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## **Eurozone Integration - Performance and Risk to the National Economies**

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**Abstract:** Given the theoretical basis of achieving monetary union and the legal framework of euro adoption, this paper aims to analyze the advantages and disadvantages arising from the adoption of the single European currency - Euro, and the implications of the single currency on individuals and businesses. Also, in this paper we highlighted the situation of Romania regarding the introduction of the single currency and its implications on the Romanian economy.

**Keywords:** euro adoption; economic risk; euro effects

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### **Introduction**

Euro is the best candidate for the role of the single currency and can not be replaced with any other currency whatever the short-term benefits would be. Euro will be especially a credible competitor for the dollar money market. The creation of euros could accelerate tilting movement of the dollar to the euro in the long term and gradually. Nearly three years after its launch, the euro has become the second most widely used currency after the dollar. This situation reflects the legacy of the old currencies of euro area countries, which were replaced by euros and results also from the economic weight of the eurozone in the world economy. The deepening of euro internationally is intended to serve to deepen cooperation based on proximity and convergence in foreign policies of key partners worldwide.

### **The Risks and Implications of Euro Adoption**

Changeover involves a number of risks, among which the most important results from the persisting disparities between countries in the budgetary, fiscal and social protection. Besides taking harmonization measures, countries that have adopted a single currency will be characterized by dangerous fiscal and social competition to attract investors that would result in loss of jobs in one country or another. Harmonisation is required also because, once the switch to the single currency, countries will not be able, as hitherto, to resort to competitive devaluation to boost exports or to

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increase public spending and thus worsening the budget deficit will not be a solution once has been established a certain budgetary discipline within EMU.

However, if the single currency will be in great demand will revalue against the dollar, which would be a handicap for European firms which holds a fifth of world exports. The second risk is related to the fact that a single monetary policy would require sacrifices and risks from developed countries, rich, embodied in transfers of resources in favor of poorer countries.

The introduction of the single European currency will have profound implications on the main components of European financial market. The transition to the single European currency has led to radical changes in the euro area money markets. By eliminating currency risk, each individual country markets were merged into one integrated money market. It is estimated that, by the way is formed and how it works, the euro area will become the second largest global market for short-term securities market after the US. Also, the euro area will become the second market for bond transactions. By eliminating currency risk, the difference in profitability between the operations of the different national markets in the euro area will decrease greatly. Transactions in bonds issued in other markets than the national will be stimulated.

The liberalization of capital movements will extend the range of the investors and they will face more often with unknown borrowers and divergent economic and political conditions.

Therefore there will be a huge demand for information regarding credibility of issuers of securities, which will be more closely monitored. In Europe, issues and securities transactions still take place, largely, within the national stock exchanges. The single currency will lead to a greater internationalization of securities market. Advancement in computer technology will accelerate the integration of capital markets by integrating in a single electronic network.

The integration of stock markets will increase the efficiency, transparency and liquidity of the market share in Europe. Thereby, European stock markets in the future will attract more money and become strong competitors for exchanges of New York and Tokyo, will generate increased liquidity of securities markets and will reduce the difference between the sales price and the purchase price. However, the payments after the deal will be less expensive. The future is expected to create a global electronic network share transactions. The launch of EURO will increase the connection between European stock exchanges. In this situation investors and issuers of securities will have to adapt to new conditions.

The trend toward unification of tax policies and the common monetary policy will cause that the profits earned in securities transactions in various markets in the euro area to be less dependent on the economic cycles and on the interest rate. For the operation of Economic and Monetary Union is required a condition: deeper liberalization of legislation on institutional investors. Restrictions will be limited to the obligation to invest a minimum percentage of the value of assets held in the own currency - in this case, EURO.

The launch of the single European currency will lead participants on the monetary system to adopt new strategies. Experts estimate that banks will heavy cope with competitive pressure, and others will not survive on the market.

Money market has responsibility in launching the European single currency through its banking system. When a bank is more involved in international business, than that bank will benefit more from the launch of EURO. To strengthen the position of European money market banks have resorted to mergers and acquisitions. Regarding the foreign exchange market the main advantage of euro adoption

is to reduce transaction costs. The negative implication is the reduce of bank charges and gains from currency arbitrage transactions, due to lower trading system and the disappearance of exchange rates between European currencies. To compensate the loss, banks will expand their transactions in euros, dollars and Asian currencies.

