International Journal of Public Administration, Management and Economic Development
Faculty of Administration and Economic Studies in Uherské Hradiště, Jagiellonian College in Toruń

Risk factors of the current crisis management of the euro area and their impact on the economic development of the European Union

Oldřich Rejnuš
Faculty of Business and Management, Brno University of Technology.
Kolejní 4, Brno, Postal Code 612 00, Czech Republic, Email: rejnus@fbm.vutbr.cz

Roman Brauner
Faculty of Business and Management, Brno University of Technology.
Kolejní 4, Brno, Postal Code 612 00, Czech Republic, Email: rejnus@fbm.vutbr.cz

Abstract

The article deals with the contemporary development of the European Monetary Union (euro area) with a focus on its key problems and ways of their solution. Its aim is to assess the meaningfulness of the 'Eurozone' project, including the gradual introduction of the single European currency into other countries and the consequences it causes. The first part of the paper describes the emergence and initial development of the European Union and the adoption of the European common currency, including the initial consequences that caused it. Subsequently, the methods and effectiveness of macroeconomic regulation of the European Central Bank in the following stages of crisis and so-called “post-crisis” development are analyzed, focusing on specifically used ECB monetary policy instruments and achieved results. And then the current economic situation in which the euro area and the European Union are currently being situated is analyzed. The penultimate part then evaluates the primary and secondary impacts of the use of the single European currency on economic development in the euro area, as well as the impacts of the current monetary management method of the European Central Bank. The very conclusion of the paper deals with the evaluation of benefits, respectively the results of the use of the single European currency, both in the euro area and throughout the European Union.

Keywords: eurozone; monetary regulation; European central bank; crises factors; euro

1. Introduction

The spring of 2019 witnessed the celebration of the twentieth anniversary of the existence of the European Monetary Union (euro area), which marks the twenty years of the use of the single European currency “the euro”. Although the European Commission President Jean-Claude Junker said in his speech that "the single European currency has brought prosperity, has become a symbol of unity, sovereignty and stability and has provided protection for citizens", he has not convinced anyone. His speech only reminded the parties that twenty years ago the Maastricht Treaty had brought a structural transition from cooperation of the then sovereign European nation states to the creation of a separate, transnational political entity with its own powers transferred from the national level. The European Community has become a

European Union, and adopted the common currency, and thus a common transnational monetary policy has become a practical tool for the realization of a transnational European superstate which - irrespective of its final formal form and name - had (and has) historically the function to replace the sovereign states. This is where conflicts between supporters and critics of the functioning of the euro area comes from. While we find countless economic arguments and data damning the euro for huge costs and systemic defects, its proponents are deaf to them. For them, it is not an economic project, but a political project (Skopeček 2019).

The current problems of the European Union (and of the euro area in particular) have not arisen by themselves, but are the result of a number of causes which arose by people's misconduct (or purely purposeful acting). Therefore, in order to identify and properly evaluate these causes, it is necessary to analyze the issue in the most complex and systemic context. This implies that it is not only the financing or the economy that needs to be addressed, but also other, in particular political, factors that are also significantly related to the current problems of the European Union

2. Origin and future development of the European Union and Europe

The European Union was formally established by the signing of the Maastricht Treaty in February 1992. It set out the principles for moving towards the common currency and agreed a timetable to set 1 January 1999 as the latest date for the creation of a monetary union. Convergence criteria were also formulated, in other words the fulfillment which was supposed to be binding for participation in the monetary union, and the institutional design of the euro area, headed by the newly established European Central Bank (ECB), whose primary mission was to maintain price stability. The ECB took up its responsibilities in June 1998 and presented its monetary strategy in October 1998. Subsequently, on the 1st January 1999, a cashless euro was introduced in the first 11 countries, with banknotes and coins introduced three years later on the 1st January 2002.

As the Governor of the Czech National Bank Miroslav Singer (2012) stated, the first decade of the euro seemed to be a functional and successful project. Monetary integration progressed at a fast pace, loans flowed across borders in rising volumes, interest rates converged, the euro stimulated growth in trade, and the southern wing countries grew rapidly.

Since it was clear that the changeover to the single currency will lead the individual states to lose, respectively their central banks to lose the possibility of pursuing their own monetary policy, there was a concern that economically weaker countries would not generate large public budget deficits. Therefore, in 1997 the EU member states adopted a common coordination mechanism "Stability and growth pact" (SGP) to avoid fiscal undisciplined action. It specified how the budgetary policies of the member states of the European Union would be coordinated, and made a binding commitment that the medium-term budgetary objective (MTO) was to be balanced and an Excessive deficit procedure (EDP) could be implemented with countries that violated it. On the other hand, however, it did not deal with ways of dealing with financial crises, respectively procedures to assist governments in default and not even address any exit from the euro area.

However, the belief that euro-area membership would lead individual member states to greater discipline in their economic policies proved to be an illusion, and as early as 2002, when the European Commission proposed to penalize France and Germany for excessive deficits, these strongest states pushed for no sanctions to be imposed on them and, moreover, since 2005 the originally agreed rules were softened.

From the findings of Singer (2012), Zahradník (2005), Prušvice (2010) and Rejnuš (2015), it can be concluded that the main shortcomings of the initial development of the euro area were as follows:

- The euro area was not an optimal currency area at the time of its inception or later due to differences in competitiveness between member states.
- Weaker economies that offered higher interest yields were raising capital, but only at the cost of higher risk, which creditors' banks have long ignored, assuming that EU leadership will resolve the situation. This implies that the euro area did not bring about an improvement in capital allocation, rather the contrary.
- Easy access to low-cost credit encouraged rapid growth in private and public spending, creating current account deficits.
- Capital inflows and low real interest rates in countries with higher inflation have caused their economies to overheat.
- Most euro area countries did not use the initial economic growth to consolidate public finances, ie. to reduce structural deficits and debt.
- Eurozone rules were not respected.
- The EU political elites (including the ECB) have long downplayed the problems and, instead of real solutions, only adopted operational measures, suitable only for the so-called "time buying".

