WE ARE SORRY, BUT THE EUROZONE ISN'T ABOUT TO COLLAPSE

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Abstract

After the global economic and financial crises, the voices that the architecture of the Eurozone is not stable enough and it is likely to collapse become even stronger. The scenarios and arguments for possible collapse of the Eurozone are numerous. However, the predictions that the euro will not survive even its first year of existence did not materialise. Just the opposite, the Eurozone is not only existing 25 years later, but it is further developing, deepening and even enlarging. The current paper will list some of the critics on the design of the Eurozone and it will present some of the scenarios for its possible collapse and dissolution. Despite these negative predictions, we will describe much more possible and positive scenarios for the future of the Eurozone. We will list also some of the main arguments and current developments that demonstrate that the euro is not only a vital project but also a currency with great potential and prospects.

Keywords: Eurozone, reforms, enlargement, scenarios

Introduction

At the beginning of 2024 the Telegraph published an opinion of Jeremy Warner, entitled: „The Eurozone isn't about to collapse – it's worse than that". This opinion lists some of the main problems of the Eurozone – how a single monetary policy is difficult to fit equally to all the member countries at the same time, the need a monetary union to be followed by a fiscal union, the aggravated debt crisis, the recent inflationary problems and the threat of

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[1] This is a joined paper from Assoc. Prof. Kaloyan Simeonov and Slaveya Vasileva, Phd Student, including the introductory and concluding sections. Assoc. Prof. Kaloyan Simeonov focused its research on sections 3 and 5 and Slaveya Vasileva on sections 2 and 4. The opinions expressed in this paper are subjective opinions of the authors and they do not engage the institutions in which the authors currently work.

stagflation. The title of the opinion suggests that in the near future the Eurozone will not collapse, but even worse – it will continue to exist and to create substantial problems for its members.[2]

Jeremy Warner is not the only critic of the Eurozone. The Nobel prize winner for economics in 2001 Joseph Stiglitz published a book in 2016 entitled: „The Euro: How a Common Currency Threatens the Future of Europe“. In his book he argues that the single currency is likely to threaten the existence of the European Union. He agrees that substantial reforms of the Eurozone may preserve it to a certain extent. However, he insists that the single currency shall be rather dissolved in order the existence of the European Union to be protected. Another possible scenario is to introduce a flexible euro – the establishment of several currency areas within the European Union with predefined fluctuation bands between the different currencies.

Our joined paper will aim to prove that the realistic scenarios for the Eurozone will not be to collapse, neither to aggravate current and potential problems. Rather the opposite: it is realistic to expect that the Eurozone will develop positively in the next decade. The attractiveness of the Eurozone is proven by the recent accession of Croatia and the perspectives of Bulgaria to join it soon. Romania and Czech Republic have also expressed readiness to start Eurozone accession preparations. Poland with its new government may follow very soon. The new European Parliament Elections in June 2024 and the new EU institutional cycle may also create new impetus for the continuation of the reforms and the completion of the Economic and Monetary Union of the EU.

The euro is the second strongest and most used currency in global economic, trade, foreign exchange, credit and debt markets. There are 60 countries outside the Eurozone that fix or peg their currency regimes to the euro. The digital euro project and the reforms in the Eurozone are likely to further boost euro area developments and prospects.

The next section of the current paper will present a short history of the creation and enlargement of the Eurozone. The section afterwards will list some of the possible scenarios for the collapse of the Eurozone. The fourth section will present some of the possible scenarios for euro area developments. The fifth will explain the main reasons and arguments why the Eurozone will not collapse and will continue to evolve. The last section will provide some main conclusions.

