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Review Paper

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# IMPACT OF THE EURO CRISIS ON EUROPEAN ECONOMIC INTEGRATION

## UTICAJ EVRO KRIZE NA EVROPSKE EKONOMSKE INTEGRACIJE

**Summary:** *The purpose of this research is to determine the impact of the euro crisis on European economic integration processes and to review the measures that are being taken in order for the single currency area to come out of the crisis, to remove its causes and to establish deeper economic integration between member states EU. In addition, the paper presents an overview of theoretical positions on the euro crisis, as well as the problem of crisis interpretation. On the basis of theoretical scientific findings, a conceptual research model was identified in the paper, which determined the connection between the euro crisis and the dimensions of European economic integration. European economic integration are observed through four dimensions: Single market, 2) Level of economic homogeneity between EU member states, 3) Symmetry of policies of EU member states and the degree of correlated business cycles within the EU and 4) Compliance of member states with common institutional achievements and EU legal acquis. The euro crisis is observed through three dimensions: 1) banking crisis, 2) debt crisis and 3) growth and competitiveness crisis.*

**Keywords:** *the euro crisis, European economic integration.*
**JEL Classification:** *G01, F15*

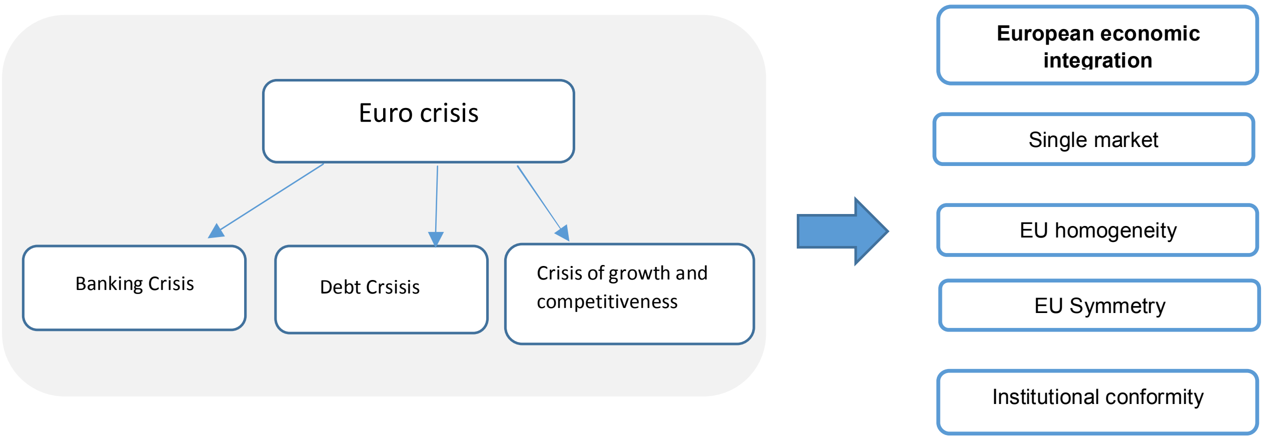
**Rezime:** *Svrha ovog istraživanja je da se utvrdi uticaj krize evra na procese evropskih ekonomskih integracija i da se sagledaju mere koje se preduzimaju u cilju izlaska jedinstvene valute iz krize, otklanjanje njenih uzroka i dublje uspostavljanje ekonomske integracije između država članica EU. Pored toga, u radu je dat pregled teorijskih stavova o krizi evra, kao i problem tumačenja krize. Na osnovu teorijskih naučnih saznanja, u radu je identifikovan konceptualni model istraživanja koji je utvrdio vezu između krize evra i dimenzija evropskih ekonomskih integracija. Evropske ekonomske integracije posmatraju se kroz četiri dimenzije: Jedinstveno tržište, 2) Nivo ekonomske homogenosti između država članica EU, 3) Simetričnost politika zemalja članica EU i stepen korelacije poslovnih ciklusa unutar EU i 4) Usklađenost država članica sa zajedničkim institucionalnim postignućima i pravne tekovine EU. Kriza eura se posmatra kroz tri dimenzije: 1) bankarska kriza, 2) dužnička kriza i 3) kriza rasta i konkurentnosti.*

**Ključne riječi:** bonus sistem, prelazna vjerovatnoća, Markovljevi lanci, lognormalna distribucija.
**JEL kasifikacija:** *G01, F15*

## 1. INTRODUCTION

Looking at the various aspects of the euro crisis and the specific and precise research problem, the central research question can be defined as follows: Does and in what way does the euro crisis affect the European economic integration processes? The research objective is the impact of the euro crisis on European economic integration. Based on the current scientific knowledge about the economic European integration, the conceptual model of this research is presented in the following figure:

*Figure 1. Conceptual model of research*




Source: Authors' work

In accordance with the above-defined object and purpose of the research, central research hypothesis is: The euro crisis affects European economic integration processes.

The paper is organized as follows. Following the introduction, Section 2 offers a summary of the literature review and theoretical background that is important to the paper's main objective. Section 3 discusses the methods of research. The core of the paper is Section 4, which involves review and discussion of initial findings. Some final remarks and conclusions are found in Section 5.

