

## **EUROPEAN CURRENCY SYSTEM: PROBLEMS AND DEVELOPMENTS OF PROSPECTIVE EVALUATION**

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European Union is a significant achievement of the European countries. Economic and political integration have stimulated economic growth, strengthened European position in international economic relations and decreased risks of war. EU membership enabled post soviet countries to develop democratic societies and create active market economies.

Unfortunately it is quite hard to be an optimist today, speaking about integration development prospective and expansion within the EU. Regardless former achievements the EU is currently suffering from strain and unsolved problems, which does not exclude gradual decrease in its consolidation and influence.

Debt crisis in the Euro zone raises questions to the single European currency and European integration. Numerous prognoses foresee various scenario of the situation developing, ranging from pessimistic to optimistic ones. A number of experts declared the single European currency incapability and failure of the monetary union idea as well as Greece inevitable withdrawal from the Euro zone. Prognoses of such kind had some substances, still turned down to be false. Thus, due to the fact that crisis phenomena having place in the Euro zone calls into question existing of the European currency system, the topicality of the issue remains actual.

A number of foreign and domestic scholars dedicated their works to studying integration processes and current problems of European Union and The Euro-zone. Thus, Stephen M. Walt [1], Noel Rubini [4, 5], Jean-Claude Juncker [2], Joseph Stiglitz considered mainly the problems of the euro-zone and the European Union in general. D. Pirogov [3] paid attention not only to the problems of euro-zone, but also assessed the prospects for the eurozone to overcome the crisis. Khmelnytskyi M. [6], Dynkin A., Avilova A., Kvashnin I., Ivanova N. [9] considered the economic problems of the “South” of the EU and their influence on the further development of both the euro-zone and the EU as a whole. Mantusov V.B. [8] and Matveevskii I.A. [11] considered the euro and the euro-zone as an important factor for further integration processes on the European continent.

Still, dynamic changes occurring in the world economy and in relations between the countries in particular region regularly require correcting existing approaches and analyzing new tendencies. Analysis of these changes is a focus of the present research.

The aim of the article is analysis of the European Union and European currency system functioning problems in particular, as well as evaluation of their further development prospective.

**Results.** Modern European Union is a victim of previous success. Beginning from European Coal and Steel Committee made up of 6 countries, European Union has turned into supranational organization with 28 members. Presence of a great number of supranational institutions and subsidiary bodies in most cases restrains making important decisions. At the same time, all its members are independent states with their own governments and complicated internal political conditions. With European Union widening, its members became increasingly different from each other. Germany GDP index more than 300 times exceeds those of Malta; Luxemburg income per capita index is approximately seven times higher than those of Latvia an five times higher than

those of Greece [1]. Geographical size, population and economic resources of member-countries are crucially different, their culture and national history became less diverse with the EU extension. Thus it is a small wonder that extension made the EU more cumbersome, controversial and less popular. In 2014 survey revealed that more than 70% of the EU citizens consider their vote of no importance in making decisions within the EU; about two thirds claimed that the EU doesn't understand their citizens' needs [1].

European Union is currently undergoing quite hard times. It is first of all connected to great immigrants flows seeking better life in developed prosperous countries; paying debts of Greece; the Great Britain withdrawal from the EU as well as terrorists threats from the Near East. That is why a lot of questions occur about future existence of the European Union and prospective of its extension. If previous changes in the life of the Europeans led to the countries consolidation and erasing the boundaries, now on the contrary politicians start strengthening and creating new boundaries, which can result if the EU ruining. The Head of the Euro Commission Jean-Claude Juncker has already claimed that the Euro zone is vowed in case of the countries closing their national boundaries [2]. Contradictions in Europe are increasing. Angela Merkel's position on the issues of immigrants and strengthening tough policy is not shared by all the European Union members.

Current condition of European currency is not stable and future of Euro is quite difficult to foresee. During all the time of its existence, Euro spent almost a half of it in crisis condition, which in a few years can lead to the Euro zone ruining. Thus, a number of the world euro transactions decreased from 40% to 27% for the last two years. European share in the structure of the world income decreased from 40% to 20% during 2010-2016 [3]. These testify about negative tendencies within European Union. Economical and political situation in the EU can become out of the European leaders' control and get worse due to migration crisis, which provokes additional conflicts between the EU leading member-countries.

European Central Bank (ECB) has released a report about countries winning or losing in the process of debt crisis and the monetary policy being realized by ECB, presenting the following results. Among the countries that increased their well-being are the Netherlands, Belgium and Germany; those suffering are Ireland, Greece and Spain.

