



Abstract

Europe: Close to the Edge

Over the last six months the sovereign debt crisis in Europe has deteriorated dramatically. A combination of weakening economic growth and the lack of clear crisis resolution policies has resulted in significant financial markets disruption, which since August has spread across all global markets. While there are issues of concern elsewhere, uncertainty over Europe's future and its ramifications for the rest of the world continue to dominate investors' minds.

In this edition of [Monthly Insights](#) we focus on the European situation. To start, we consider the original rationale for the foundation of the European Union, noting that its *raison d'être* likely transcends optimal economics. Given this, the underlying commitment of the core countries to the European project in general, and European Monetary Union specifically, should not be underestimated.

We also look at the policy initiatives that could help Europe navigate the crisis in the short term and return to a desirable equilibrium in the long term. Clearly, the range of future outcomes today is very diverse.

Finally, we remind our readers that countries outside Europe, in particular Growth Markets, continue to play a vital role in sustaining global growth at a reasonably sound level. If Europe continues to "muddle through," there are a variety of policy options available to Growth Markets that should enable them to successfully steer their economies through the ongoing global slowdown. Even these countries, however, will not be immune to a messy unravelling of the European crisis.

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