## 2. LITERATURE REVIEW AND THEORETICAL BACKGROUND

The world economic crisis, which spilled over into the EU from the USA in 2008, confirmed the fact that the Union has entered a new phase of integration, that is, the "phase of crisis". The euro crisis has caused legitimate concerns about the future of the euro as a single currency. Over time, the euro became a source of tension and a threat to the united EU. In this context, the best explanation was given by P. Krugman (2008), who defined the euro crisis as a crisis of the institutional design of the EMU, which from the beginning did not represent an optimal currency area, nor did it move towards it during its existence. However, as long as there were favourable economic conditions within the Eurozone, the disadvantages of monetary unification (in the sense of creating a single currency) did not manifest themselves to a greater extent. Its questionability was expressed only with the appearance of asymmetric shocks and the volatility of the euro. In other words, the introduction of the common currency did not speed up the process of economic convergence in Europe, but caused numerous new economic problems.

There are opinions of some economists (Dullien and Torreblanca 2012; Sidenko and Markevych 2019) that the euro crisis arose as a result of disagreements and different visions of the future of the EU. A special danger for the EU is the additional stratification between individual countries and regions and the increasingly pronounced division into north and south (Cameron, 2010). This division into the rich North and the poor South is all the more dangerous as it begins to take on the contours of two opposing theoretical paradigms. The first, which comes from the north and says that it is their own fault that they spent more than they were allowed to and that now they have to pay the price themselves through high unemployment rates, stagnation and falling GDP and austerity measures. The second, which comes from the so-called states PIIGS, which require that the guild of their spendthrift in the past be divided according to the economic strength of the member states. Therefore, we can state that the euro crisis caused a kind of disintegration of the Eurozone, dividing the member states into "strong" and "weak". Weaker member states (peripheral states - PIIGS) were forced to request financial assistance from the International Monetary Fund (IMF) and the EU itself (European Stabilization Mechanism), with the prior preparation of macroeconomic adjustment programs. The absence of a confederation structure on the territory of the EU proved to be incompatible in the conditions of the crisis within the common currency area. Thus, the total cost produced by the crisis was divided among the weaker states instead of being distributed equally to all member states of the Eurozone.

In recent literature, we also come across the thoughts of certain economic theorists (Rodrigues 2012, Hall 2016, Markakis 2020, Dinan et al. 2017, Hodson and Puetter 2019) that the Eurozone is facing a systemic crisis, with far-reaching consequences for the future of European economic integration processes. In this regard, these authors define the crisis as a crisis within the EU, whereby structural internal problems are intensified. According to the European Economy study from 2019, economic imbalances in the EU have a longer history, but they became very interesting and significant for analysis in the period from 2013 onwards, when the crisis of the Union took on the character of the euro crisis. Sidenko and Markevych (2019) identify the intertwining of several crises within the EU: the migrant crisis, the security crisis due to terrorism, the crisis of Brexit and political integrity, the fiscal and debt crisis of the Eurozone members, the financial and banking crisis of the Eurozone members, *etc*. They claim that the world economic crisis has turned into a European crisis (euro crisis, migrant crisis, political crisis), as the breaking up of sovereign nation states. Considering that it is not possible to reduce the European crisis only to the euro crisis, nevertheless, in this paper we make a limitation in the research and put the focus of the research exclusively on the euro crisis.

Numerous works have confirmed the thesis that the euro crisis affects European economic integration processes. In most of those works, the authors (Baldwin, Gros and Leaven 2020; Armingeon and Guthmann 2014; Cramme and Hobolt 2014; Hobolt and De Vries 2016) point out that the problems of institutional design of the EU economic system and monetary integration on a single market led the member states of the Union to financial collapse. They even hold the position that the euro has become one of the greatest dangers that threatens the possible disintegration of the Union and the halting of the integration process. In addition to these works, there are a number of studies (Frieden and Walter 2017, Roth et al. 2015; Allegri 2015; Börzel and Risse 2018; Beker 2015; Hall 2016) that explain why European economic integrations are currently being brought to question. Namely, the primary cause is the euro crisis and errors in the construction of the Eurozone. The aforementioned authors explain the fundamental outlines of the euro crisis as follows: 1) a single currency for countries that are at different levels of development and competitiveness, 2) inefficiency of financial markets, 3) differences in national economic policies and institutions, 4) dysfunctional, institutional organization of the Eurozone and large differences in the competitive position of EMU member states, 5) macroeconomic imbalances within the Eurozone, 6) fiscal moral hazard and the problem of the lack of fiscal integration, and 7) monetary policy, the so-called "one size fits all".

Baldwin, Gros and Leaven (2020), dealing with the current situation in the EU, agree that the main cause of the euro crisis is the introduction of a single currency without a single state. They tried to reconcile all previous positions, especially in terms of interpreting and defining the euro crisis. According to their understanding, the Eurozone is characterized by three related crises, namely: 1) banking crisis, 2) debt crisis and 3) crisis of growth and competitiveness. We also accepted this concept in our paper in order to prove the hypothesis.