A short history of the creation and enlargement of the Eurozone

Although the EU Economic and Monetary Union is frequently criticized for being incomplete and thus imperfect, it is important to recognize that the

[2] Jeremy Warner (2024), *„The Eurozone isn't about to collapse - it's worse than that“*, The Telegraph, 3 January 2024.

creation of the single currency required decades of preparation. Signed in 1957, the Treaty of Rome set the objective of creating a common market between the member countries. However, the treaty does not foresee the creation of economic and monetary union, not even in particular a single currency. In this period of time the Bretton Woods monetary system of fixed exchange rates sufficiently ensured the stability of exchange rates internationally. It wasn't until the late 1960s that the first signs of the system's breakdown began to emerge, leading to the switch to floating exchange rates in 1973. These series of events rationalise the need to create an economic and monetary union in the EU in order to ensure the smooth functioning of the single market.

The Werner Report from October 1970 represents the first attempt to create an economic and monetary union in three stages. In practice, the primary task facing the states was the establishment of the „snake-in-the-tunnel" system. This system aimed to limit fluctuations between their currencies by collectively maintaining their value in relation to the US dollar. However, the challenges of the early 1970s – the sharp rise of the oil prices and the discontinuance of the US dollar convertibility into gold, hindered this strategy, but left an invaluable experience in establishing currency discipline among countries.

Building on this foundation, the European Monetary System (EMS) was introduced in 1979. The approach involved maintaining the currencies of the participating member states within an exchange rate mechanism that featured fluctuation margins similar to those of the „snake-in-the-tunnel" system. However, rather than being pegged to the US dollar, these currencies were anchored to a basket of European currencies, known as the European Currency Unit (ECU), which served solely as an accounting currency. This approach proved to be a more sustainable solution but unsatisfactory, given its unsustainability in the adverse international environment of the 1980s.[3]

As a result, in 1988, a committee, led by the then Commission President Jacques Delors was established with the objective to make a step further from the European Monetary System (EMS) to a fully integrated monetary framework. Its contribution remains in history as the „Delors Report" (1989), which outlined a three-step plan for achieving full economic and monetary union. The core ideas of the report are the basis of the Maastricht Treaty (signed in 1992, into effect in 1993) and represent the backbone of the EMU project. As a first step, the report recommended the removal of all restrictions on capital movement between Member States. Second, it proposed the establishment of a new monetary unit of account (todays euro), the creation of a new exchange rate mechanism, and coordination of fiscal policies between the countries. Third, the report suggested that exchange rates should be irrevocably fixed, followed by the conversion of national currencies to the

[3] Шикова, И. (2011), *„Политики на Европейския съюз"*, Университетско издателство „Св. Климент Охридски", София, 2011 г.

euro.[4] Generally speaking, the main ideas include the creation of the euro, the European Central Bank and a common monetary policy for Member States.

In line with the ideas of the Delors Report and the provisions of the Maastricht Treaty, the creation of the Economic and Monetary Union foresees going through three main stages with specific deadlines for their implementation.[5] The first stage began on 1 July 1990 and aimed at full liberalization of capital movements, economic policy convergence and closer cooperation between central banks. The second stage commenced on 1 January 1994, with the objective of enhancing the independence of central banks within member states. The European Monetary Institute was established in Frankfurt, and it has since evolved into what is now known as the European Central Bank.

Since its inception, the Institute's primary role has been to strengthen the cooperation and coordination of monetary policies among the national central banks of the member countries. Within this stage, the European Commission and the European Monetary Institute played a crucial role in preparing countries to meet the conditions required for inclusion, specifically by ensuring compliance with the Maastricht criteria. To qualify for participation in the third stage of the establishment of the European Union's Economic and Monetary Union (EMU), each country must fulfil specific criteria related to inflation rates, budget deficits, government debt, currency stability, and interest rates. The third stage was launched on 1 January 1999 with the introduction of the euro, marking this date as the birth date of the single European currency. Initially, the euro was launched as an „invisible" means of payment as it was used only for accounting purposes and electronic payments by eleven EU member states: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. It was on 1 January 2002 when the euro became an official cash currency for twelve EU countries, including Greece, which succeeded in joining the Eurozone, as part of the first enlargement of the single currency area in 2001. Since then, the euro area gradually expanded as more EU Member States joined, respectively: Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014), Lithuania (2015) and Croatia (2023). To date, the euro is the official currency of 20 EU Member States with around 350 million citizens using it every day.