For the few recent years ECB has been using numerous economic instruments for European economy stabilizing and stimulating, including for instance negative rate of interest. In 2009-2013 income per capita decreased by 18 thousand Euros in Ireland. The same index became 13 thousand less in Spain and 17 thousand less in Greece [3]. The reason for these was predominantly the ECB policy. Incomes of such countries as the Netherlands, Belgium and Germany increased by 33, 24 and 19 thousand Euros relatively. This is the result of increase in money flows from the ECB side.

The money predominantly arrived from debtor-countries. Thus as a result of ECB policy, reallocation of funds took place in dependence on the country's economic stability.

Still to control existing disbalance between strong and weak economy, centralized and coordinated system of financial transfers is needed, enabling reallocation of funds from rich countries to poor ones. Thus Germany has always claimed against sponsoring the countries with weak economy, appealing it with the lack of actions from these countries side aimed at labor market reforming and internal devaluation.

The Euro zone started its renovation after the crisis despite many factors preventing the process. At present European economy depends on Germany's radical steps [4].

European Central Bank is increasing subsidizing the bank lending. Negative financial consequences of austerity mode are expected to be considerably lower this year, because European Commission actions became more flexible, considering economic situation in the countries. Bank Union activity is also among positive factors, leading to increase in banks capitals for crediting private sector.

Though, it should be noted that political risks can cause certain problems for economic situation stabilization in The Euro zone. First of all, it concerns the possible withdrawal of Greece

from the Euro zone, if agreement on the country financing is not achieved in the near future. Also, some parties in Italy oppose the euro. Process of creating work places in the zone of euro is moving very slowly as well as incomes increase. According to ECB estimations, unemployment rate in the Euro zone is equal to 9,9%, which is rather higher than it was before the financial crisis (average 7,2%) [4]. And if the Euro zone's periphery is tired of saving and reforms, the leading countries are tired of financing their development, which contributes support of a number of parties in Germany, the Netherlands and Finland, which oppose the euro.

One more obstacle to fast economic recovery is Russian aggression to Ukraine, the Baltic States and even the Balkans. Terrorist actions of the Middle East, including Syria and Iraq, can also not be ignored.

It should be noted that though ECB policy is aimed at reducing the cost of loans, private and public debt in the European periphery countries remains high in its relation to GDP and keeps on growing due to the slow growth in nominal GDP. Thus economy debt overburden remains a problem for these countries in the medium term.

In turn, fiscal policy continues to slow down growth. Germany still opposes to short-term stimulation of economy. Higher costs of the German budget do not compensate additional savings effect at periphery or significant deficits expected while implementing 325 billion dollars three-year investment plan, which was presented by Jean-Claude Juncker, the Head of the European Commission [4].

Structural reforms are still very slow holding back potential growth. And though these reforms are necessary, some measures such as labor market liberalization and pension revision can raise savings rate in the Euro zone and reduce aggregate demand in the future (like it was in Germany after structural reforms ten years ago).

And finally, the monetary union of Europe remains incomplete. Its long-term viability requires creation a full-scale banking union, a fiscal union, an economic union and, ultimately, a political alliance. But the process of further European integration is now deadlocked.

While the euro is weakening, deficit of payments balance in the European Union is more often changed to surplus. Germany and the countries in the center of the Euro zone already have a fairly large surplus, and under lack of policies to stimulate domestic demand, these surpluses will continue growing. So, in order to avoid such a result Germany must adopt a new policy, which is financial incentives, higher infrastructure costs and faster wage growth that will increase domestic spending and reduce the country's balance of payments surpluses [4].

Creating a full-scale economic, bank, budget and political union in Europe is currently considered impossible; still it is a necessary precondition for the monetary union stable functioning. The Euro zone leading countries are opposing integration acceleration. All over Europe both right and left populist parties opposing the EU enlargement, euro and immigrants are taking on momentum.

Among the problems facing Europe, it is immigration crisis that can be the worst one. Now Europe can hardly handle a million of immigrants and there is a question of what it is going to do in case there are 20 million of them. If Europe is unable to protect its external borders, it will lead to collapse of the Schengen agreement, and internal borders will appear again at the most territory of the EU. This fact will cancel freedom of movement, which is the key principle of European integration. However, closing doors to refugees will only aggravate the problem, as it will lead to destabilization of such countries as Turkey, Lebanon and Jordan, which have already taken millions of people. The idea of paying Turkey and other countries for keeping refugees is a rather costly solution [5].

Problems of the Middle East (including Afghanistan and Pakistan) and Africa cannot be solved by only military and diplomatic means. Economic factors causing these conflicts will increase. Global climate change is accelerating land degradation and water resources depletion. It

makes catastrophic impact on agriculture and other branches of economy, whereby causing violence on the grounds of ethnic, religious, social, and other disparities. Only large-scale financial injections in the spirit of the Marshall Plan (primarily the Middle East countries) can guarantee long-term stability [5]. But will Europe be able to make its contribution to this deal taking into account financial crisis consequences? However in case economic problems remain unsolved, conflicts in these regions will gradually lead to Europe destabilizing.