The launch of EURO will lead to the perfection of the single internal market and, therefore, to greater competition between European countries and production for foreign markets will be facilitated. Due to the size, the capital expressed in euro will be more stable than that formed from other European currencies. Therefore, the euro will become an important reserve currency. Due to the facilities created by the euro, economists believe that the euro will threaten the status of the dollar as the main reserve currency internationally. As the euro will become the common currency of the largest economic bloc in the world, banks will increase their reserves in euros.

### **Specific Factors that Determine the Stability of the Euro**

Stability of the euro is just as important as his power because an unstable currency is a scourge for economic growth and investment. The unstable currencies strength the dependence of a state of trade, destroy the investments and splits business environments. When persisting exchange rate stability, this not only reduces consumption and investment, but also precipitates industrial chaos, social unrest, and even the possible political upheavals. An unstable EURO will not have only devastating economic effects, but it will attract the wrath of voters in countries like Germany, Belgium, Netherlands and Luxembourg, countries with high common external stability.

Changes in EURO stability are determined by the same factors that determine the strength of EURO. When the European Central Bank manages to control inflation and retains its reputation for strict independence, if the overall stability of the economic and fiscal and current account surpluses will be maintained if the euro is seen as a long-term store of value, the financial markets have no reason to constantly reassess the exchange rates of the euro. When we talk of short-term currency stability, long-term factors are less important than daily changes in estimates of central bank behavior.

Changes in interest rates in the euro area have a direct impact on investment income expressed in euro. Frequent changes in the estimates of the interest rate leads to a more unstable euro. Monetary policy is based on an economic area which changes more slowly than in countries like France, Italy, Ireland and Belgium. Therefore, interest rates in the euro area is expected to be changed less frequently than has happened in many individual countries before the euro adoption. This does not provide any stability of euro because the exchange rate policies of the European Central Bank should also be considered in this equation.

Changes in exchange rates can have a significant impact on inflationary pressures and can play a crucial role in determining the overall economic competitiveness of export-oriented industries. In countries where trade plays an important role, even minor changes in exchange rates can make or break the economic growth or substantial increase the inflation threat. For this reason, before the euro adoption, central banks in countries such as Austria, Belgium and Portugal have closely monitored the value of their currencies against the currencies of major trading counterparties and reacted appropriately to maintain stable exchange rates.

## **The Way Euro Revolutionizes Business Markets in Short-Term and Long-Term**

Monetary Union lead to changes on European markets that pass far beyond issues of power and stability of the euro. Any market research, any strategy of a company or any political document regarding the new European economy must consider at least three trends general framework, namely:

1. *Financial framework.* European markets are not as different as they are accustomed. Short-term interest rates are the same everywhere in the euro area, a step made only because countries like Spain have reduced interest rates above 13 percent in 1992 to about 2 percent in 2009.
2. *European expansion.* The second major trend in business that EURO catalyzes refers to perception of the euro area as a unique environment booming. Because EURO eliminates transaction costs related to currency and exchange risk, promotes competitive prices across borders, creates deep financial markets and strength the idea of a single European market, companies began to reorganize as pan- European concerns. It is probable that mergers insurance companies and other financial services will be the next step. Other waves of mergers of some service providers and major manufacturers will follow them. An important aspect of strategic trans-European expansion is that countries are able to use their comparative advantages to attract investment from outside the continent.
3. *Policy harmonization.* The third major trend of the market established by EURO involves continuous harmonization of public policies related to market. Most importantly, the new currency will probably lead to a long term tax harmonization for participating nations. An important part of any business environment is the size, scope and complexity of its financial markets.

## **Euro Effects on Securities Markets**

For companies that are just starting out, EURO creates a second market shares in the world in size. At the technical level, this transformation was relatively straightforward. Shares publicly traded on major stock exchanges in the euro area were converted into euros since the first trading day of 1999.

The calculating shares happened automatically because free markets determine stock prices and market participants were perfectly able to apply the official exchange rates of the euro for their own purchase orders and sales.