While the Maastricht Treaty builds upon the concepts presented in the Delors Report, the Delors Report itself is significantly influenced by the experiences and ideas articulated in the 1970 Werner Report.[6] Although many initiatives

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4 Council of the European Union (2023), *„Understanding the Economic and Monetary Union"*, last visited on 20.05.2024 - https://www.consilium.europa.eu/media/65730/20231349_pdf_qc0423278enn_002.pdf

5 Шикова, И. (2011), *„Политики на Европейския съюз"*, Университетско издателство „Св. Климент Охридски", София, 2011 г.

6 Симеонов, К. (2017), *„Същност и история на паричните съюзи."*, Софийски университет „Св. Климент Охридски" и Фондация „Ханс Зайдел", изд. „Минерва", София, 2017 г.

have been implemented, numerous others continue to seek support and realisation. These initiatives are sometimes presented as new conceptual projects awaiting implementation, particularly in the context of addressing the imbalance between economic and monetary integration within the EU's Economic and Monetary Union (EMU). Nonetheless, the enduring vitality of the project underscores the ingenuity of its original conception and the increasing recognition of its significance. Consequently, in 2024, the EU celebrates a quarter of a century since the creation of its single currency.

Possible scenarios for the collapse of the Eurozone

As pointed out by two authors few months after the establishment of the Eurozone, „only fantasy limits the list of possible events or processes that could start a collapse of the EMU".[7] The authors have in mind possible exogenous or external shock that member countries may not or do not want to overcome together. The collapse of the Eurozone may occur also due to internal shock inside the single currency area. This section will list some of the possible scenarios for the dissolution of the Eurozone. Some of these scenarios are only theoretical, others are more likely to be realised if specific circumstances occur and there is a political will to be realised.

One of the possible scenarios is the *collapse of the Eurozone overnight*. This scenario may be realised in case of extreme and unpredictable circumstances. This is the worst possible scenario as it will lead to unexpected results. The reasons for such an immediate collapse of the Eurozone are likely to have other negative effects, apart from the currency, monetary, economic and financial crisis. This scenario will be linked with the dissolution of the whole Eurozone with all the member countries leaving the single currency area.

Another possible scenario is the *gradual dissolution of the Eurozone*. This scenario is linked with the withdrawal in different stages from the Eurozone of individual or group of countries. This dissolution is executed step by step and leads to the gradual termination of the Economic and Monetary Union as an EU project. This scenario has fewer negative effects than the first one as they are not consumed immediately but on a more continuous basis.

One of the most discussed scenarios in the literature is the dissolution of the Eurozone in *two separate zones*. These two zones shall be the North euro zone and the South euro zone. The idea behind is that the two zones will collect the two different groups of current euro area members. The North euro zone will be composed of the current most developed euro area members such as Germany, France, the Netherlands, Belgium, Luxembourg, Ireland, Slovenia, Finland, the three Baltic states and Austria. The South euro zone will comprise the less developed current euro area members such as Greece,

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[7] Bordo, M. and L. Jonung (1999), *„The Future of EMU: What Does the History of Monetary Union Tell Us?"*, National Bureau of Economic Research, NBER Working Paper 7365, September 1999, p. 30

Spain, Portugal, Cyprus, Malta, Croatia and possibly Italy and Slovakia. To increase the competitiveness and to regulate the balance of payments of those south countries, the south euro may be devaluated to the north one for example by 30%. This scenario, although attractive to a certain extent, has more drawbacks and challenges. This scenario, as the majority of the other scenarios for the dissolution of the euro area, is not discussed during meetings of the EU institutions and it has never been on the official EU agenda.[8]

Another possible scenario is the dissolution of the Eurozone not to two but to *more possible zones*. The number of these zones is not identified, and it depends on the homogeneity or heterogeneity of the member countries. Each zone will have its own currency and the exchange rates between the different currencies will have the opportunity to fluctuate to a certain degree or boundaries. Similar approach is proclaimed by Joseph Stiglitz, and it is called a flexible euro.[9]

