e-ISSN : 2347 - 9671, p- ISSN : 2349 - 0187

EPRA International Journal of Economic and Business Review | Vol - 4, Issue- 3, March 2016

Inno Space (SJIF) Impact Factor : 5.509(Morocco) ISI Impact Factor : 1.259 (Dubai, UAE)

EURO: EVOLUTION, PROBLEMS AND CHALLENGES

Jyoti Bhoj[1]

[1]PhD Student, Department of Commerce, University of Rajasthan, Jaipur, Rajasthan, India

Kavita Bagoria[2]

[2]PhD Student, University of Rajasthan, Jaipur, Rajasthan, India.

ABSTRACT

Euro is the second most powerful currency of the world. This article explain the evolution of euro, the advantages it bestow on the euro land countries and the problems they face due to its adoption. Due to recent problems like 2008 crises, Ireland , Cyprus and Greece crisis its weaknesses got exposed .this article also provide us with the challenges that euro faces today.

KEY WORDS : *evolution,euro,currency,*

INTRODUCTION

The Brettons woods agreement was adopted by Europe in 1944. It established a fixed exchange rate system with an aim to ensure that a crisis like great depression never happen again. The 1951 treaty of Paris established European Economic Community (EEC) in 1958. However the global economic hardship of 1970's prevented further economic integration of Europe until late 1980s. In 1972 Bretton woods agreement collapsed and in 1979 EMS (European monetary system) was formed to help foster economic and political unity in EU. With an aim to stabilize foreign exchange and prevent large fluctuations in inflation, EMS established a new policy of linking currencies. EMS is also the institution that established European currency unit (ECU). The exchange rate among participating countries currency were determined by ECU by officially established accounting methods. Earlier the currency values were very uneven with adjustments that raised the Values of stronger currencies and lower the value of weaker currencies. After 1986 it was national interest rates that were specifically used to keep all currencies more stable.

MAASTRICHT TREATY

On February 1992 the members of European community signed Maastricht treaty. It came into force 1st November 1993 creating European Union. This treaty gave three pillars of European Union. The first pillar consist of European communities (ECSC, EAEC and EC). It is concerned with member state sharing their sovereignty via community institutions. The second pillar consist of common foreign and security policy. This this pillar enable the members to take joint actions in the field of foreign policy. This pillar involves an inter government decision making process which largely relies on unanimity. The third pillar is justice and home affair pillar. It is concerned with cooperation in the field of justice and home affairs.

PILLARS OF EU

PILLAR 1	PILLAR 2	PILLAR 3
EUROPEAN COMMUNITIES	COMMON FOREIGN AND SECURITY POLICY	JUSTICE AND HOME AFFAIR

The treaty provides for establishment of a single currency in 3 successive stages:

Stage 1 (from 1st January 1990 to 31 December 1993): In this stage liberalisation of capital movement took across EU countries took place.

Stage 2 (from 1st January 1994 to 1st

What is measured	How it is measured	Convergence criteria
Price stability	Consumer price inflation rate	Not more than 1.5 % points above the rate of the three best performing member states
Sound public finances	Government deficit as % of GDP	Not more than 3%
Sustainable public finance	Debt as % of GDP	Not more than 60%
Durability of convergence	Nominal long term exchange rate deviation from central rate	Not more than 2% points higher than the 3 lowest inflation member state
Exchange rate stability	Participation in EMR second	At least 2years without severe tensions

January 1999): in this stage member

Countries coordinated their economic policies to achieve convergence. The

Five convergence criteria is shown in the table.

During this phase European council held on Madrid, 1995 the new European unique currency was given the name euro.

Stage 3 (from 1st January 1999 to 1st January 2002): On 1999 European central bank was established. Countries that went through to the 3rd phase adopted Euro. UK, Denmark and Sweden remained out for different reasons. Initially eleven countries joined the euro land.

In the beginning euro was launched merely as an electronic currency however on January 2002 it became a cash currency. The geographical and economic region that uses the euro is known as "Eurozone". Today 19 countries are in Eurozone.

Euro area member states	Non- euro area member states	Member state with an opt out
Belgium Germany Ireland Greece Spain France Italy Cyprus Luxembourg Malta Netherlands Austria Portugal Slovenia Slovakia Finland Estonia Latvia Lithuania	Bulgaria Czech republic Hungary Poland Romania Sweden Croatia	Denmark United kingdom

IMPORTANCE OF EURO IN THE WORLD

Euro has established itself as a very powerful international currency only second to dollar since its introduction in 1999.in 2006 the share of euro in international market was one third.it is the second most actively traded currency. Global banks provide significant of their loans in terms of euro. Euro is used actively in invoicing and payment in international trade. International organisations such as WTO and INF view euro area as a single economy which give strength to European Union in the world. If anything happens to euro it affect various economies. So it has a significant global presence.

ADVANTAGES OF EURO

A single currency has various benefits over a situation each country of a union has different currency.