As a result, in the European Union, the economically strongest Germany was gaining increasingly their price competitiveness thanks to the single European currency (which could not weaken against the currencies of the weaker countries), and the current account deficits of southern European countries were increasingly offset by Germany's current account surpluses. However, this further weakened the weaker economies, obscuring structural differences between countries, insufficient fiscal discipline, as well as weaknesses in the institutional framework. Worst of all, it turned out that, unlike small states that are obliged to comply with the rules in force, large states can violate them with impunity.

3. Analysis of the single monetary management of the euro area

The existence of the euro must be stressed when analyzing the ways of managing the European Union. This is because the European Union is not a unified whole, but an economic community of many states that are gradually creating a monetary union. And the functionality, or vice versa, of the majority of the system using the European single currency has a decisive impact on the development of the European Community as a whole.

3.1 Analysis of euro area management at the height of the financial crisis (2009-2010)

The first significant examination of the functioning of the euro area was the beginning (peak phase) of the global financial crisis, which originated in 2008. Although its emergence can be seen as a result of the development of the US economy in particular, its effects were global. Nor did they avoid the European Union, with each Member State affected differently. As the former Governor of the Czech National Bank (Singer 2012) states, the problems of individual EU member states were the result of their past management. Some countries "lived above their circumstances” (especially Greece) before the crisis. Others (eg. Spain or Ireland) managed relatively well, but the economic downturn and the rescue of banks significantly worsened their fiscal situation. Approximately two months after the outbreak of the financial crisis, investors began to differentiate between the solvency of government debt of individual member states, making public debt financing expensive or even impossible for many states.

This has caused fiscal policy, instead of dampening financial shocks, to become an additional source in most euro area countries, leading to a massive shifting of debt into public finances, contributing to the recession. In connection with this, however, the question arises of what the European Central Bank did all the time, respectively how responded to this situation? After the outbreak of the financial crisis in 2008, it quite rightly began to provide banks with virtually unlimited amounts of money for 1% interest, but this gradually turned into a very unsystematic and chaotic management of the European banking system.

Sulík (2012) mentions concrete examples of this ECB behaving, for example: the gradual reduction of the required guarantees for the purchases of bonds from commercial banks to unrated bonds, so called “printing of money by the euro area national banks under the adopted Emergency Liquidity Assistance (ELA) program, noting that the central banks of the two largest and most indebted euro area countries, France and Italy, belong to private banks. In addition, it involves legally unauthorized purchases of euro area government bonds, allowing banks to create Asset Backed Securities (ABS) and subsequently accept them as guarantees and then even buy them from them. Last but not least, is not paying attention to illegal operations of commercial banks (eg. providing bank loans by banks to themselves, issuing bonds with a maturity of several thousand years, etc.). It follows that, although in 2009 it was publicly declared by European politicians and euro-supporters that “Monetary Union and the euro are a huge success and the euro has become a pillar of stability and the world economy (Karpiš, 2015), it was not so. Indeed, it turned out that those European countries that had previously given up their own currency are unable to defend themselves. By renouncing their own currencies, they also gave up the possibility of using their own monetary policy and became totally dependent on the measures of the European Central Bank. And since it had to manage the entire euro area monetarily, it could not individually address the specific problems of individual states.

Moreover, lost the tool of possible targeted weakening of their own national currencies, which forced their governments to deal with the situation fiscally, or by getting into the extreme debt. It follows from the above mentioned that the global financial crisis peaking in 2009 and 2010 has shown that the main problem of the euro area lies not only in non-compliance with the adopted rules, but in particular in its inconsistency. At the same time, it has shown that the single monetary policy has led to a significant widening of the disparities between the southern wing countries and the EU core, so that the euro zone's continued dependence is on ECB crisis measures, namely non-standard loans, fiscal transfers and "political solidarity" between European states. This means that the EU's largest project, with the ambition to significantly accelerate economic growth to a level that ensures global competitiveness, has not yielded anything positive for more than a decade, and has also threatened to collapse with disastrous consequences (Singer 2012).

3.2. Analysis of monetary management of the euro area in 2011-2018

After overcoming the most critical years of 2009 and 2010, it was widely believed that the euro area economy was gradually stabilizing and that the crisis had been successfully resolved. It was not so. A further decline in GDP has already started in the euro area in 2012 and discussions on the meaningfulness of the euro have begun to reoccur. The new ECB Governor Mario Draghi then responded to this with his historically renowned statement: "The European Central Bank is ready to do anything to save the euro. Believe me, it will be enough". As a result, the ECB started to slacken its monetary policy considerably. In addition to interest rate cuts and money printing, in March 2015, due to a sudden decline in GDP and the impossibility of further interest rate cuts, a new non-standard monetary regulation tool called "Quantitative Easing" (QE) which means banks to supply additional liquidity to the banking sector. Under this program, bonds worth 2.6 trillion were purchased by the European Central Bank by the end of 2018. €, which is 7 ths. € per euro area citizen. As it was subsequently reflected in the ECB's balance sheet, which caused the ECB's balance sheet to exceed 4.5 trillion in 2018. €. (Tradingeconoics.com, 2019).

In a very aggressively conducted QE, the ECB bought € 60 billion of bonds from commercial banks per month and afterwards even worth € 80 billion of bonds, which it further supported by lowering its main interest rate to zero and the refinancing rate (which remunerates commercial bank deposits recorded in the accounts of the central bank) even down to -0.4% pa. As a result, GDP growth in the euro area has recovered, starting to increase since 2016 (Tradingeconoics.com, 2019).

This has led to the subsequent general optimism that the problem of insufficient euro area growth has been successfully resolved and, as a result, the current QE program was officially terminated at the end of 2018. At the same time, the ECB declared that it will gradually normalize (increase) interest rates in the summer of 2019. However by Tradingeconoics.com (2019), as it turned out, at the end of 2018, the annual percentage increases in GDP (calculated as the ratio of GDP in the current quarter to the same quarter of the previous year) began to decline.

