergency.



## **Common Market, Common Currency**

Inside the free financial zone, the normal Euro additionally lessened blockades to exchange by motivating more cooperative exchange inside the EU. Paving the way to the emergency, this prompted theoretical air pockets and inefficiency in the Southern countries and riches making for the capital-based countries. The alternative of swelling the money to pay off obligation was expelled by the normal fiscal strategy, additionally exasperating the rises inside a shut circle. Out of the blue, the Northern countries were very straight affected by the Southern countries' monetary troubles as the single cash was straightforwardly influenced. A considerable measure of elements impacts this outcome. In Germany, wage controls and different aggressiveness advancements considered focused estimating yet not in different nations. Southern items were not intensely valued any longer in the Eurozone without comparable aggressiveness or wage-settling advancements in Southern Europe or the capacity to grow their monetary standards in respect to different nations.

Development was moderated and income was diminished by the 2008 worldwide budgetary emergency, in this way developing sovereign obligation. Besides, the potential development of credit extension was expanded by the nearness of a national bank as a wellbeing ensure, prompting the potential birth of blasts and making high hazard speculations considerably more probable. This caused in a further reserve funds rate diminishment, decreasing long haul development prospects. Presently, seriousness measures are including additional pressure.

## **Human and Public Elements**

The economic crisis effects—and has also been effected by—the method that Europe’s people imagine about the economy. So 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 money related emergency. Likewise, regardless of broad travel between the nations and expanded development of youngsters to take after work shots, generalizations about national arrogances and attributes continue on and obstruct correspondence and joint effort. Furthermore, because of minor birth rates and expanded life terms the populace is maturing in numerous nations. In a few nations, youngsters have been breathing with high joblessness rates for quite a bit of their young development. This has late impacts on their employability and initiative aptitudes regardless of whether occupations wind up accessible. Figure 4a and 4b show the developing separation between the points of view of the residents of Northern contrasted with Southern Europe.