The idea for the *establishment of the European Currency Community* is another scenario for future development that is a bit softer than some other scenarios. The proposal that is described in the scientific literature is that certain non-converged current euro area members shall withdraw from the Eurozone.[10] They shall enter in a reformed ERM II mechanism. The concept is that all or relatively all the EU member states shall be part of the European Currency Community. The Members of the Eurozone shall be fewer current members of the euro area that are significantly convergent among themselves. The other members of the EU – the current non-convergent euro area members as well as all the other EU members shall be part of the ERM II, applying relatively narrow fluctuation bands between their currencies. This will create a two-level currency unification – a less developed first level (ERM II) and most developed one (Eurozone). This scenario also has many institutional and organisational drawbacks; therefore, it is not a realistic one.

Another not realistic scenario is the *so-called ECU-2 scenario*. This is a scenario where the euro as a single currency stop to exist. All the member of the European Union shall enter in a system that strongly resembles the one existing under the European Monetary System in the period 1979-1998 - the predecessor of the Eurozone. A central element of that system was the already mentioned European Currency Unit (ECU) that was not a currency but only a unit for calculation and presentation of a value. Another element of that system was the Exchange rate mechanism (ERM) that was based on the ECU and the floatation of national currencies under predefined boundaries. The authors of such a scenario does not give an answer why the EU shall opt for such a scenario

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[8] The discussion about the North and the South euro zones is presented for example in: Дянков, С. (2015), *„Кризата в Европа: поглед отвътре“*, издателство „Сиела“, София, 2015 г.

[9] Stiglitz, J. (2016), *„The Euro: How a Common Currency Threatens the Future of Europe“*, London, W. W. Norton & Company.

[10] Scharpf, F. (2016), *„Forced Structural Convergence in the Eurozone - or a Differentiated European Monetary Community“*, Max Planck Institute for the Study of Societies, MPIfG Discussion Paper 16/15, Cologne, Germany.

except the argument that this is a possible way-out of the current existence of the Eurozone.[11]

Possible scenarios for the development of the Eurozone

In contrast to the possible scenarios for the collapse of the Eurozone, we would rather argue that the more likely scenarios for the Eurozone are for further improvement and development of the single currency area. We are confident that the Eurozone is not going the collapse. Opposite to the Jeremy Warner statement in the Telegraph at the beginning of 2024 we are also not on the opinion that the Eurozone will continue to create substantial problems for its members. This section will list some of the scenarios for future development of the euro area.

One of these scenarios is *keeping the status-quo*. Under this scenario the Economic and Monetary Union as well as the Eurozone will continue to exist without major reforms in the next decade. This is not a negative scenario neither a stagnation one. The reasons for that are the following. First, after the global economic and financial crises the Eurozone was subject to many reforms such as the establishment of the European Stability Mechanism and the Banking Union, the introduction of the European Semester and the development of the macroeconomic imbalances' procedure. These reforms need to continue to be effectively implemented as they are relatively new, before launching any substantial new changes to the architecture of the Economic and Monetary Union. Second, these reforms and the current shape of the Eurozone proved to be successful in the recent crises that did not affect substantially the functioning of the euro area. The most severe of these crises was the COVID-19 pandemic that hit not only the health system but the proper functioning of the EU single market. Other crises such as the start of the aggression of Russia towards Ukraine, the energy supply crises, the migration crises and Brexit also did not affect substantially the functioning of the Eurozone.

Another possible scenario is *preserving and strengthening the international role of the euro*. Although the establishment of the euro was not dictated by geopolitical appetites, but rather by the ambition to ensure the stable functioning of the internal market, today, given the international role that the single currency has acquired, preserving its second place on the international stage makes it part of the strategic autonomy concept of the EU. This effort again proves to be if not necessary, rather inevitable due to the confrontational international environment through the lens of US-China tensions and the unprecedented sanctions imposed on Russia because of the war initiated in Ukraine.[12] Yet, EU initiatives to strengthen the international role of the euro are always seen in

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[11] Nordvig, J and N. Firoozye (2012), *„Rethinking the European monetary union"*, Nomura Securities, Substantially revised version from the Wolfson Economics Prize 2012.