3.3. Analysis of current economic development in the euro area (resp. European Union)

Currently (in 2019), a total of 28 countries belong to the European Union, of which 19 use the euro. These are Belgium, Estonia, Finland, France, Ireland, Italy, Cyprus, Luxembourg, Latvia, Lithuania, Malta, Germany, the Netherlands, Portugal, Austria, Greece, Slovenia, Slovakia and Spain. This means that, as the following table shows, the European Union currently has around 513 million people, but the euro area, which does not include the UK, Poland, Romania, Czech Republic, Sweden, Hungary, Bulgaria, Denmark and Croatia, has only 322 million.

Table 1: Population of the European Union as of January 1, 2019

European Union		513 481 691	
Germany	83 019 214	**Austria**	8 858 775
France	67 028 048	**Bulgaria**	7 000 039
United Kingdom	66 647 112	**Denmark**	5 806 081
Italy	60 359 546	**Finland**	5 517 919
Spain	46 934 632	**Slovakia**	5 450 421
Poland	37 972 812	**Ireland**	4 904 226
Romania	19 401 658	**Croatia**	4 076 246

Netherlands	17 282 163	**Lithuania**	2 794 184
Belgium	11 467 923	**Slovenia**	2 080 908
Greece	10 722 287	**Latvia**	1 919 968
Czech Republic	10 649 800	**Estonia**	1 324 820
Porutgal	10 276 617	**Cyprus**	875 898
Sweden	10 230 185	**Luxembourg**	613 894
Hungary	9 772 756	**Malta**	493 559

Source: Eurostat

The above overview shows that Germany, France, Italy and Spain have the most important positions in the euro area, with a total population of 257 million, accounting for about 80% of the total euro area population and accounting for about 75% of its GDP. This clearly determines who has the greatest influence on developments in the euro area, not only economic but also political. When assessing the current economic situation of the euro area, a number of sub-factors need to be analyzed, as it is necessary to ascertain whether the use of non-standard monetary regulation instruments has actually solved existing problems in the euro area's economic development or not. However, this would mean that they could return in the future and act even more intensively than in the past. At the same time, it is also important to pay the greatest attention to the four most important countries mentioned above, especially to Germany, and then to France, Italy and Spain. As they are the most important economies of the euro area, it is clear that their impact on the euro area's economic performance will also be greatest and that (together with the United Kingdom) they also have the greatest impact on developments throughout the European Union.

3.3.1. Analysis of the current economic development in the euro area

When analyzing the current economic developments in the euro area, it is not enough to only analyze its overall GDP, but it is also necessary to pay close attention to the economic development of Germany, in particular France, Italy and Spain. Mainly dynamically, or following the predictions of their percentage economic growth.

The following table 1 shows quarter-on-quarter GDP development since the 4th quarter of 2017. This is also important because the possible occurrence of two subsequent declines is statistically considered to be a "technical" recession. The table below shows, among other things, that GDP growth has slowed considerably in the euro area and that Germany is starting to run into economic growth problems in addition to Italy.

Table 2: Euro Area GDP Growth Rate [%]

	IV/2017	I/2018	II/2018	III/2018	IV/2018	I/2019	II/2019	III/2019
Eurozone	**0,8**	**0,3**	**0,4**	**0,2**	**0,3**	**0,4**	**0,2**	**0,2**
Germany	0,7	0,1	0,4	-0,1	0,2	0,5	-0,2	0,1
France	0,7	0,2	0,2	0,3	0,4	0,3	0,3	0,3
Italy	0,5	0,1	-0,1	-0,1	0,1	0,1	0,1	0,1
Spain	0,7	0,5	0,5	0,5	0,6	0,5	0,4	0,4

Source: Trading economics

Table 3 further demonstrates a significant slowdown in annual GDP growth both in the euro area as a whole and in all other large states, including Germany. This is particularly a warning factor, as the problems of the most important euro area economy and the largest European exporter can destabilize the economy of the whole euro area (and thus of the whole European Union).

Table 3: Euro Area GDP Annual Growth Rate [%]

	IV/2017	I/2018	II/2018	III/2018	IV/2018	I/2019	II/2019	III/2019
Eurozone	**3,0**	**2,6**	**2,3**	**1,7**	**1,2**	**1,3**	**1,2**	**1,1**
Germany	3,4	2,3	2,1	1,1	0,6	0,9	0,4	0,5
France	3,0	2,4	1,9	1,5	1,2	1,3	1,4	1,3
Italy	1,9	1,4	0,9	0,4	-0,1	0,0	0,1	0,3
Spain	3,0	2,8	2,3	2,2	2,1	2,2	2,0	2,0

Source: Trading economics

The following table 4 is also very important. “Manufacturing production” is a very important indicator of industrialized countries and, in addition to being broadly taken, it is also published monthly. This means that it is an important indicator of GDP growth in the next quarter. Statistically, it is a comparison of the current month with the same month of the previous year, which in this case indicates a significant slowdown not only in the economy of the entire euro area, but also in the economies of most major European states. Moreover, in the mentioned cases, it is clear that the most critical situation is probably in Germany and Italy, while France has not prevented the decline of this indicator. As for the other smaller euro area countries, their situation is mostly similar.

Table 3: Euro area production [%]

	12/18	1/19	2/19	3/19	4/19	5/19	6/19	7/19	8/19	9/19	10/19
Eurozone	**-3,9**	**-1,5**	**0,7**	**0,2**	**-0,9**	**-0,9**	**-2,6**	**-2,2**	**-2,8**	**-1,8**	**-2,3**
Germany	-3,1	-3,7	-1,7	-2,4	-4,3	-5,1	-5,8	-4,8	-4,1	-5,2	-6,1
France	-2,1	1,3	2,8	0,5	0,4	3,4	-0,5	0,0	-1,4	0,5	0,1
Italy	-5,8	-2,5	1,3	-1,3	-2,2	-0,7	-1,8	-1,4	-2,8	-2,2	-2,7
Spain	-2,3	1,0	1,4	0,6	1,5	1,0	1,0	0,1	0,5	0,1	-0,2

Source: Trading economics

The evolution of all three indicators above concludes that even the extremely strong and relatively long-term deployment of the ECB's non-standard monetary regulation instruments (introduced during Governor Mario Draghi's work) has not been able to eliminate the economic problems of the European Monetary Union. And both the euro area and the European Union as a whole will probably have to face further crisis developments soon.