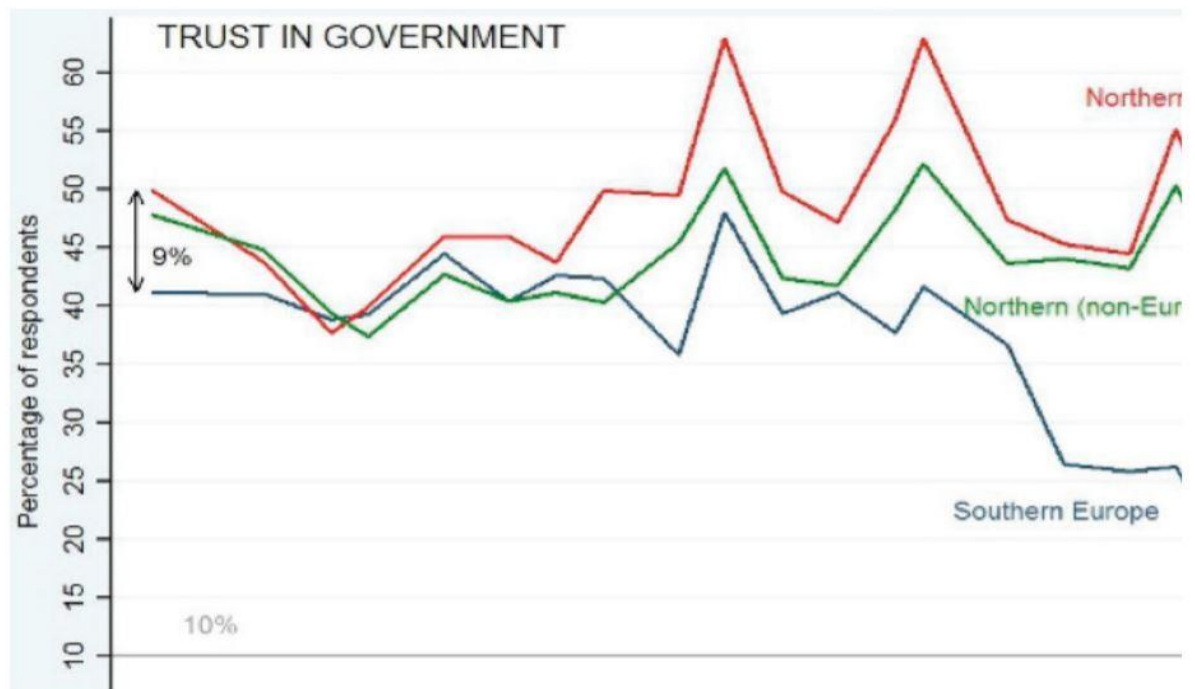
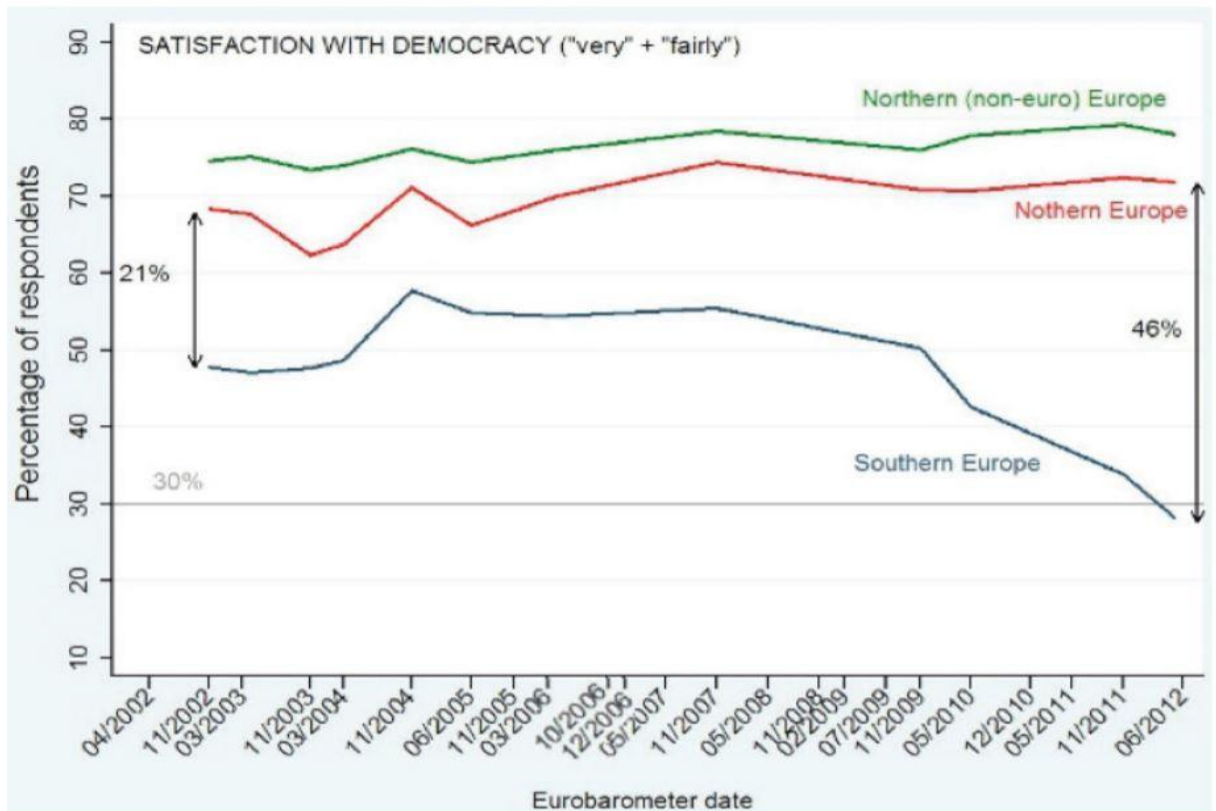


Figure 4 (a and b): Europeans confide in government has significantly declined since the beginning of the emergency—especially in the countries that have been hardest-

hit. In Southern Europe, the emergency and reactions to it have dissolved trust in government.

(Source: 2002-2012/EUROPP Eurobarometer. European Legislative issues and Approach)

## Future Actions

### **The Leverage Point**

Europe's childhood are at an intersection. Almost eight million—or one out of seven—youthful Europeans are jobless and not in school or occupation preparing (The Business analyst, 2013, July 18). What began as a monetary emergency has turned into a social fiasco, with Europe's childhood hit hardest. The present principle intend to address this issue is Germany's certification of eight billion euros for work preparing programs, which would shape upon exhibit EU undertakings, for example, the ERASMUS program to rouse global training. While enhanced training and potential contact to different nations will give hopeful encounters to youth, and help to enhance their employability, where will the occupations originate from? Will work practice address the many-sided quality of the issue with youth joblessness? Notwithstanding preparing programs, producing homegrown shots will be an occupation making basic. To exhibit our assessment, we will swing to a contextual analysis that demonstrates the trouble of the emergency, the cruelty of its effect on groups and people, and what we accept is a region of enormous potential to opposite the intense and progressing cycles that lift the emergency regarding the short, medium, and long haul. In Ireland, bars have for quite some time been a help of groups both city and farmland. They fill in as social focuses, gathering spots, and focuses to understanding and secure history, expressions and culture. They may highlight move, music and nearby plays. They are gathering places for entire families, and they help to reporter towns and towns.