[12] Tokarski, P. (2023), *„The International Role of the Euro Remains Stable - but It Needs More Attention"*, Stiftung Wissenschaft und Politik, Internationale Politik und Sicherheit, 30 June 2023

the context of the completion of the EU's Economic and Monetary Union. This strategy is not groundless. Stable currency could not be guaranteed without a solid base. In today's highly interconnected geopolitical landscape, Europe's close regional proximity to Russia and its considerable dependence on Russian energy resources, coupled with the rising ambitions of the Chinese renminbi which challenge the dominance of the US dollar, make maintaining its position as the second most influential economic entity a significant competitive challenge in the international arena. Meanwhile, there is a cruel imbalance between the weight of the euro on the international stage and its representation within the international community. The lack of a unified external representation of the euro area in international economic and financial institutions is damaging the interest of the Eurozone members, as well as the reputation of the EU as a whole.[13] An ample example is the euro area participation in the frames of the International Monetary Fund, whose membership is limited to its member states, grouped in different constituencies, oftentimes with countries outside the EU. Proposals for a common euro area representation have been on the EU agenda for years,[14] but such an initiative has not been realised yet.

A possible scenario is also *further enlargement of the euro area*. The euro was conceived as a common currency for the entire EU. The completion of the internal market and the Economic and Monetary Union are two inextricably linked sides of the same coin. Seven EU countries have not yet adopted the euro. Among them, Denmark has negotiated an opt-out clause. After Brexit, Denmark remained the only country with such an exception. Meanwhile, for the other non-euro member states, the departure of the United Kingdom means losing a strong influence in the decision-making processes.[15] Despite Denmark's right of derogation in the European single currency, the Danish krone is very closely tied to the euro due to the country's participation in the Exchange Rate Mechanism II (ERM II) from 1 January 1999 and with narrow fluctuation margins of ±2.25%.[16] The potential progress of the remaining six (Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Sweden) is essential for the development of the Eurozone.

Sweden, an EU member since 1995, is one of member states that witnessed the introduction of the euro without initially meeting the criteria for membership or sharing the exaltation of this milestone in the history of European integration.

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[13] Tokarski, P. (2024), *„The Euro in a World of Dollar Dominance: Between Strategic Autonomy and Structural Weakness"*, Stiftung Wissenschaft und Politik, Internationale Politik und Sicherheit, February 2024.

[14] Ryck, P. (2019), *„Towards Unified Representation for the Euro Area within the IMF"*, European Parliament, European Parliamentary Research Service (EPRS), July 2019

[15] Tokarski, P., Funk, S. (2019), *„Non-euro Countries in the EU after Brexit: Between Fear of Losing of Political Influence and Euro Accession"*, Stiftung Wissenschaft und Politik, Internationale Politik und Sicherheit, 3 January 2019

[16] European Commission, *„Denmark and the euro"*, last visited on 20.05.2024 - https://economy-finance.ec.europa.eu/euro/eu-countries-and-euro/denmark-and-euro_en

This is evident by the results of a referendum held in the country in 2003, when the possibility of membership was rejected by 56% of the votes. In 2023, twenty years after the negative referendum on the country's membership of the Eurozone, Johan Persson, the Minister of Labor, officially proposes the revision of the question of Sweden's membership in the Eurozone, which, according to him, will contribute to increasing the level of Sweden" integration into the European Union.[17] Although this initiative has not yet been implemented, Sweden's accession to NATO in 2024 signals openness to possible forthcoming significant changes.

Bulgaria is in the process of joining the Eurozone. Since 10 July 2020, the country is part of the ERM II and the Banking Union, which means it is most likely to become the 21st euro area member state, if it manages to meet the Maastricht convergence criteria.[18] The aspirations are for this to happen in 2025. By mid-2024, the European Central Bank's Convergence Report is anticipated, which will encompass an evaluation of the performance of each candidate seeking to join the Eurozone.