3.3.2. Recent developments in ECB interest rates

The analysis of ECB interest rates is also very important. Nowadays, various expressions of their "insignificance" (eg. in the context of the so-called "Modern Monetary Theory" (MMT)) are becoming more and more common, the opposite is true (Rejnuš, 2019).

Interest rates are of extreme economic importance, and violations of the principles of economic governance associated with them can be very dangerous (Ezrati, 2019).

The European Central Bank declares a total of three interest rates, the main rate being the "main refinancing operations rate" at which commercial banks borrow money from the ECB for one week (which they must, however, provide with collateral). Furthermore, the "rate on the deposit facility" is also extremely important. It determines the interest received by banks - or, if it is negative, pays on deposits deposited with the ECB for a day,

The evolution of the ECB's key interest rate since 2008, when it was around 4% p.a., The ECB has significantly reduced this rate during the peaking crisis to save the euro area, so it has never been able to normalize. It is also extremely important that it has been zero since 2016 (European Central Bank, 2019).

However, an even worse situation can be observed in the development of the deposit facility rate, this rate is equal to zero from the 11^{th} of June 2004 and therefore commercial banks has to pay for their money deposited with ECB. Since then, this negative rate has been gradually decreasing, while at present (in 2019) it is already at -0.5% p.a. (European Central Bank, 2019).

The conclusion is unequivocal: the European Central Bank has already exhausted the standard monetary regulation of the euro area banking system and has no choice but to use very drastic and practically unverified non-standard instruments. And, as will be shown below, there are a number of consequential negative consequences.

3.3.3. Recent developments in the debt of the euro area and individual European states

As illustrated in previous Figures 3 and 4, although the European Central Bank has been able to boost moderate economic growth in the euro area since 2014, the question arises: at what price? According to economic theory, there exists the rule that expansionary monetary policy brings the risk of indebtedness for all types of economic entities, and so this will be the subject to following analysis. This will be done in two steps, first focusing on the development of public debt and then on the volume of loans to the private sector.

As follows from European Central Bank (2019), the evolution of euro area public debt corresponds to standard theoretical assumptions. Despite the fact that its growth slowed somewhat compared to the peak of the crisis, in absolute terms it continues to grow gradually and its value is close to 10 trillion. EUR. First, this means that the theoretical postulate that GDP growth is to be financed by savings and not by debt financing is still partially violated. Secondly, it also suggests that the current strong expansionary monetary policy of the ECB, using non-traditional regulatory instruments, tends to keep the euro area economy running and postpone the solution to the growing problems for later.

In practice, however, the ratio of public debt to GDP ratios is more often used. If we preferred this data, we could be mistaken to believe that the size of euro area public debt is gradually decreasing. This is not true. At the same time, as the euro area's GDP is currently rising somewhat, the denominator of this indicator is also increasing - if, however, another crisis wave occurs and GDP declines, the euro area's public debt referring to its GDP would increase sharply.

However, to get real picture of the current situation it is not sufficient to assess the euro area or the European Union as a whole, but it is also necessary to assess national indebtedness of all European states. Their situation is shown in Table 4 below, which lists all the countries of the European Union (including the United Kingdom) for the sake of completeness, while those outside the euro area are shown in italics only.

Table 4: Indebtedness of individual states of the European Union since 2008 [in% of GDP]