Conversion of the nominal value of ordinary shares in companies' balance sheets is a minor accounting change, and this did not affect marketing new values. Introduction of the euro has also effects on individuals and businesses. Therefore all public and private institutions in the world are advised to assess the effects of the adoption of euro have on their one economies.

Depending on the customers, on the profile of suppliers, on the strategic ambitions, on the competitive environment and technological complexity for each institution, EURO presents a variety of challenges and opportunities.

Almost any company, from small law firms and investment partnerships to the largest multinationals, has not guaranteed immunity to the effects EURO. The best method for assessing exposure to EMU is a systematic examination of each management level of an organization. Years of preparation for the introduction of the euro have made very clear that the new currency affects unevenly industries.

## **Euro Effects on Individuals And Businesses**

In general, the biggest winners of the EURO are those companies or organizations where a large part of trade is done with the euro area countries. This includes enterprises located in member countries. Except the cases where the Euro is extremely strong or weak compared to previous national currencies, one of the four fundamental advantages of Euro (exchange rate risk, transaction costs, price transparency, deep financial markets) provide benefits for companies worldwide.

Euro benefits regarding exchange rate risk, transaction costs and price transparency is a potential advantage for any company that has seen mired in numerous national currencies in Europe. Benefits of the euro are diverse and are felt at different levels, from individuals and businesses and reaching the whole economy. For EU citizens, traveling in the euro area is much easier, without requiring cumbersome currency exchange. Also, the comparison of prices of goods and services is much easier, which contributes to improving the functioning of the internal market and to support healthy competition.

Economic and price stability as a whole brought by the EURO is favorable for the whole economic climate, from families to businesses. Recent data estimate that the introduction of the euro has led to increased intra-euro area trade by 5-15%. The single currency brings new strength and new opportunities derived from the integration and size of the euro area economy, the single market becoming more efficient. Before the euro, the need to achieve exchange transactions incur additional charges, involve risks and cross-border transactions were lacked of transparency.

With the introduction of the single currency, the business became more profitable and less risky in the euro area. At the same time, the possibility to compare prices easily encourages cross-border trade and investment of all types, from individual consumers seeking the cheapest product, to businesses purchasing the best quality service and large institutional investors who can invest more effective in the euro area, where there is not a fluctuation of exchange rates. Within the euro area, there is now one large integrated market using the same currency. Global benefits are also numerous. The single currency and the euro area means new opportunities in the global economy.

The single currency convert the euro area into a business area attractive to third countries, thus promoting trade and investment. Prudence and economic management makes the euro an attractive reserve currency for third countries and the euro area provides a stronger position in the world economy. Also, the size and prudent management provides economic stability for Eurozone, which resists better at so-called foreign economic shocks, ie sudden economic changes that may arise outside the euro area and can affect the national economies, such as increased oil prices and the emergence of turbulence on international currency markets.

Due to its size and strength, the euro area can also better absorb the external shocks without loss of jobs and without diminishing growth. The euro can not guarantee, as single, stability and growth. This is done, primarily, through sound management of the euro area economy according to the Stability and Growth Pact (SGP), a vital element for Economic and Monetary Union (EMU). Secondly, as a fundamental tool for enhancing benefits of the single market, trade policy and political co-operation, the euro is part of the economic, social and political structures of today's European Union.

**The Impact of the Single Currency on the Evolution of Romanian Economy**

Looking ahead, real and nominal convergence process of the Romanian economy will be done at a rate that depends, to a large extent, to the overall consistency of economic policies implemented by the authorities. Therefore, we think it is recommended that the economic program guidelines must be strictly complied, beyond the short horizon of the election cycle. Although the single currency seems a simple decision, in fact is a complicated one, and by it its aim to prevent similar developments in Hungary, where the central bank was forced to postpone the deadline twice for changeover. Compliance by Romania of those criteria and requirements imposed by the European Union, will lead to benefits but also the possible risks for the Romanian economy as a whole. To adopt the euro, Romania should speed up structural reform agenda. The most important priorities are public service efficiency, accelerating plans to privatize the energy sector, creating new jobs and reducing corruption and improving the business environment. Romania's attempt to recover the distance from the richer countries of the European Union will be supported also by funds allocated by the European Union. Accession funds, if will be used entirely and rational, would represent an injection which would amount to 3-5% of GDP each year in the first seven years from accession, which undoubtedly will allow Romania to join the Eurozone. In this situation, the introduction of the euro will have positive effects on Romania's foreign trade, given that 2/3 of foreign trade is oriented towards EU countries.