In Romania, the prospect of joining the Eurozone features prominently in the agendas of successive government administrations, yet no concrete steps towards initiation of the ERM II process have been taken thus far. The National Bank of Romania's envisages 2029 as the earliest feasible timeline for potential integration into the Eurozone.[19]

The date 1 May 2024 marks 20 years since Poland, Hungary and the Czech Republic joined the EU. However, the countries have different views on their membership of the Eurozone. A gradual shift towards potential Eurozone membership is observed in the Czech Republic. In his New Year's speech on January 1, 2024, President Petr Pavel announced that the country should work towards adopting the euro. The ruling coalition, on the other hand, promised to prepare by October 2024 an analysis of the possible entry of the Czech Republic into ERM II.[20]

In Poland, the sentiments for joining the euro zone, seen through the lens of the country's president and finance minister, are rather negative.[21] With Prime Minister Donald Tusk, an avowed European leader, however, progress on the topics of the EU agenda will not surprise at all.

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[17] Hivert, A.-F. (2023), *„In Sweden, the fall of the krona revives discussions on the euro"*, Le Monde, 25 September 2023.

[18] Tsolova, Ts. (2023), *„Bulgaria could adopt the euro from 2025 if ready -EU's Dombrovskis"*, Reuters, 23 February, 2023.

[19] Smarandache, M. (2023), *„Iohannis: No 'realistic' deadline for Romania to join eurozone"*, EURACTIV, 23.03.2023

[20] Lopatka, J. (2024), *„Czech government to evaluate merits of joining 'euro waiting room'"*, Reuters, 7 February 2024

[21] The Washington Post (2024), *„Poland is still not ready to adopt the euro, its finance minister says"*, 30 April 2024.

Hungary has no definitive target date for Eurozone membership. According to György Matolcsy, the governor of the National Bank of Hungary, only after Hungary reaches about 90% of the EU average in terms of economic development, then the adoption of the single currency can be put on the agenda. The time horizon he foresees as realistic for the achievement of this target is 2030.[22]

Despite the challenge of the heterogeneous nature of each member state for the EU's Economic and Monetary Union, any potential enlargement of the Eurozone is a step towards reducing the fragmentation of the internal market and strengthening the euro's authority on the international stage. We may witness a gradual movement from euro-outs to euro-ins, especially with the dwindling majority of these countries.

Another likely scenario is the *completion of the Economic and Monetary Union*. Perhaps there is no more definitive confirmation of Europe „forged in crisis" than the process of deepening the Economic and Monetary Union of the EU. The world economic and financial crisis in 2008, which tested the endurance of the European project and solidarity, actually gave rise to many vital initiatives that would otherwise have not met the necessary support among EU member states. Among them, the „Five Presidents Report"[23] deserves to be mentioned as it lays down a roadmap to completing the Economic and Monetary Union of the EU by 2025 at the latest. Aa a result, the economic policy coordination was substantially enhanced in the frames of the European Semester and significant advancements have been achieved towards the completion of the Banking Union and the Capital Markets Union. Furthermore, the institutional mechanisms for economic governance at the EU level have been upgraded through the establishment of National Productivity Boards and the European Fiscal Board. Nonetheless, the structural framework of the euro area until mid-2024 still remains incomplete, indicating that further institutional and policy reforms are necessary to achieve a fully integrated and resilient economic and monetary union. Since then, the economic and social challenges posed to the EU's internal market by the Covid-19 pandemic, Brexit, and Russia's aggression in Ukraine highlight that the euro has not realised its complete potential, indicating considerable room for improvement. Concurrently, despite the diverse nature of these crises, they have contributed to our learning and evolution of macroeconomic understanding. This presents a significant opportunity to institute more resilient and effective reforms. Furthermore, it is more important that these reforms persist beyond 2025.