Banking crises are most often caused by the collapse of the banking sector. Problems arise due to bad operations, problems in financial statements and inefficient placement of funds. These problems motivate depositors to withdraw their funds in banks due to a lack of trust, which accentuates additional problems and a lack of funds. Possible causes of the problem are a low GDP rate, high interest rates, high inflation, too rapid liberalization of the financial market, sensitivity of the financial system to shortages and rapid outflow of funds, poor regulation, lack of alignment of assets and liabilities, *etc*. This type of crisis is usually long-lasting, and its effect increases when a large number of banks begin to fail. According to Kovač (2018), within the Eurozone there was a high dependence of states, companies and citizens on banks, which in the EU were large, undercapitalized and full of bad loans, especially in relation to states. The analyses of Baldwin, Gross, Leaven (2020) also confirm this, emphasizing that the economies of the Eurozone countries were threatened by the insolvency of their key banks. When the states started acting with interventionist measures and solving the problems of large companies and banks (too big to fail), they soon became even more indebted.

Debt crises occur when the state's economy does not have the ability to meet its obligations to foreign creditors, within a certain period and amount. Such crises are based on balance of payments deficits (the state borrows funds due to the deficit, while at the same time there is no possibility to repay the debt). The country is entering a spiral of bad macroeconomic indicators, where it needs new debt that increases expenditures and public debt. In this case, the state increases its sensitivity to any change in the interest rate or exchange rate, investors lose confidence, and interest rates at which the state can borrow increase. According to Kovač (2018), within the Eurozone there has been a large flow of capital for years from countries in the centre, which have a surplus of the balance of payments, and those on the periphery with a deficit. No attention was paid to the recycling of capital and the growth of the financial sector in the centre, while the periphery based its entire development on borrowing without real possibilities of repayment. Juncker (2015) points out that the debt crisis is not the result of special anti-crisis measures, but of systemic problems of capital accumulation, and Baldwin, Gros, Leaven (2020) state that the debt crisis showed the weaknesses of the macroeconomic policy led by countries on the periphery, primarily Greece.

Matthijs (2020) and Shambaugh (2012) describe the crisis of growth and competitiveness as a problem of imbalance on the current account of the balance of payments within the Eurozone. In this context, the main problem in the PIIGS countries is their large current account deficit before the crisis and their accumulation of total debt. The current account deficit and the growth crisis are clearly linked. Baldwin, Gros, Leaven (2020) point out that the lack of competiveness policies (or sufficiently countercyclical national fiscal policy) fostered large current account imbalances. These current accounts were financed mainly by banks in the Eurozone core nations. As a result, any debt crisis in the periphery threatened a banking crisis in the core. Inflows of capital had the effect of increasing prices, which had the effect of making the countries that received the capital less competitive later on. Given that prices have risen in peripheral countries, their real interest rates have fallen relative to those in the rest of the Eurozone, thus encouraging even greater borrowing.

Numerous studies so far confirm the importance attached to the process of integration. Thus, for example, Perica (2006) in his long-term work emphasized that integration is the process of abolishing or reducing the differences between internal and external economic relations and the formation of a new economic space on the regional level through common institutions, by coordinating economic policy. In the multitude of different concepts and understandings of integration processes, in the literature we come across theorists Spolaore (2013) and Markakis (2020) who believe that integration is by its nature dynamic, and in a political sense it is possible only after a certain degree of economic integration has been achieved. Some authors, such as Bodiroga-Vukobrat (2000) explains integration in terms of shared institutions that enable members to feel a sense of community. According to them, integration is complementary to modern states, and is created by connecting states/nations based on their common cultural, ethnic or other characteristics. Other economists (Mrkša, 2001) see the impulse of integration in common interest, which is the basis of joint, mutual cooperation. The most widely presented definition of integration can be found in L. Brkić (1995), who understands integration processes in the following way: "Integration implies the effects of connecting national economies from the aspect of international exchange, then global issues of importance for the overall economic position and development of the states that are connected, issues on reflections in the positive and negative sense of interstate connection for countries outside such integrations, on the reflection of those processes on the international economy, and on the analysis of political goals that integrations seek to achieve." Bilas (2016) defines integration as a process that implies the liberalization of trade and the liberalization of movement production factors of labour and capital. In a broader sense, integration, according to this author, includes: 1) facilitation of foreign direct investment flows through the establishment of investment and protection protocols, 2) liberalization of labour movements within integration, 3) harmonization of domestic taxes, especially those affecting production and trade, 4) harmonization of macroeconomic policies, in order to achieve a stable macroeconomic framework within integration, and 5) harmonization of legal regulation of product markets and production factors.