State /Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belgium	**93.2**	**100.2**	**100.3**	**103.5**	**104.8**	**105.5**	**107.0**	**105.2**	**104.9**	**101.8**	**100.0**
Bulgaria	*13.0*	*13.7*	*15.4*	*15.2*	*16.7*	*17.1*	*27.1*	*26.0*	*29.3*	*25.3*	*22.3*
Czech republic	*28.3*	*33.6*	*37.4*	*39.8*	*44.5*	*44.9*	*42.2*	*40.0*	*36.8*	*34.7*	*32.6*
Denmark	*33.3*	*40.2*	*42.6*	*46.1*	*44.9*	*44.0*	*44.3*	*39.8*	*37.2*	*35.5*	*34.2*
Germany	**65.5**	**73.0**	**82.4**	**79.8**	**81.1**	**78.7**	**75.7**	**72.1**	**69.2**	**65.3**	**61.9**
Estonia	**4.5**	**7.2**	**6.6**	**6.1**	**9.8**	**10.2**	**10.6**	**10.0**	**10.2**	**9.3**	**8.4**
Ireland	**42.4**	**61.5**	**86.0**	**111.1**	**119.9**	**119.9**	**104.4**	**76.7**	**73.9**	**67.8**	**63.6**
Greece	**109.4**	**126.7**	**146.2**	**172.1**	**159.6**	**177.4**	**178.9**	**175.9**	**178.5**	**176.2**	**181.2**
Spain	**39.7**	**53.3**	**60.5**	**69.9**	**86.3**	**95.8**	**100.7**	**99.3**	**99.2**	**98.6**	**97.6**
France	**68.8**	**83.0**	**85.3**	**87.8**	**90.6**	**93.4**	**94.9**	**95.6**	**98.0**	**98.4**	**98.4**
Croatia	*39.3*	*48.7*	*57.8*	*64.4*	*70.1*	*81.2*	*84.7*	*84.4*	*81.0*	*78.0*	*74.8*
Italy	**106.1**	**116.6**	**119.2**	**119.7**	**126.5**	**132.4**	**135.4**	**135.3**	**134.8**	**134.1**	**134.8**
Cyprus	**45.6**	**54.3**	**56.4**	**65.9**	**80.3**	**104.0**	**109.2**	**107.5**	**103.4**	**93.9**	**100.6**
Latvia	**18.1**	**36.2**	**47.3**	**43.1**	**41.6**	**39.4**	**40.9**	**36.7**	**40.2**	**38.6**	**36.4**
Lithuania	**14.6**	**28.0**	**36.3**	**37.2**	**39.8**	**38.7**	**40.6**	**42.7**	**39.9**	**39.3**	**34.1**
Luxembourg	**14.9**	**15.7**	**19.8**	**18.7**	**22.0**	**23.7**	**22.7**	**22.0**	**20.1**	**22.3**	**21.0**
Hungary	*71.8*	*78.2*	*80.6*	*80.8*	*78.5*	*77.3*	*76.8*	*76.1*	*75.5*	*72.9*	*70.2*
Malta	**62.6**	**67.6**	**67.5**	**70.2**	**67.7**	**68.4**	**63.4**	**57.8**	**55.5**	**50.3**	**45.8**
Netherlands	**54.7**	**56.8**	**59.2**	**61.7**	**66.2**	**67.7**	**67.8**	**64.6**	**61.9**	**56.9**	**52.4**
Austria	**68.7**	**79.9**	**82.7**	**82.4**	**81.9**	**81.3**	**84.0**	**84.9**	**82.9**	**78.3**	**74.0**
Poland	*46.3*	*49.4*	*53.1*	*54.1*	*53.7*	*55.7*	*50.4*	*51.3*	*54.2*	*50.6*	*48.9*
Portugal	**75.6**	**87.8**	**100.2**	**114.4**	**129.0**	**131.4**	**132.9**	**131.2**	**131.5**	**126.0**	**122.2**
Romania	*12.3*	*21.8*	*29.6*	*34.0*	*37.0*	*37.6*	*39.2*	*37.8*	*37.3*	*35.1*	*35.0*
Slovenia	**21.8**	**34.5**	**38.3**	**46.5**	**53.6**	**70.0**	**80.3**	**82.6**	**78.7**	**74.1**	**70.4**
Slovakia	**28.6**	**36.4**	**41.0**	**43.5**	**51.8**	**54.7**	**53.5**	**51.9**	**52.0**	**51.3**	**49.4**
Finland	**32.6**	**41.5**	**46.9**	**48.3**	**53.6**	**56.2**	**59.8**	**63.0**	**62.6**	**60.9**	**59.0**
Sweden	*37.7*	*40.9*	*38.2*	*37.3*	*37.7*	*40.5*	*45.2*	*43.9*	*42.3*	*40.7*	*38.8*
Great Britain	*49.4*	*63.3*	*74.6*	*80.1*	*83.2*	*84.2*	*86.2*	*86.9*	*86.8*	*86.2*	*85.9*

Source: Eurostat

The table 4 shows the very sad fact that while small states, with the exception of Belgium, Cyprus, Greece and Portugal, are not too indebted, large states such as France, Italy and Spain (and the UK) are blatantly extremely indebted regardless of the Maastricht criteria adopted, aware that no sanctions would be imposed on them.

The issue of the development of private debt was significantly different from the development of public debt. In a period of peak crisis, its volume declined, which was due to a significant reduction in household consumption and also due to a reduction in business investment. However, since the ECB's extremely strong monetary expansion began, it has also started to increase as a result of a significant easing. It went to the extent that from 2015 to 2018 the private debt increased by about 1 trillion. EUR, so it is currently about 11.4 trillion. EUR (about EUR 1.5 trillion more than the total public debt of the euro area). This is also a significant risk factor in the event of another crisis wave. (European Cental Bank, 2019)

3.3.4. Analysis of other important indicators of economic health of the eurozone

Clearly, only three economic indicators cannot comprehensively characterize the development of a broad economic community such as the euro area or the European Union as a whole. Therefore, Table 5 below shows the latest known data on unemployment, inflation, rating and the yield of ten-year government bonds, both in the euro area as a whole and in Germany, France, Italy and Spain.

Table 5: Other macroeconomic indicators for the euro area and its major states

COUNTRIES	**Jobless rate** [10/2019]	**Inflation** [10/2019]	**Government bond 10Y yield** 12/ 2019]	**Rating S&P** [11/2019]
Eurozone	**7,50 %**	**0,70 %**	**+0,37 % p.a.**	**AA**
Germany	3,10 %	1,10 %	−0,29 % p.a.	AAA
France	8,60 %	0,70 %	+0,02 % p.a.	AA
Italy	9,70 %	0,30 %	+1,35 % p.a.	BBB
Spain	13,90 %	0,10 %	+0,40 % p.a.	A

Source: Eurostat

The first indicator, which is unemployment, shows that although economic growth in recent years has reduced unemployment in the euro area somewhat, it is still too high. This also applies to France and, above all, Italy and Spain, where unemployment levels seem to be absolutely critical. It should be added that some of the smaller European states are also in this bad situation namely Greece.

As far as the current inflation rate is concerned, all reported values can be considered to be very low, confirming relatively weak economic growth.

As far as the current yield of 10Y government bonds is concerned, the reported values do not appear to be realistic from an economic point of view. They appear to be significantly decreased due to the exceptionally strong monetary expansion of the ECB. However, the ECB's end to its monetary policy would endanger the functioning of the entire euro area banking system.

With regard to Standard & Poor's rating and looking at the overall situation in the euro area its rating seems to be somewhat overvalued. Both the euro area rating and the ratings of all its major states.

3.4. Conclusions of the analysis on the economic development of the euro area

The results of the analysis of the "economic health of the euro area" show that the euro area, and hence the EU as a whole, are in fact in a pre-crisis situation, which could even threaten an overall economic collapse in the event of another world crisis. GDP growth is practically stagnating, indebtedness has already reached extreme and irrecoverable values. And the European Central Bank is no longer able to address the growing problems of the euro area banking system with standard monetary instruments. And the use of non-standard tools can help the economy in the short term, but in the long run their use is very dangerous.