Last but not least, a possible scenario is the launch of *new reforms that are currently not on the EU agenda*. A number of logical or exotic proposals also find ground in the intellectual battle for necessary but at the same time not

[22] Than, K. (2023), *„Hungary central-bank chief sees chance for euro adoption only after 2030"*, Reuters, 2 June 2023.

[23] European Commission (2015), *„The Five Presidents' Report: Completing Europe's Economic and Monetary Union"*, 22 June 2015

excessive reforms. While suggestions such as establishing the role of the Minister of Finance for the Eurozone, transforming the European Stability Mechanism (ESM) into a European Monetary Fund, creating a budget tailored specifically for Eurozone countries, and issuing common government bonds for Eurozone nations may not gain traction for various reasons, the concept of introducing a digital euro represents an imperative developmental trajectory, given the support of the euro among the Union's citizens. However, regardless of the direction undertaken by the EU's Economic and Monetary Union, whether in response to crises, international competition, or politically driven domestic considerations, it must resonate with the sentiments of EU citizens.

Why the Eurozone will not collapse and will continue to develop

During the preparations for the establishment of the Eurozone in the 1990's there were many economists and scientists predicting that the single euro area will collapse even before its creation or not later than one year after its introduction. These predictions did not materialise. The euro is well functioning for more than 25 years. Although it experiences some challenges and despite some deficiencies that still exist in its structure, the euro and the Eurozone are one of the main symbols of the European economic integration. This section will describe some of the main reasons why the euro area will not collapse and even the opposite, the prospects for its future development and deepening are quite greater.

Global processes as well as world developments make the need for a single and uniting currency in the EU even stronger. The share of the EU and the Eurozone both in terms of population and GDP as compared to the global one is shrinking in the last two decades. The prospects for the next decades are similar. Thus, the EU and the single currency area will lose part of their influence. If their member states decide to separate or to dissolve the union that was established, the influence of the single countries, even the biggest one, will be very small and even insignificant in global terms. As pointed out in the European Commission 2017 White paper by 2060 no single EU member state will count for more than 1% of the global population.[24]

The Economic and Monetary Union and the euro area are not architectures that are going to collapse. Rather the opposite, the Eurozone is a *model* for other zones how to establish a single currency area. Other currency unions analyse the experience of the Eurozone for their own projects and take into account the successes and challenges of the euro area.

Another reason why the Eurozone will not collapse is the *political backing* of the project. The EU leaders stand strong behind the idea to preserve and to

[24] European Commission (2017), „*White Paper on the Future of Europe*", Reflections and Scenarios for the EU27 by 2025, COM(2017)2025 of 1 March 2017, Brussels, Belgium.

strengthen further the single currency. The reforms for completion of the Economic and Monetary Union, for building an economic, fiscal and financial union are still high on the EU agenda.

The political attraction of the single currency is marked also with the new entrants and the *enlargement* of the Eurozone. In 2023 Croatia became the 20th member state of the Eurozone. After Bulgaria became in 2020 a member of the Exchange Rate Mechanism II and the EU banking union, it is very likely to be soon the next member of the single currency area.

The *public opinion* in the Eurozone is also strongly in favour of the single currency. Unlike in the non-euro area countries, the people in the euro area support the implementation of the euro in their countries.[25] The last Eurobarometer in the Euro Area member states from November 2023 demonstrates that citizens in those countries are supporting the single currency. More than two third of the euro area population or 69% are on the opinion that the euro is something good for their countries. Only 22% are on the opposite opinion while 9% cannot decide or do not have an opinion. Such a strong public support in the Euro Area is a guarantee that the euro will survive not only current economic problems but also possible future shocks and crisis.