The reality of the integration process itself is not at all simple. Its complexity is reflected in the complexity of the institutional pyramid, the interrelationship of its institutions, but also in different forms of integration. Thus, in one group there are those viewpoints that observe integration processes through political relations (Kovač 2018), and the other group consists of viewpoints that approach integration through economic relations (Lefkofridi and Schmitter 2014). This is precisely why the literature in the field of integration distinguishes between economic and political integration. At the same time, it should be emphasized that they complement each other and that their smallest common element is the - economy. The political forms of integration define the key issues of the integration process. For representatives of these theoretical positions, the most important role is the role of the state and supranational institutions in the context of the development and functioning of integration. Economic forms of integration emphasize the removal of obstacles to the movement of goods, services and factors of production in an area that includes the territories of several countries. Putting it in the context of the EU, we can conclude that its development through a series of international connections of European states sought a balance between the political project of federalization (political union) and economic integration (economic union) (Rompuy, 2012) The Maastricht Treaty marks European integration as "a new stage in the process of creating an increasingly solid unity between the peoples of Europe, in which decisions are made at a level as close as possible to citizens." (Cameron 2010)

The economic motives for the creation of European integrations are based on the idea of ensuring the prerequisites for greater production, which would result in greater competitiveness and a better standard of living. The idea was that economic integration would produce a greater economic strength of European states, to be a base of political and military power, and that all of this would eliminate the possibility of creating potential conflicts. One of the most important theorists of integration, B. Balass (1961), defines economic integration as the elimination of discrimination within a certain area, and at its centre is the shifting of restrictions between companies and consumers, regional groupings and various industrial branches within the framework of the common market and separate development policies. Therefore, the creation of a single market that establishes the freedom of movement of people, capital, goods, services and a single currency that facilitates simple transactions are the foundation of European economic integration. The aforementioned author Balass (1961) is responsible for the widely accepted classification of the degree of economic integration between the countries of a region, namely: 1) free trade zone, 2) customs union, 3) common market, 4) economic union and 5) complete integration. G. Haberler (1971) presents economic integration as economic relations between certain areas, distinguishing three levels of integration: 1) free exchange and equalization of commodity prices, 2) free movement of production factors and equalization of factor prices, and 3) coordination of economic policy (monetary and fiscal). J. Tinbergen (1965) also deserves special attention, who starts from the assumption that economic integration implies the use of the following instruments of economic policy, such as: the elimination of trade barriers and the creation of a single market (harmonization of customs duties, equal indirect taxes, the same monetary policy), measures controls and measures to maintain competitive conditions.

The processes of European economic integration are very difficult to quantify, thus making it almost impossible to objectively discuss whether an individual EU member state is lagging behind in economic integration or not. In this regard, we note the first pioneering attempts to quantify European economic integration by Dorrucci *et al.* (2015), who proposed the European Index of Regional Institutional Integrations (EURII), in order to monitor all institutional reforms in the process of European integrations started from 1953 until 2015, based on monthly databases. EURII was intended to show where progress has been achieved in economic integration processes, but also where additional efforts need to be made (*e.g.* in the area of free trade, the construction of the European internal market, the degree of coordination of macroeconomic policies, numerous institutions and laws in the decision-making process *etc.).* Rayp and Standaert (2017) not long after offered an Index for measuring European economic integration. While Dorrucci *et al.* basing their index on Balass's classification of the degree of economic integration, Rayp and Standaert start from the position that European economic integration is measured on four levels, namely: flows of goods, flows of services, foreign direct investments and other financial flows, and labour flows. Without delving into the various interpretations and quantification of European economic integrations, we consider it particularly important to mention J. König and R. Ohr (2015), professors from the University of Georg August Goettingen, who made a great contribution to the scientific literature, where integration was observed through the following four dimensions: 1) Single market - free flow of goods, services, capital and labour (Single Market), 2) Level of economic homogeneity between EU member states (EU Homogeneity), 3) Symmetry of policies of EU member states and the degree of correlated business cycles (EU Symmetry) and 4) Compliance of member states with common institutional achievements (EMU and Schengen) and EU legal acquis (Institutional Conformity). This identification of European economic integrations is accepted in the subject research of this paper.

The Single Market, with its four fundamental freedoms, ensures the free movement of goods and services within the EU (the so-called intra-European trade). Also, the single market tries to ensure the efficient movement of capital and labour, thus improving the distribution of these factors within the EU. Veld (2019), Mayer *et al.* (2018), Felbermayr *et al.* (2018) state that the single European market program was implemented in 1987, and that the single market was only established in 1993. The goal was for the EU to become one area without any internal borders or other regulatory barriers to the free movement of goods and services, which would stimulate competition and trade, improve efficiency, raise quality and lower prices. After 28 years, König & Ohr (2015) renew interest in analysing the macroeconomic benefits that the single market brings to member states. However, Dullien and Torreblnca (2012) warns in their research that the European single market is under threat. Even if a breakup of the single currency were to be prevented, the euro crisis has subtly changed the single market and changed the prospects for its future. Glencross (2015), Emmerson et al. (2016) have a similar opinion as Duliien. Namely, according to their definition, regardless of how the euro crisis played out, the single market will never be the same as it was during the 2000s. Even a positive scenario in which the Eurozone solves the crisis would probably lead to the withdrawal of some countries (like Great Britain) and thus reduce the single market.