Because of impacts of the emergency, Irish bars are directly shutting at a rate of one every day, and upwards of 1,500 have officially shut (Hampson, R. 2012, September 24). These are social and social establishments that have happened for quite a long time or hundreds of years. When they vanish, social orders lose a genuine wellspring of group association, support and history amid an effectively risky period. At pinnacle of bar closings, somberness dealings have driven the legislature to close post

workplaces and even police headquarters. In the meantime, various local trade have shut, leaving country bunches in developing partition. Thirteen years after of net developments in movement for Ireland amid the blast, the state has come back to three years of net displacement. Around three thousand youthful Irish are leaving every month (Deserting the obligations, 2013, Jun 12). The issues that impact bar closings are unpredictable: dropping wages, expanding expenses of brew, and maybe a diminishing readiness to spend gas on the trip. Extra impacts incorporate another enactment taking into consideration rebate alcohol stores, another smoking boycott in bars and a national crackdown on alcoholic driving.

## The Potential

As native institutions, pubs generate occupations and steady communities. A closed pub represents hopelessness and conclusions at a time once Ireland is previously dealing with plain joblessness, austerity reductions, loss of young people, raised suicide rates, a reduction in superiority of lifetime, and trouble imagining a optimistic future. Observing alone at the collection and difficulty of factors impacting pub closings can be intimidating and does not harvest an noticeable solution. However, despite this difficulty and potential to overcome, a pub in the rustic town of Kilfynn settled an answer that has saved them open. The proprietor, 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 exclusively native explanation that replies to the society's exclusive needs and subjects during a life-threatening time. The outcome is people working organised at a public level to reply to the problem and to build nearby. In separation, Mike Parker's interference will not shot the Irish economy from place to place. In any case, the gathering of thousands of youngsters in comparable local critical thinking—drawing in with the general population, protecting and creating shot, answering to nearby needs, and staying in their nation with a feeling of future and probability—can enduring the freefall, advance individual lives, and, after some time, divert the Irish economy from place to put.

## **Innovation-driven Entrepreneurship**

A moment test of local shot, concentrated on innovation driven and imaginative enterprise, can be seen in BugSense. BugSense is an organization began in Greece in 2011 on \$100,000 in start-up help. It offers investigation on how proficiently cell phone applications are functioning. In just two years, BugSense developed a client base that contains Fortune 500 customers—that rundown contains Hurray!, Trulia, and Skype. BugSense is by and by being gained by Splunk, a U.S.- based transnational enterprise that conveys apparatuses to mine enormous information (Williams and Alex, 2013, September 16). This example demonstrates that, even in a country overpowered by an obligation emergency and social agitation, businesspersons could grow a significant innovation that meets a particular and present need, and to manufacture a productive business to dispatch that item. They accomplished this quick and under un-perfect conditions. Touching off this sort of vision and vitality can help branch improvement, give vocation possibilities, and address main problems. Europe's refined staff, generally solid Research and development structure inside colleges, and multivalent perspective of the global economy, could give a gigantic hatchery to new thoughts and businesses. For this reason, we propose taking a conceivable "lost age" and turning rather into an age of local, committed, inventive issue solvers.