4. Is the euro responsible for the current critical situation of the European Union?

In this case, the basic question arises. Is the European Union's single currency responsible for the long term crisis development in the European Union, resp. what would be the situation if individual euro area or European Union countries retain their own currencies?

The assessment of the impact of the euro on the current economic situation of the euro area will be carried out in two steps. Firstly, the individual negative impacts of the single European currency itself will be evaluated. And then whether the current euro area problems can be solved successfully if the single currency exists.

4.1. The primary negative consequences of the introduction of the single European currency

The primary reasons for the harmfulness of the euro are those crisis phenomena caused by the very introduction of the single European currency - the euro.

4.1.1. Deepening the differences in economic maturity between EU countries

It is now sufficiently demonstrated that the main problem of the euro area lies in its inconsistency, respectively in the violent union of economically weak countries with strong countries. And these differences are even greater by the use of the single European currency.

This is because the single currency requires a central (single) monetary policy that cannot distinguish too much between economically developed and lagging states. And since individual states cannot regulate the strength of their currencies according to their needs, they increasingly depend on the ECB. And it has gone so far that the persistence of the euro area today de facto depends solely on the ECB's "crisis" measures; especially on non-standard loans, fiscal transfers and "political solidarity" between European countries. The common Schengen area also collapses. According to Janáček and Janáčková, these two pillars were supposed to herald the direction from economic and monetary union to political union, while by being undercut they are now “a catalyst for the disintegration of the European Union” (Janáček & Janáčková 2017).

4.1.2. Increasing export dominance of economically strongest countries

As a result of the single European currency, Germany is also gaining ever greater price competitiveness. As a result, current account deficits, in particular in southern European countries, are increasingly offset by its current account surpluses (Singer 2012). George Friedman even claims that Germany has already eliminated competition in other euro area countries and has become the export superpower with the highest surplus since its unification (April 2016). German export policy has created an imbalance across the euro area. Due to the euro, Germany managed to gain markets in economically risky countries such as Portugal, Ireland, Italy, Greece, Spain, etc. But it is necessary to pay for products and services, and if the economy is in crisis, it leads to debt and debt carousel. This creates a simple cycle: Germany produces a machine that Italy wants to buy, but it lacks money and therefore borrows for it. Thus, while Germany would obtain money by exporting the machine, it had to give Italy credit before doing so. But the economies of neighboring states cannot be vacuumed forever. And if Germany does not have enough export earnings, it will have nothing to borrow from to other states, which will not be able to buy its goods.

This implies that in Europe, a significant problem arises, which is increasingly being borne by, for example, Italy, which is already starting to collapse in the banking system due to its indebtedness and bad debt (but this also applies to other euro area countries). And Germany will necessarily have to hold Italy back because its bankruptcy would cause the entire euro area to collapse.

4.1.3. Deepening the extreme indebtedness of many EU countries, especially euro area members

As the euro area countries adopted the common currency, they lost the opportunity to pursue their own monetary policy. And since they cannot use monetary instruments of macroeconomic regulation, their governments must replace monetary management with fiscal management, which inevitably leads to budget deficits in less developed economies and thus further debt.

It is also important that the Stability and Growth Pact (SGP) mechanism, which was designed to prevent fiscal restlessness, did not address the issue of financial crisis management, nor how to help states in default.

4.1.4. Threats to the functioning of the European banking system

Nowadays, following the extreme indebtedness of most European countries, questions about the possible collapse of the euro area banking system, in particular the banking systems of Italy and Greece, are increasingly being discussed. It also includes a problems occurring in many other countries (the strongest euro area countries), including Germany where, for example, the so-called "restructuring" of Deutsche Bank is now under way. This largest German bank is currently in the highest loss since the financial crisis and will lay off 18,000 employees (Financial Times, 2019).

If the member states of the Union stayed with their national currencies, the problems of individual countries were continuously solved by standard methods and the current, practically unsolvable problem of saving the European banking system of nineteen European states would not exist. Indeed, this common banking system already operates only on the basis of strong monetary support from the ECB through extreme monetary regulation instruments, and would probably collapse if the ECB were to withdraw this support.

According to a recent survey by McKinsey, banks in the euro area are under pressure from very low or even negative interest rates, reducing their income. It goes to the extent that a possible withdrawal of the conjuncture could be fatal to them and so it could happen that ten years after the financial crisis, almost every third bank could close its doors (Lacroix 2019).

Therefore, in September 2019 it was again decided to launch a new round of QE and to introduce other ways of supporting European commercial banks.

4.2. Secondary consequences of using the single European currency

The secondary reasons for the harmfulness of the euro can be understood as those factors that appear only secondary. That is to say, in the implementation of remedial measures, to fix crisis problems that have been caused by the introduction of the single currency and which make it impossible to be solved successfully.

4.2.1. Consequences of zero or negative interest rates

The use of zero and even negative interest rates destabilizes virtually the entire banking sector as well as the performance of virtually all types of financial institutions.

First, they cause negative impacts on commercial bank's performance. As a general rule, banking assets are long-term but are financed by short-term liabilities. This implies that banks are getting a "net interest margin" from the difference between short-term and long-term interest rates, which does not work at zero or negative rates.

Second, there are negative impacts on the management of pension companies, respectively pension funds. They are obliged to comply with strict security rules regarding the composition of their portfolios, so they are not allowed to buy risky assets. And if government bonds show negative returns, pension fund management is increasingly leading to risky trades and sometimes even to technical insolvency.

Another disadvantage is that the correct valuation of investment instruments is impossible. Extremely low or even negative interest rates exclude from the use of a number of standard analytical methods traditionally used in the valuation of financial (but also real) investment instruments, while the predicative ability of many indicators or models of financial analysis is considerably weakened. All this increases the nervousness not only of investors but practically of all financial market participants and consequently is reflected in the high volatility of both securities and the volatility of market prices in all segments of the financial market.