The importance of economic homogeneity between EU member states (EU Homogeneity), *i.e.* the degree of convergence, is particularly sought to be permeated through the EU's cohesion policy. In the research of König and Ohr (2015), there are expectations that the increase in intra-European trade and the optimization of intra-European movements will eventually equalize the prices of goods and services (the so-called law of one price) and factor prices (the so-called Lerner-Samuelson theorem) in the area of integration. Traditional trade and growth theory (Samuelson and Nordhaus 2011) expects integrated economies to converge over time. However, the new theory of trade and growth extended by Krugman (2008) implies that the increase in economies of scale (the so-called economy of scale), spill over and agglomeration effects, and endogenous technological progress will favour advanced economies to the detriment of less advanced ones, which will produce the effect of divergence within integrated area. Greater homogeneity among countries will be considered an indirect measure of greater integration. However, Alberto,Tabellini and Trebbi (2017), Crescenzi and Giua (2017), Höpner and Schäfer (2012) believe that not only is there no convergence between EU member states, but that the crisis has created even greater divisions. The sustainability, homogeneity and stability of the economic policies of EU member states are very important, for at least two reasons. The first reason is the high level of indebtedness of numerous member states. The second is that public finance instabilities can spill over to other sectors. Therefore, all of the above implies the conclusion that the euro crisis has created even greater divisions within the Union, that is, that the crisis has deepened the differences between European countries when it comes to conducting economic policy.

König and Ohr (2015) mean that the symmetry of policies of EU member states and the degree of correlated business cycles within the EU (EU Symmetry) imply as a high degree of synchronization of business cycles in all EU member states. Furthermore, it implies that the more the products and factors of trade are integrated, the more similar are the production structures and forms of trade (the so-called intra-industry trade). Thus, countries are equally affected by exogenous shocks, *i.e.* business cycles and crises. Moreover, a common monetary or fiscal policy could provide a symmetrical economic stimulus. A certain number of authors (Alter and Beyer 2013; Botta 2014; Kräussl *et al.* 2015 and others) confirm that the symmetry of business cycles indicates that the economies of EU member states are mostly driven by common external shocks and are highly interdependent. Market integration through increased intra-European trade, as well as institutional integration within the Eurozone, should reduce the risk of asymmetric shocks, which *de facto* implies increased symmetry of business cycles between member states.

König and Ohr (2015) interpret member states' compliance with common institutional achievements (EMU and Schengen) and the EU acquis (Institutional Conformity) as the participation of member states in important steps of European institutional integration and their compliance with the EU acquis. Since most of the institutional steps have been uniformly ratified in all member states, the remaining disagreement concerns participation in the Schengen area and EMU membership.

## 3. METHODOLOGY

During the planned research, formulation and systematic processing of scientific facts, and in accordance with the framework of certain theoretical and methodological considerations, different methods and techniques of scientific research is used in this paper. In general, the general methods of scientific research, that is, the basic methods of logical and scientific knowledge, as well as their combination, which is also appropriate for the subject of the research, are distinguished. In this context, the following research methods will dominate in certain parts of this paper: basic methods of scientific description, collection and arrangement of facts and formulation of individual statements, then methods of economic analysis and logical reasoning and understanding. Hypothetical-deductive method is the key method by which the theoretical research concept is formulated based on existing scientific works and knowledge from this field. Furthermore, the historical method is used for the theoretical-methodological analysis and evaluation of the observed research problem. This method is used to analyse the basic characteristics of the observed development stages of the process of European economic integration from the very beginning to the present day. The theoretical aspect of the research involve the use of the method of analysis and synthesis. Methods of generalization and abstraction is used in the review of previous research, as well as in the presentation of research results. In addition, methods of systematized approach (holistic approach), classification and comparison is used to present previous research, as well as the results of own research. The induction method is applied in the empirical verification of research hypotheses and objectives, in the context of making adequate conclusions about the conducted research. When drawing conclusions, methods of analysis and synthesis is also applied. Available secondary sources of data will be processed using the method of internal research (desk research). Thus, books from the fields of: European economic integration, the economy of Europe, international economy, macroeconomics, articles, studies, publications, newsletters, reports, researches of international and European institutions and websites of relevant international and European financial, regional- development and other organizations.

## 4. RESULTS AND DISCUSSION

We observed European economic integration through four dimensions: 1) Single market - free flow of goods, services, capital and labour (Single Market), 2) Level of economic homogeneity between EU member states (EU Homogeneity), 3) Symmetry of policies of EU member states and the degree of correlated business cycles within the EU (EU Symmetry) and 4) Compliance of member states with common institutional achievements (EMU and Schengen) and EU legal acquis (Institutional Conformity). The euro crisis we observed through three dimensions: 1) banking crisis, 2) debt crisis and 3) growth and competitiveness crisis.