The single currency is also an important complement to the *single market*, the major achievement of the European economic integration. The free movement of goods, people, services and capital are facilitated with the introduction and the functioning of the single currency. The completion of the single market at the beginning of the 1990's corresponds with the time when the single currency project was agreed and legally launched in the Maastricht Treaty. As it is pointed out by the former President of the European Commission Jean-Claude Juncker, the idea is the single currency to be the common currency of all the EU Member States. He points out also that the goal of the euro is to unite but not to divide the member states of the European Union.[26]

The development of the *digital euro* is another sign that the euro is a vivid project that is constantly evolving. The European Central Bank has already advanced technical specifications for the digital euro. The European Commission has published legal proposals which adoption by the Council and the European Parliament will establish the legal framework for the introduction of the digital euro. The idea is that the digital euro shall be operational by 2027 boosting not only retail digital payments but also the EU digital single market.[27]

The *shift of monetary and exchange rate policies* may not be done overnight. The reintroduction of the national currencies of the Eurozone member states

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[25] See: European Commission (2023), *„The Euro Area"*, Flash Eurobarometer 538, November 2023.

[26] Jean-Claude Juncker, *„State of the Union Address 2017"*, President Jean-Claude Juncker's State of the Union Address, 13 September 2017, Brussels, Belgium.

[27] Enrico Letta (2024), „Much More than a Market". Speed, Security, Solidarity. Empowering the Single Market to Deliver a Sustainable Future and Prosperity for all EU Citizens, April 2024.

will not be an easy task. The introduction of the euro was prepared for a period that lasted more than a decade. The shift towards national currencies may last for a shorter period but for sure it will take months and years to accomplish such a major turn back.

Furthermore, there is *no legal framework* how a member of the Eurozone may withdraw from that currency area. The authors of the Lisbon Treaty have written a provision in the Treaty on European Union how a member state may withdraw from the European Union (Article 50 of the Treaty on European Union). This was the provision that was used by the United Kingdom to negotiate its withdrawal from the EU after the positive Brexit referendum in 2016. However, the same authors did not envisage any rule or provision how a member state of the Eurozone may withdraw from the single currency area.

The euro will continue to be the *second strongest currency* in the world. The euro is the most used currency after the US dollar in global economic, trade, foreign exchange, credit and debt markets. Usually, the share of the euro in those markets is well above 20%. The share of the third or the fourth currency is usually well below 5%[28]. The share of the euro is even stronger than the share of the Eurozone GDP compared to the global GDP. The interest and the trust in the single currency in those global markets does not correspond to the projections that the euro will disappear, and the Eurozone will collapse in the near future.

Finally, the euro is the most frequently used currency in *third countries* after the US dollar. In addition to the 349 million inhabitants in the Eurozone that are using the single currency, there are nearly 175 million inhabitants in the world which countries or territories have fixed directly or indirectly their currencies to the euro. Currently there are around 60 countries and territories that outside of the EU that have pegged or fixed their currency directly or indirectly to the euro. Some of these countries are in Europe such as Montenegro and Kosovo (unilateral euroisation), Andorra, San Marino, Monaco and Vatican (agreed euroisation) and Bosnia and Herzegovina (currency board) while other countries are in Africa or in other continents of the world.[29]

Conclusions

The Eurozone isn't about the collapse. Just the opposite, the single currency area is constantly evolving and developing. If the euro is going to disappear soon to give way back to the national currencies, it will not attract currently such a strong interest in the EU and outside of it. The euro is gaining a strong public support in the Eurozone countries. The enlargement of the Euro Area with Croatia in 2023 and the forthcoming accession of Bulgaria are also good

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[28] European Central Bank, *„The international role of the euro“*, June 2023.

[29] European Commission, *„The international role of the euro“*, https://economy-finance.ec.europa.eu/euro/international-role-euro_en, last visited on 01.05.2024.

signs that the euro is still a desirable project. The euro is the second strongest and most used currency in the global markets. More than 60 countries worldwide peg or fix to a certain extent their currencies to the euro. Furthermore, the euro is a trailblazer for many other currency unions. Positively, there is still much to do in terms of completing the EU's Economic and Monetary Union. We can agree with Jeremy Warner that „With each passing crisis, Europe manages to move that little bit closer to what's needed" but not for „survival" purposes, which would be an overstatement, but rather for enhancing the functionality of the euro. The continued expansion of the EMU, its resilience in the face of crises, and its growing prominence on the international stage, all attest to its vitality.

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