And unprecedentedly the most dangerous situation for the further development seems to be the situation on the markets of derivative instruments, whose exposure within the European banks is very significant. This is due to the existence of financial leverage, and to the fact that the valuation of financial derivatives tends to be complex and often dependent on a number of predefined input assumptions that may not apply under current non-standard market conditions. Many derivative instruments (including structured products) are interest rate, currency or credit based, which may lead to unexpected price developments or, in the case of credit derivatives, they may so called “activate” in the event of conversion or valuations or interest rate changes of their underlying assets.

Last but not least, it is necessary to emphasize that it is also support for further indebtedness of all types of economic entities. Extremely low or even negative interest rates lead to further indebtedness of states, firms and households, often spending unnecessarily on anything (since low interest rates do not lead to "allocation efficiency").

And since it can be considered a proven statement that "stimulation leads to further stimulation", it is clear that the longer this monetary policy period is, the more difficult it will be to change it. This gradually creates conditions for future surge or hyperinflation and, in connection with this, for announcing currency reforms.

And what is the specific significance of the single European currency in all this, except that it has greatly contributed to the emergence of this disastrous situation across the euro area? The harmfulness of the euro is primarily that negative interest rates are imposed by the European Central Bank on all nineteen countries, whether or not their economy needs it. This means that all those who save honestly and those who are blatantly in debt are treated in a uniform way. And this affects not only about 320 million citizens, but also companies or governments and local governments of all nineteen euro area countries.

4.2.2. Impacts of 'Quantitative easing'

Obviously, the use of the QE method implies hidden financing of governments (or other entities) by the European Central Bank. As shown in Figure 2 above, the buy-backs of bonds from commercial banks are subsequently reflected in the ECB's balance sheet, which is rising significantly.

Sovereign states with their own central banks and their own currencies use different options to amortize sovereign debt; but who in the future will equalize the ECB's euro-denominated balance sheet, which does not belong to any state and belongs to all 19 euro area countries?

4.2.3. Extreme “printing” of money

As far as “money printing” is concerned, this is obviously not about cash money printing, but about the emergence of deposit money, which, “with the approval of the ECB”, creates the central, respectively commercial banks of individual euro area countries. This means that this is not a monetary regulation in the strict sense, as it would be in the case of national currencies, but an administrative decision of the ECB. And the ECB's intensive use of this instrument is evidenced by the "Euro Area Money Supply M1", where its development since 2008 its extreme growth of 4 trillion. € in 2018 to the current state of almost 9 trillion. €. (European Central Bank, 2019)

4.2.4. EU rescue system

If the euro area countries had their own currencies, the European Union would not have suffered a critical downturn at present and would not have to take desperate political and de facto unusable measures such as the European Monetary Union Rescue System.
These are the two “EU rescue programs”, the European Stability Mechanism (ESM) and the Banking Union (Rejnuš 2016). The ESM is an institution which acts as a rescue fund for financial assistance to euro-paying countries, to which euro area member states are obliged to pay for any capital requirement it imposes on them. And with regard to the Banking Union, its mission is to "jointly and with solidarity" address the major financial problems of the euro area in applying the principles of uniform banking regulation, uniform banking supervision, uniform resolution of banking problems and a unified deposit guarantee system. First and foremost, it aims to promote the principle of bail-in for the only necessary involvement of public resources

in the restructuring of banks, with the cost of their recovery being primarily borne by their shareholders and creditors. Secondly, it is to transfer the responsibility for the results of banking supervision to the Union level, to which sufficient financial capacities are to be put together to redevelopment of banks.

Obviously, this system negates a fair solution of the financial problems of individual euro area countries, forcing economically responsible countries to subsidize or even rescue poorly-managed countries. In the end it would not even save the euro area if eg. Italy would bankrupt. Indeed, it can be assumed that the population of those European countries affected by the redistribution of money will surely protest massively, which may lead to the end of the euro area.

5 Conclusions

The above mentioned analysis shows that the euro is a disaster for today's Europeans. According to Joseph E. Stiglitz, holder of Nobel Prize in Economics (2016), a European structure that was defective at its inception was proposed. Its structure of rules, regulations and the institutions can be blamed for the poor performance of the European regions but also for an emerging crisis. Europe's main and most important strength was its diversity. But it is very difficult for the single currency to work "above regions" which show extremely high economic and political diversity. The single currency contains the fixed exchange rate between the member states and the common interest rate. Those should be in accordance with specific economic conditions existing in the individual member states and there may exist a European institutions who help these states who do not meet those conditions. But Europe did not create these institutions and instead introduced a single currency - the "euro".

Thus, while there are many factors contributing to European problems, the single currency operates in the euro area without the necessary set of institutions to enable European diversity to function effectively. The euro has not achieved either of its two main objectives of prosperity and political integration: these objectives are now much more distant than they were before the creation of the euro area. Instead of peace and harmony, the individual European countries are now confronting each other with anger. Old stereotypes are reviving because Northern Europe declares the South lazy and unreliable and, on the contrary, the South recalls Germany's behavior in World Wars.

And the founder of the euro and former ECB chief economist Otmar Issing says: “The euro is a ticking time bomb that will blow up and destroy the entire EU project. One day the euro collapses like a house of cards, because the "euro project" is no longer working. Brussels' dream of a European super-state will be buried under the rubble of the collapsing single currency. Eurocrats have betrayed the principles of the euro and are demonstrating scandalous incompetence in their actions (Gutteridge 2016).

Last but not least, it must also be taken into account that, as each EU Member State has different priorities and interests, the effort to tie them all together through a single common currency makes joint decision making very cumbersome. The Community of cooperating states has thus reached a crossroads with the introduction of the euro. Either it will continue to pursue a self-destructive policy and will see its collapse soon, or the Member State´s leaders will understand the situation and return to the original idea of not having a planned "super state" (Polanecký, 2015). Czech former President Vaclav Klaus (2012) also warns against the emergence of the "United States of Europe" with his statement that the end of democracy and the national state is approaching.