In order to show and prove the impact of the euro crisis on European economic integration, we based our discussion and results on the following:

*There is a connection between the Eurozone banking crisis and the EU single market.*

Banking crises are most often caused by the collapse of the banking sector. Problems arise due to bad operations, problems in financial statements and inefficient placement of funds. This type of crisis is usually long-lasting, and its effect increases when a large number of banks begin to fail. According to Kovač (2018), within the eurozone there was a high dependence of states, companies and citizens on banks, which in the EU were large, undercapitalized and full of bad loans, especially in relation to states. Analyzes by Baldwin, Gross, Leaven (2020) confirm the same, emphasizing that the economies of the eurozone countries were threatened by the insolvency of their key banks. Among others, Bježančević (2019), Frieden and Walter (2017) and Börzel and Risse (2018) dealt with the examination of the genesis of the Eurozone banking crisis and the connection between the Eurozone banking crisis and the EU single market. The banking crisis in the Eurozone proved the inadequacy of the principle of decentralized banking supervision in the monetary union. Although this weakness was recognized a long time ago, from the very beginning of the euro project, it was increased in the context of the banking crisis. The single market is the core of the European economic integration architecture. It has guaranteed the free movement of people, goods, services and capital in the European Economic Area since 1993 and since then has been continuously modified to keep pace with recent developments, such as the growing importance of the service sector. The mentioned authors are of the opinion that the single European market is under the threat of a banking crisis. Empirical analyses by these authors, before the crisis, show that the single market increased real GDP in the Eurozone by around 2-3%. Exports and especially foreign direct investment received a big boost. The dismantling of trade barriers has created cost advantages, increased competition in the single market and made companies more competitive on the global stage. The reduction of barriers to trade within the Eurozone has made EU countries more attractive for foreign companies to invest. However, the banking crisis changed the single market and greatly changed the outlook for its future. Considering the structural problems in the Eurozone and the long-term, diminishing importance of the EU for the global economy, the continuous development of the single market is one of the absolutely essential elements in the fight against crisis situations.

*The Eurozone banking crisis affects the level of economic homogeneity between EU member states.*

Berglof, Korniyenko, Plekhanov, Zettelmeyer (2009) were among the first to deal with the impact of the Eurozone banking crisis on the degree of convergence of EU member states. Namely, with the intensification of international capital flows and the introduction of the euro, financial integration in the Eurozone was also intensified. By analysing the international investment position of the creditor countries, Berglof, Korniyenko, Plekhanov, Zettelmeyer (2009) concluded that these countries are much more integrated in the Eurozone through financial flows than through real economic flows. In addition, the banks of the creditor countries were among the largest investors in the bonds of the peripheral countries (*e.g.* Greece), and therefore faced a solvency problem due to the deterioration of the balance sheet. In countries such as, for example, Ireland, the rescue of the banking system led to an increase in public debt, which later resulted in the transition of the banking system to a debt crisis. The same authors, due to the significant effects of the banking crisis, believe that the member states are still feeling the negative results and that there is more heterogeneity than homogeneity between the EU member states, such as: high trade deficit, insufficient diversification of production structures, high level of external debt, above-average interest rates unemployment etc. Furthermore, these authors argue that the emphasis should be on achieving realistic convergence criteria. However, the analysed criteria of real convergence showed that even after entering the Eurozone there are very large development disparities and heterogeneity, and in this group of countries there are those that have reached the level of 90% of EU development - measured by GDP per capita, and, on the other hand, there are countries that have not yet reached the level of 50% of EU development.

*There is a connection between the Eurozone banking crisis and asymmetric business cycles within the EU.*

Most of the works in this area (Veld 2019; Mayer *et al*. 2018; Felbermayr *et al*. 2018 and others) are based on analysing the connection between the Eurozone banking crisis and asymmetric business cycles within the EU. Namely, *grosso modo* looking, the mood of the local and regional market followed by the deterioration of the value of the macro fundamental variable and the so-called contagion, had a predominantly significant impact on the origins of the Eurozone banking crisis. The analysis of the opinions of the aforementioned economists also pointed to some other factors that influenced the emergence of asymmetric shocks within the EU: high international risk, the impact of rescue activities, news about the reduction of the sovereign rating, *etc*. Also, these authors indicate the existence of a significant connection between the banking crisis, currency and debt crisis of the Eurozone. Namely, before the creation of the euro, the prevailing opinion in European economic circles was that the Eurozone would reduce the frequency of asymmetric shocks. Asymmetric shocks would mostly be eliminated by adopting a unified monetary policy and fiscal rules that would impose sound national fiscal policies. Exogenous asymmetric shocks associated with structural differences between Eurozone countries were considered less likely, as the Eurozone was supposed to create structural convergence among these same countries.

*The banking crisis of the Eurozone affects the institutional alignment of EU member states.*

Research conducted in the last decade by Frieden and Walter (2017), Roth et al., 2015 and Allegri (2015) confirm that the banking crisis of the Eurozone has indeed had a significant effect on the institutional alignment of member states, by creating mistrust in participation in the Schengen area and EMU membership. The scenarios for the development of the banking crisis, offered by these authors, could negatively affect the single market to different extents and in different ways. A complete collapse of the Eurozone could collapse the single market beyond recognition and threaten the Schengen agreement. Furthermore, a scenario in which the current crisis is contained within the existing governance structures of the single currency and with existing instruments would reduce the depth of the single market. Even a positive scenario in which the Eurozone solves the crisis in terms of economic, fiscal and political integration would probably lead to the withdrawal of some states and thus shrink the EU single market.