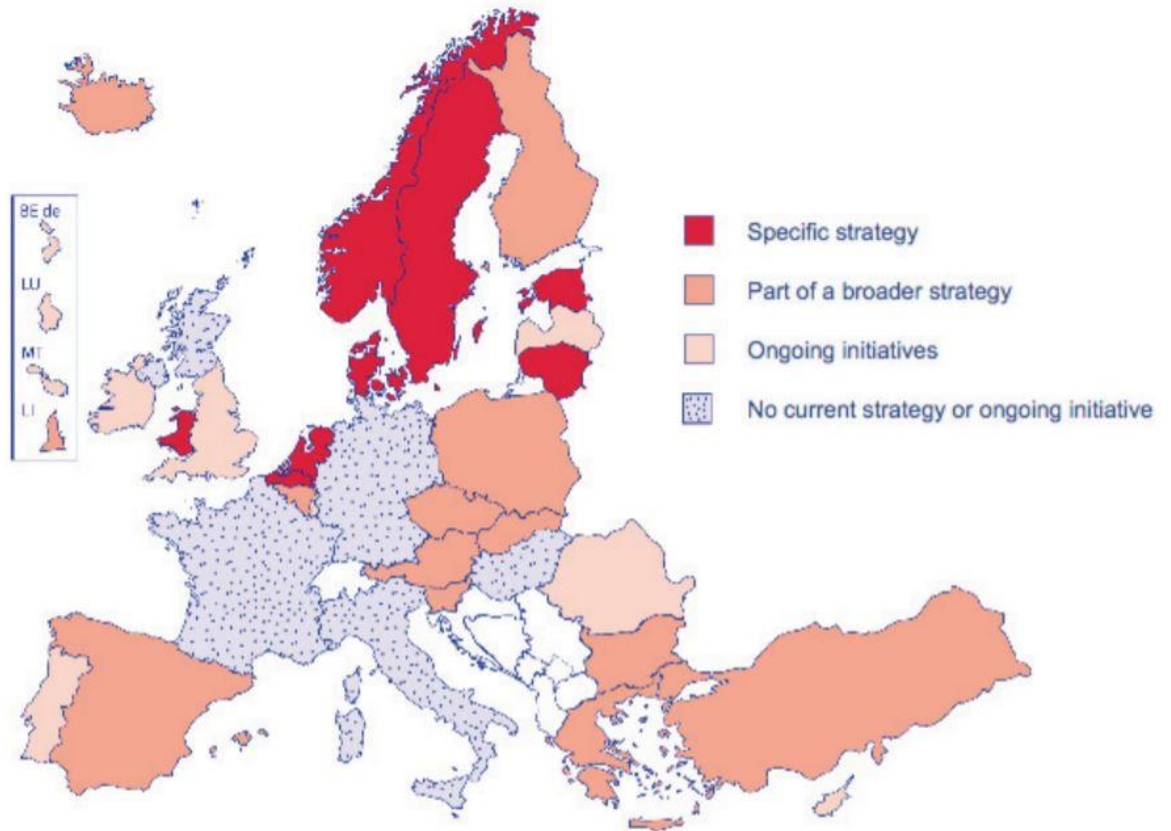


Figure 5: National techniques for business instruction crosswise over Eurozone

(Source: European Commission)

## **The Goal**

Steadying Europe in the small and long haul will require the venture and arrangement of youngsters. At the present time, nearby gatherings have an abundance of issues to determine. We are sure of that the best arrangement is a best down interest in a base up strategy. The reason for business training will be to include youngsters to determine nearby issues, and to include them in a way that will keep them as givers to their home groups. Key components will be: instructing for authorisation; instructing abilities that they know will proceed with a lifetime; coordinate meeting with local organizations; meeting with EU give shots and an expanded consciousness of EU residency; and a hatchery show and proceeding with arrangement to guarantee that training is converted into act with the best chances of achievement. Our task is to take the plummeting winding of joblessness, youth separation, and flight, to a hopeful winding of arrangement, shot, development and neighborhood venture.

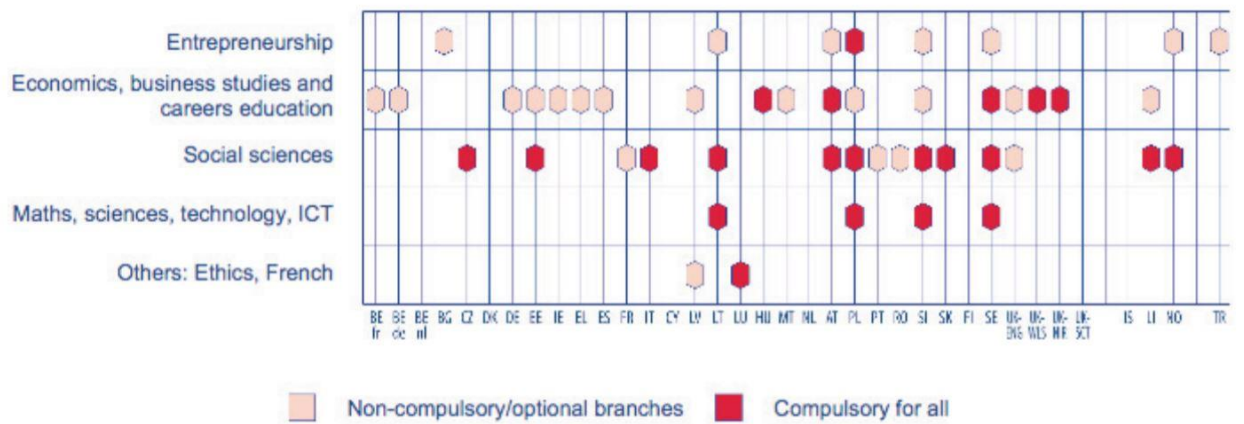


Figure 6: Reconciliation of enterprise training in European secondary schools. The economies as of now in most noteworthy emergency in Europe by and large have bring down rates of necessary business enterprise instruction

(Source: 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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