Acknowledgment:

This paper was supported by the project FP-J-19-5879 "Faktory soudobého vývoje světového finančního systému a světové ekonomiky a jejich dopady na finanční instrumenty a řízení podniků"

REFERENCES

DUBNOVÁ, H.: *Německo je novým „prasátkem". Až jeho ekonomika padne, stáhne celou Evropu*. Available from: http://zpravy.tiscali.cz/nemecko-je-novym-prasatkem-az-jeho-ekonomika-padne-stahne-celou-evropu-272806

EUROPEAN CENTRAL BANK, Key ECB interest rates, [online] 2019, [cit. 2019-12-08] Available from: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html

EUROSTAT, Population change - Demographic balance and crude rates at national level, [Last update: 06-11-2019], ec.europa.eu, [online] 2019 [cit. 2019-12-08] Available from: https://ec.europa.eu/eurostat/documents/2995521/9967985/3-10072019-BP-EN.pdf/e152399b-cb9e-4a42-a155-c5de6dfe25d1

EZRATI, M.: *What Is Modern Monetary Theory?* FORBES 2019. Available from: https://www.forbes.com/sites/miltonezrati/2019/05/28/what-is-modern-monetary-theory/#32f261683186

Financial Times: *Deutsche Bank je v největší ztrátě od finanční krize. Kvůli restrukturalizaci*. Novinky,cz 2019. Available from: https://www.novinky.cz/ ekonomika/clanek/deutsche-bank-je-v-nejvetsi-ztrate-od-financni-krize-kvuli-restrukturalizaci-40290912

GUTTERIDGE, N.: *The Euro is FINISHED' Currency's creator says it will soon COLLAPSE and destroy the EU*, (2016). Available from: http://www.express.co.uk/ news/politics/ 721930/Euro-European-Union-collapse-single-currency-Otmar-Issing

JANÁČEK, K., JANÁČKOVÁ, S.: *Ekonomický úpadek Evropy*. Praha: Institut Václava Klause, 2017. ISBN 978-80-7542-035-0.

KARPIŠ, J.: *Zlé peniaze: sprievodca krízou*. INESS, 2015. ISBN 978-80-969765-8-4.

KLAUS, V. *Blíží se konec demokracie a národního státu;* Available from: http://www. Parlamentnilisty.cz/arena/monitor/Klaus-Blizi-se-konec-demokracie-a-narodniho-statu-247352

LACROIX, S.: *McKinsey: Každé třetí bance hrozí zánik. Proč?* Patria.cz (2019). Available from: https://www.patria.cz/zpravodajstvi/4251246/mckinsey-kazde-treti-bance-hrozi-zanik-proc.html

POLANECKÝ, R.: *Začíná rozpad EU?* (2015). Available from: http://polanecky.blog. idnes.cz/blog. aspx?c=442248

PRŮŠVIC, D.: European fiscal policy rules: first 15 years. *Politická ekonomie*, 2010, s. 51-69. ISSN 0032-3233.

REJNUŠ, O.: Contemporary Development of the European Monetary Union and its Risk Factors. In *European Financial Systems 2015. Proceedings of the 12TH. International Scientific Conference,* Brno: Masaryk University, 2015, s. 498-506. ISBN: 978-80-210-7962- 5.

REJNUŠ, O: Prediction of Future Development of the World Economy Under Conditions of Negative Interest Rates. In *European Financial Systems 2016. Proceedings of the 13TH international scientific conference "European Financial Systems,* Brno, Masaryk University, 2016. s. 646-653. ISBN 978-80-210-7962-5.

REJNUŠ, O.: The Current Problems of the Eurozone and the Future Transformation of the European Union. In *European Financial Systems 2018. Proceedings of the 15TH international scientific conference "European Financial Systems 2018"* Brno, Masaryk university, 2018, s. 575-582. ISBN 978-80-210-8980-8.

REJNUŠ, O. Extreme Tools of World Economy Management and Their Risks. In *European Financial Systems 2019. Proceedings of the 16TH International Scientific Conference.* Brno, Masaryk University, 2019, s. 457-465. ISBN: 978-80-210-9338-6.

SINGER, G.:*Krize eurozóny, 10. Mezinárodní konference European Governance–Corporate Governance „Perspektivy eurozóny"*, 2012. Available from: http://www. Singer_ 2012 _1026_cife

SKOPEČEK, J.: *20 let eurozóny a její omyly.* Info.cz, 2019. Available from: https:// www.info.cz/evropska-unie/nazory/20-let-eurozony-a-jeji-omyly-komentar-jana-skopecka-39376.html

STIGLITZ, J. E.: *The euro: how a common currency threatens the future of Europe*. First edition. New York: w. W. Norton & Company, 2016. ISBN 978-0-393-25402-0.

SULÍK, R.: *Euro nejvíc poškozuje ECB, 2012.* Available from: http://neviditelnypes. lidovky.cz/evropa-euro-nejvic-poskozuje-ecb-d4l-/pekonomika.aspx?c=A120911_112902_p_ ekonomika_wag

TRADING ECONOMICS, Euro Area Central Bank Balance Sheet, *tradingeconomics.com* [online] 2019 [cit. 2019-12-05] Available from: https://tradingeconomics.com/euro-area/central-bank-balance-sheet

TRADING ECONOMICS, Euro Area Central Bank Balance Sheet, *tradingeconomics.com* [online] 2019 [cit. 2019-12-08] Available from: https://tradingeconomics.com/euro-area/gdp

TRADING ECONOMICS, Euro Area Central Bank Balance Sheet, *tradingeconomics.com* [online] 2019 [cit. 2019-12-08] Available from: https://tradingeconomics.com/euro-area/gdp-growth-annual

ZAHRADNÍK, P.: *Když velcí mění pravidla.* Mladá fronta Dnes, 2005. ISSN 1210-1168.