*The Eurozone debt crisis affects the EU single market.*

One of the key questions in the study of the causes and consequences of the Eurozone debt crisis by Börzel and Risse (2018), Beker (2015), Hall (2016) was what effects the Eurozone debt crisis caused on the EU single market. Namely, their beliefs are based on the fact that the sovereign debt crisis caused a series of structural imbalances in the single market. The main argument is that the crisis, given the structural differences of the Eurozone member states, hit different states in different ways, *de facto* acting as an asymmetric shock. This, cause-and-effect, worsened the structural problem of competitiveness, which was characteristic of the Eurozone even before the debt crisis. Furthermore, in their research, Börzel and Risse (2018), Beker (2015) and Hall (2016) confirmed the hypothesis that peripheral countries predominantly financed the current account deficit, foreign trade deficit and budget deficit through external borrowing. At the same time, the countries of the periphery increased the deficit both in trade with other EU members and in trade with the rest of the world. In addition, the key cause of the internal imbalance in the Eurozone, according to these authors, is the different level of competitiveness of its members due to the different level of productivity.

*The Eurozone debt crisis affects the level of economic homogeneity between EU member states.*

Most of the works in this area (Alberto,Tabellini and Trebbi 2017, Crescenzi and Giua 2017 and others) are based on analysing the problem of significantly pronounced heterogeneity of the Eurozone member states, due to the fact that the loose fiscal policy and the different application of monetary policies contributed to the emergence and spread of debt Eurozone crisis. These authors, at one point, even state that the introduction of an efficient system of fiscal transfers and/or a compromise between interventionism and laissez-faire economics would be only some of the necessary solutions for the egregious effects of the Eurozone debt crisis on the degree of convergence of EU member states. It is an undeniable fact that the governments of the member states have state debts (public debt) in a currency (euro) over which they have no control, because the euro acts as a foreign currency for them. Due to these circumstances, states cannot develop the necessary financial guarantees for their public borrowing, which is why the costs and risks of borrowing on the financial markets are relatively higher. If the state, in fact, does not have control over its own money, then it becomes dependent on the financial markets. Their power was crucial in the debt crisis, but an even bigger problem is their inherent instability. The financial stability of countries depends on unstable financial markets, which exposes the Eurozone to greater risks of perpetuating the debt crisis.

*There is a connection between the Eurozone debt crisis and asymmetric business cycles within the EU.*

Most of the works in this area (Höpner and Schäfer 2012; Falkner 2015; Schmidt 2005) are based on considering the degree of connection between the Eurozone debt crisis and the correlation of business cycles within the EU. Even their empirical results are considered a reference for potential proposals for the sustainability of the Eurozone. Namely, the aforementioned authors point out that the Eurozone should establish risk-sharing mechanisms capable of absorbing asymmetric shocks. Improving the functioning of the capital market in the Eurozone would certainly be an important contribution to that goal, but fiscal mechanisms should also be taken into account. However, there is strong resistance in some member states to the creation of fiscal mechanisms across the Eurozone, as they fear that structural weaknesses in other states, especially in the functioning of the labour market, will lead to structural rather than temporary fiscal transfers. This would reduce the drag on fiscal mechanisms across the Eurozone, which are capable of absorbing asymmetric shocks. From the results of previous research on the alignment of business cycles within the EU, the following conclusions can be drawn: insufficient financial integration, the absence of free labour mobility within the Eurozone, the lack of financial resources to cover budget deficits, can significantly deepen the problem of indebtedness and thus cause the emergence of asymmetric business cycles.

*The debt crisis of the Eurozone affects the institutional compliance of EU member states.*

There is a small number of works (Alter and Beyer 2013, Botta 2014, Kräussl *et al.* 2015) that systematically dealt with the implications of the Eurozone debt crisis on the institutional alignment of EU member states. As it was the case in the banking crisis, the debt crisis of the Eurozone only deepened the distrust in the participation in the Schengen area and the membership in the EMU. The lack of conformity of the Acquis communautaire remains the most visible and painful symptom of the crises in the Eurozone. An important factor behind such mismatch is the difference in national system between core and peripheral member states.

*The growth and competitiveness crisis of the Eurozone affects the EU single market.*

Baldwin, Gros, Leaven (2020) came to the discovery that the euro crisis has its contours through the crisis of growth and competitiveness within the Eurozone. In their empirical research, they even developed a series of indicators (mechanisms) for assessing macroeconomic imbalances and differences in competitiveness. It is important to mention the authors of Armingeon and Guthmann (2014), who developed a proposal for monitoring and possibly correcting competitiveness problems, which ultimately fits well with the logic of Maastricht. This (implicitly) makes national authorities responsible for ensuring that national markets are flexible enough to deal with asymmetric shocks. It also fits with the literature on the optimal currency area of the Eurozone, which holds that the more a potential member of the monetary union risks being exposed to asymmetric shocks, the more flexibility it needs from the single market to compensate for the absence of an exchange rate instrument and adjust to such shocks. However, Armingeon and Guthmann (2014) note that the optimal currency area literature did not suggest that the flexibility of the single market was sufficient to cope with all asymmetric shocks. That is why they proposed labour mobility in the Eurozone or fiscal integration