As a result of economic crisis, Europe has been divided into two macro regions, which are unsuccessful “South” (Greece, Spain, Portugal, Italy and Cyprus) and prosperous “North” (Germany, Belgium, Netherlands, Luxembourg, Finland and Austria) [6]. None of the South European countries could reach the average European GDP per capita. Differences between “South” and “North” can be considered to be historically grounded due to EU policy peculiarities while developing economic union and conversing to euro. These very differences are one of the major crisis reasons. Thus as a result of the Maastricht Treaty signed in 1992, the countries of Europe set a course for creating a monetary union [7]. To join the union each country has to meet so-called convergence criteria, namely: to keep inflation, interest rates, budget deficit and size of government debt at the certain level. In 1997 only Luxemburg out of all the EU member states managed to meet the criteria [8]. Besides at the time of euro introduction for cashless payments in 1999 many countries had a government debt that 60% exceeded threshold, and Greece's joining The Euro zone was postponed due to non-conformity with the Maastricht criteria [9].

Based on official statistical information, at the time of the Euro zone creation it was possible to talk about macroeconomic indicators improvement of South European countries. Though, this thesis can be doubted while studying in details the processes that occurred. For instance, budget deficit in Italy was significantly reduced due to reduction of interest rates, which lead to considerable decrease in government debt servicing spending. It also concerns all the countries where government debt level was high. The fact should not be forgotten about using specific accounting methods by some of Southern Europe countries, which allowed informing the central EU authorities about the progress in reducing government debt and public spending. This practice was officially recognized by Greece. This helped the country to enter the zone of the single currency functioning and became one of the reasons for the debt crisis [10].

Crisis was historically grounded by specificity of the European Union approach to developing Economic and monetary unions. Prosperous North European countries decided upon the euro introduction and created the monetary union with Southern neighbors without carrying out consolidation in fiscal and monetary policies, as a result of which the gap between European North and South in the field of improving public finances was not smoothed. It was only under prolonged crisis that fiscal pact was signed and agreements regarding creating Banking Union were reached [11].

Despite the difficulties in economic situation in EU member-countries, North European countries continue insisting on austerity policies, ignoring the need for reindustrialization in Greece, Spain and Portugal. Leading creditor countries managed to save the Euro zone at the expense of billions of dollars in financial assistance, but this did not eliminate existing political and economic contradictions: the trade imbalance between the North and the South, dependence on exports, and the unprofitable international specialization of Greece, Spain and a number of other states.

But Europe is not doomed to failure. The crises it faces can lead to greater consolidation, increased solidarity risk and institutional integration in the future. European countries and the rest of the world, including the United States and the rich Gulf states, could have allocated significant amounts in support of refugees, and in the future for rebuilding insolvent states and creating economic opportunities for hundreds of millions of Muslims and Africans. It would definitely be expensive from the fiscal point of view for both the whole Europe and for the countries worldwide.

Current target budget indicators will have to be changed accordingly, both in the Euro zone, and globally. But alternative is the global chaos or even the beginning of the Third World War [5].

Still, there is future for the Euro zone. Economy recovery should be followed by soft monetary policy and more flexible budgetary rules. Solidarity risk should be expanded in banking sector and deposit insurance system should be implemented all over the EU territory. Budget union should be created in due course. Initiated structural reforms will gradually enlarge potential and real economic growth.

Up to now crises in Europe were leading though slowly to integration strengthening and solidarity risks expanding. Today, when there is hazard to not only the Euro zone existing (starting with Greece) but the very European Union (starting with Brexit), European leaders have to do their best for the Union preserving. In the great countries world (the USA, China, India) disjoined Europe is non-competitive. And European leaders realize this. Europe needs foreign policy able to solve problems in other world regions.

**Conclusion.** Thus, euro crisis is one of European Union problems. Decision on euro creating was more political than economic one. And the main reason for its implementing was to provide a new impetus to further consolidation and to bring Europe at the same level with the USA. However the EU lacks political and institutional mechanisms to make monetary union work. Euro supporters considered the members of the single currency zone unable to allow a serious financial mischief. Financial crisis of 2008 revealed their short-sightedness. Ten years have passed since the crisis, but the EU still lacks political institutions necessary to support a true monetary union. In case Greece or any other country's withdrawal from the Euro zone, it will cause new doubts in euro long-term prospective.

The crisis economic price was high, but political price has also proved to be substantial. Time spent for crisis overcoming could have been spent by European politics for solving other problems, for instance increasing competition from China's side, take-overs in the Near East etc. The crisis has deepened contradiction in Europe.