1. A single currency system helps in eliminating transaction cost.
2. Consumers can easily spot price differences in different countries and get a good deal.
3. it eliminate exchange rate risk so no need to worry that return from your investment may vary due to change in exchange rate which happens when your investment is denominates in a foreign currency.

4. It also makes business and cross border employment easy.
5. It promotes financial market stability.
6. It has helped in lowering interest rate by eliminating exchange rate risk.
7. It has also helped in controlling inflation.

These are all the advantages of euro.

PROBLEMS AND RISK FROM ADOPTING EURO

Euro is like a double edged weapon it not only grants a country advantages but it also expose the country to various risks and problems.

1. when a country adopts euro it means it has to change its soft wares ,vending machines , ATMS etc. whichever accepts money as well as train its people in the use of new currency thus adopting euro requires systematic planning ,organisation and implementation .thus has a cost.
2. A euro land country has no control over its interest rate .it cannot increase or decrease cost as per the need of its economy as interest rates for all are controlled by European central bank .
3. Floating exchange rate system has a self-adjusting mechanism that in an economic downturn a countries currency devalues that promotes exports and discourages imports thus putting the economy back on growth path. But this benefit is not available to Eurozone countries which limit their effectiveness in pulling the economy back from recession.
4. different economies has different growth rate, unemployment rate ,productivity and inflation .so the policies made by European central bank may not suit them which makes policies for entire European union as a whole .
5. European central bank is makes monetary policy for Euro land which means euro land countries has no control over their monetary policies.
6. Anything that happens in a country in Eurozone does not remain within the country and has impact on the other member counties.

CHALLENGES FOR EURO

The Eurozone since 2009 is experiencing a debt crises which was further fuelled by Greek crisis.

Table 1. Public debt/GDP in Eurozone countries

Country	1999	2007	2014
Eurozone	71.9	66.5	96.4
Austria	66.4	64.8	86.8
Belgium	114.7	86.9	106.4
Cyprus	55.1	54.1	107.5
Estonia	6.0	3.6	10.2
Finland	44.1	34.0	58.9
France	60.0	64.2	95.3
Germany	59.9	63.5	74.2
Greece	94.0	103.1	176.3
Ireland	46.7	24.0	110.8
Italy	110.0	99.7	131.9
Latvia	12.2	8.4	40.4
Luxembourg	6.4	7.2	22.7
Malta	62.1	62.4	68.6
Netherlands	58.5	42.7	69.5
Portugal	51.0	68.4	128.
Slovak Republic	47.1	29.8	53.6
Slovenia	23.7	22.7	82.2
Spain	60.9	35.5	98.3

Source: AMECO (2014). Debt ratios for 2019 are from the October 2014 World Economic Outlook (IMF, 2014a). Eurozone and Estonia data are from the WEO.

The above table show public debt to GDP ratio. In Belgium, Greece, Ireland, Italy and Cyprus the ratio is quite high. Sovereign risk have declined following the announcement of the ECB's Outright Monetary Transactions (OMT) programme, the Single Supervisory Mechanism (SSM) has taken over from national supervisors and a Single Resolution Mechanism is being phased in. In addition, the Eurozone banking system has survived a comprehensive assessment and a stress test with only minor scratches. Finally, the ECB is embarking on a sizeable and open-Ended quantitative easing programme. However a lot needed to be done to solve this crisis. Eurozone is incomplete without fiscal union which can become a very important weapon against this crisis as well as will further strengthen the Eurozone .however it is very difficult to get the members in support of that as it means losing their fiscal freedom.

CONCLUSION

There are various benefits like financial market stability, elimination of exchange risk , ease in business and cross border employment etc. that adoption of euro bestow upon a nation but at the same time it exposes it to various risk such as no control over monetary policy ,no benefit of exchange rate self-adjustment mechanism and any country in Eurozone cannot remain untouched by whatever is happening in other Eurozone countries for example Greece debt crisis affected other euro countries and the ones with exposed to maximum risk was Germany (largest creditor). European debt crisis is the biggest challenge in front of Eurozone right now which needed to be properly addressed.

BIBLIOGRAPHY

1. *http://www.investopedia.com/terms/e/ems.asp*
2. *http://www.euro-dollar-currency.com/history_of_euro.htm*
3. *http://ec.europa.eu/economy_finance/euro/world/index_en.htm*
4. *http://www.economicshelp.org/europe/benefits-euro/*
5. *http://ec.europa.eu/economy_finance/euro/why/index_en.htm*
6. *http://money.howstuffworks.com/euro10.htm*
7. *http://orderflowforex.com/2011/07/disadvantages-of-the-euro/*
8. *https://www.quora.com/Why-wont-the-UK-join-the-Eurozone*
9. *Mauro, G. C. (March 2015). A New Start for the Eurozone: Dealing with Debt MONITORING THE EUROZONE . CEPR PRESSCEPR the euro at ten- lessons and challenges. (november 2008). fifth ECB central banking conference . european central bank.*
10. *dominguez, k. M. (2006). the european central bank, the euro and global financial market. journal of economic perspective.*

✡✡✡✡✡✡✡✡