*The growth and competitiveness crisis of the Eurozone affects the level of economic homogeneity between EU member states.*

Cramme and Hobolt (2014) paid particular attention to the analysis of the impact of the crisis of growth and competitiveness of the Eurozone on the degree of convergence among EU member states. They came to the conclusion that, for example, the deviation of wage growth from labour productivity growth creates extremely large adjustment problems in the Eurozone. Unfortunately, the supervisory system that operated within the Eurozone, even before the euro crisis, was quite deficient in this respect. In the era of the European exchange rate mechanism, the authorities monitored the movement of real exchange rates (and competitiveness) and could use the nominal exchange rate to correct losses in competitiveness. Before the crisis, however, national authorities seemed to have forgotten two basic facts about the Eurozone: 1) that the loss of the nominal exchange rate instrument does not imply that the real exchange rate cannot appreciate or depreciate; 2) adjustment to competitiveness risks being long and painful given the loss of the nominal exchange rate instrument. As a result, real exchange rates in some Eurozone countries have been allowed to become grossly overvalued or undervalued, creating difficult adjustment and convergence problems.

*There is a connection between the crisis of growth and competitiveness of the Eurozone and asymmetric business cycles within the EU.*

The study by Hobolt and De Vries (2016) starts from the position that the symmetrical effect of the euro requires either a savings policy in countries with a deficit in the balance of payments, or certain transfers from surplus countries. However, this mechanism of adjustment and surplus flows in the Eurozone does not work. Therefore, monetary integration is not possible if there is no specific transfer fiscal union, which can compensate for developmental inequalities within the Eurozone. That is why, for example, according to the empirical analyses of Baldwin, Gross, Leaven (2020), the economic growth of the Eurozone (2000-2018) was lower than in the rest of the EU. Also, the reaction to the growth and competitiveness crisis of the Eurozone was less effective, and economic inequalities between the members are greater than before the introduction of the euro.

*The growth and competitiveness crisis of the Eurozone affects the institutional compliance of the EU member states.*

The majority of studies (Dabić 2016; Sidenko and Markevych 2019; Bonasia *et al*., 2016 and others) related to the examination of the connection between the growth crisis and the competitiveness of the Eurozone with participation in the Schengen area and membership in the EMU have shown that the advantages the creation of the Eurozone and the benefits of the euro for the member states were actually a double-edged sword, because it was not taken into account that economies that are structurally different and productive and competitive on the world market have the same currency. According to the claims of the mentioned authors, the euro and the Eurozone do not meet the criteria of an optimal currency area, they do not allow sufficient mobility of production factors, and there are no mechanisms to prevent divergent economic movements between countries. The change of exchange rates is the basis of mutual adjustment of countries in international trade within the EU. The euro as a common currency abolishes that foreign exchange transmission mechanism, states can equalize their different positions in external exchange (deficits and surpluses of payment balances) only through other market prices and employment. The standard response of deficit countries is, therefore, structural reforms and lower wages, which in a recession often leads to lower growth and higher unemployment. If there is no flexibility in exchange rates, flexibility in the labour market takes over the basic role of adjusting economically different EU members. The costs of adjustment within the Eurozone are therefore high, and the euro as a common currency leads to economic, social and political differentiation. The key problem affecting the Eurozone today seems clear - the periphery has experienced a major problem, a loss of competitiveness during the boom years. For these economies to recover, they must regain their competitiveness by increasing productivity.

## 5. CONCLUSION

In the paper, we tried to contribute to the scientifically based systematization and critical analysis of methodological approaches for determining the causality of the euro crisis and the dimensions of European economic integration. Seven decades after its establishment, the EU is faced with major challenges, starting with unemployment, economic stagnation, debt and institutional crisis, and ending with the migrant crisis, the euro crisis and the fight against terrorism. In particular, threats from within are felt (due to Great Britain's exit from the Union), which completely calls into question the fundamental European idea of cooperation between states. All this has caused most EU member states to face a "crisis of confidence" in Europe and its institutions. At the same time, nationalist political parties and ideas are increasingly developing, which continuously leads to a weakening of European solidarity. After Brexit, the Union divided into those who advocate strengthening integration and those who seek the return of part of the sovereignty to the member states. However, the exit of Great Britain from the EU can be an opportunity to redefine economic integration processes in the Union. After the expansion from 15 to 25 members, a number of problems appeared within the Union, because the approach of Eastern European countries significantly weakened the awareness of collective interest. Common values, which had existed until then, were quite "diluted" and different understandings of the nature of the state appeared, as well as different views on European integration processes. At the same time, support for economic integration in the eyes of citizens decreased (so-called Euro scepticism), and fewer and fewer of them believed that membership in the EU (therefore also in the Eurozone) is useful and can bring significant positive effects.

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