The new currency will be a catalyst that will stimulate imports and exports of Romanian companies. Romania lost large amounts of money due to the fact that until recently were chosen as currency contracts either US dollar or the fluctuating currencies of some EU countries. The euro will be a factor of stability which will greatly reduce losses caused by local traders exchange risks. At the beginning, the economic agents should use in transactions euro as the currency of payment, and the US dollar as the currency of consolidation. One of the main benefits of the introduction of the euro is that the euro will reduce costs for Romanian firms incur as a result of foreign exchange. These costs, according to estimates, represents about 1-2% of the transaction value. Also, due to the single European currency, it is saved valuable time in business management, the necessity of risk analysis disappear, and also disappear the necessity of expenditure-profit analysis for each transaction carried out by the firm. Another benefit resulting from the adoption of the single currency by Romania is that it simplifies business performance assessment conducted in terms of the enterprise, and is no need to take account of currency volatility. Easier access to export markets of any member countries is another advantage that could be exploited after removing monetary barriers within the EU. In this case it will reduce the number of intermediaries, so that enterprises will increase their income as a result of direct exports carried out and also will become more competitive in terms of price offered. Another important benefit that is offered by the European single currency is the transparency. This means that all prices in EURO will help Romanian companies to choose their suppliers that ensure the lowest cost and to export their products in those countries where they can get the highest income. For Romania, a particular importance resulted from introduction of the euro is the European Central Bank, which began operations in Frankfurt and took over several tasks of the IMF in terms of funding and pursuing policies consistent pricing. All the benefits listed above will lead to the increase of medium and long term economic growth rate of countries in the Eurozone. Risks arising from the entry into service the European single currency in Romania are few, but have a direct impact on everyday life and the financial system. The best known of these risks is the general rise in prices which is due to lack of familiarity of the population with new prices expressed in euro, the speculation of rounding errors. Another risk related to the transition of the Romanian economy to the single currency is proper sizing of short-term liquidity in the banking system in Euro, given the request for cash in Euro. The loss of

choice for the level of inflation rate and the exchange rate loss are another disadvantage arising from participation in EMU. It should also be mentioned that changing the national currency in favor of the single currency implies loss of control and power of decision on monetary matters and the flexibility decisions that preserves the Romanian economy to external shocks.

## **Conclusions**

This paper brings the arguments regarding the fact the single currency can bring both advantages and disadvantages for the participating countries, but also highlights Euro effects on businesses and individuals. Changeover involves a number of risks. The major risks arising from the disparities that persist between countries regarding the budgetary, fiscal and social protection. The second risk is related to the fact that a single monetary policy would require sacrifices and risks from developed countries, rich, embodied in transfers of resources in favor of poorer countries. Analyzing how a stable or unstable Euro can affect the business world, we can conclude that: Euro stability is at least as important as his power because an unstable currency is a scourge for growth and investment; the unstable currencies strengthen the dependence of economies to trade, destroys the investments and split up the business environments.; changes in interest rates in the euro area have a direct impact on investment income expressed in EURO currency; the Euro becomes more unstable when there are common changes in interest rates; changes in exchange rates can have a significant impact on inflationary pressures and can play a crucial role in determining the overall economic competitiveness of export-oriented industries. One of the main benefits of the introduction of the euro in Romania is that the euro will reduce costs for Romanian firms incurred as a result of foreign exchange. Due to the single European currency, disappear the necessity of expenditure-profit analysis for each transaction carried out by the firm.

Risks arising from the entry into service the European single currency in Romania are few, but have a direct impact on everyday life and the financial system. Finally, weighing both the benefits and risks of crossing the Romanian economy to the European single currency, we can say with certainty that the direction chosen by the Romanian political class is correct, namely the trend of integration in EMU, which in the medium and long term will contribute to achieving benefits for the entire Romanian society as a whole.

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