Still European Union and the Euro zone have the future. European leaders have to find ways to overcome problems, create institutions to support euro, more efficiently assimilate immigrants and implement reforms for active economic growth.

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**Свічкарь Віталій Анатолійович**, кандидат економічних наук, доцент. Полтавський національний технічний університет ім. Юрія Кондратюка. **Європейська валютна система: проблеми та розробки перспективної оцінки**. Досліджено проблеми функціонування європейської валютної системи. Наголошено, що зараз ЄС та еврозона потерпають від напруженості й нерозв'язаних проблем, що не виключає поступове зменшення згуртованості та впливу країн Європи.

Метою статті є аналіз сучасних проблем функціонування Європейського Союзу та Європейської валютної системи зокрема, а також оцінювання перспектив їх подальшого розвитку.

Боргова криза в еврозоні ставить питання про перспективи єдиної європейської валюти та європейської інтеграції. Виділено головні перешкоди для стабілізації економічної ситуації в еврозоні, серед яких політичні ризики, закредитованість економіки багатьох країн ЄС, податково-бюджетна політика й ін. Зараз створення повноцінного економічного, банківського, бюджетного та політичного союзу в Європі вважається неможливим, але це є необхідною передумовою для стабільного функціонування валютного союзу.

Зазначено, що в результаті економічної кризи Європа поділилася на два макрорегіони: неблагополучний «Південь» і благополучна «Північ». Відмінності між «Півднем» та «Північчю» можна назвати історично обумовленими завдяки особливостям політики ЄС під час створення економічного союзу та при переході до євро. Ці ж відмінності є однією з головних причин кризи.

Численні прогнози передбачають різні сценарії розвитку ситуації в Європі від песимістичних до оптимістичних. Однак для реалізації оптимістичного сценарію необхідні політичні зусилля провідних країн ЄС, перш за все Німеччини, Франції й Нідерландів.

Зроблено висновок, що відновлення економіки має супроводжуватися м'якою монетарною політикою та більш гнучкими бюджетними правилами. Європейські лідери мають знайти шляхи подолання проблем, створити інституції для підтримки євро, більш ефективно асимілювати іммігрантів та запровадити реформи для активного економічного зростання.

**Ключові слова:** Європейська валютна система, еврозона, Європейський Союз, європейська інтеграція, євро.

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**Bezrukova Nataliia**, PhD (Economic Sciences), Associate Professor. **Svichkar Vitalii**, PhD (Economic Sciences), Associate Professor. Poltava National Technical Yuri Kondratyuk University. **European currency system: problems and developments of prospective evaluation.** In the article the authors investigated the problems of the European monetary system functioning. It is emphasized that the EU and the Euro zone are currently suffering from strain and unsolved problems, which do not exclude gradual decrease in the EU countries consolidation and influence.

The aim of the article is to analyze present days' problems of European Union functioning and European monetary system, in particular evaluation their further development perspectives.

Debt crisis in the Euro zone sets a question to the single European currency and European integration prospective. It is noted by the authors that as a result of economic crisis Europe are divided into two macro regions, which are unsuccessful "South" and prosperous "North". Numerous prognoses foresee various scenarios for the situation development, from pessimistic to optimistic ones. However political efforts of the leading EU countries, primarily Germany, France, and the Netherlands are required.

**Keywords:** European currency system, the Euro zone, European Union, European integration, euro.

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**Безрукова Наталия Валерьевна**, кандидат экономических наук, доцент. **Свичкарь Виталий Анатольевич**, кандидат экономических наук, доцент. Полтавский национальный технический университет имени Юрия Кондратюка. **Европейская валютная система: проблемы и перспективы перспективной оценки.** Исследованы проблемы функционирования Европейской валютной системы. Подчеркнуто, что ЕС и еврозона в настоящее время страдают от напряжения и нерешенных проблем, которые не исключают постепенного снижения консолидации и влияния стран ЕС.

Целью статьи является анализ современных проблем функционирования Европейского Союза и Европейской валютной системы, в частности оценка перспектив их дальнейшего развития.

Долговой кризис в еврозоне ставит вопрос перед единой европейской валютой и перспективой европейской интеграции. Авторы отмечают, что в результате экономического кризиса Европа разделена на два макрорегиона: неудачный «Юг» и процветающий «Север». Многочисленные прогнозы предусматривают различные сценарии развития ситуации от пессимистических до оптимистических. Однако необходимы политические усилия ведущих стран ЕС, прежде всего Германии, Франции и Нидерландов.

**Ключевые слова:** Европейская валютная система, еврозона, Европейский Союз, европейская интеграция, евро.