Expenses, Risks and Advantages Generated by the Introduction of the Euro Currency

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Abstract

The introduction of the euro currency generates economic advantages, alongside with some expenses and risks. So, for the passing to the unique euro currency in the euro area expenses have been made with the modification of accounts, prices lists, labels with prices, format used, bank account, database, ATM-s etc. Important expenses are connected to the production of euro currency. A cost of the passing to the unique currency in the euro area is the reduction of some workplaces because of the decrease in the income by some banks from the exchange of devices and from the trade related to the umpirage of debentures. Simultaneously, the exchange generating a reduced volume of business will be disadvantaged. Apart from expenses, the introduction of the euro currency has also generated risks, which will threaten the sustaining possibilities of this currency. A major risk is related to the impossibility or restriction of the economic shocks by each country through the adjustment of interests’ rates, intervention upon the exchange rate and fiscal adjustment.

Key words: euro currency, interest rate, change rate, currency policy, inflation, economic strokes

The introduction of the euro currency generates economic advantages, alongside with some expenses and risks. So, for the passing to the unique euro currency in euro area expenses have been made with the modification of accounts, prices lists, labels with prices, format used, bank account, database, ATM-s etc. Important expenses are connected to the production of euro currency. A cost of the passing to the unique currency in euro area is the reduction of some workplaces because of the decrease in the income by some banks from the exchange of devices and from the trade related to the umpirage of debentures. Simultaneously, the exchange generating a reduced volume of business will be disadvantaged. A part of the reduction of workplaces will be compensated through the gains obtained in the economic branch, which are associated with the euro introduction, such as those dealing with software and office devices.

Apart from expenses, the introduction of the euro currency has also generated risks, which will threaten the sustaining possibilities of this currency. A major risk is related to the impossibility or restriction of the economic shocks by each country through the adjustment of interests’ rates, intervention upon the exchange rate and fiscal adjustment.

Economic shocks are unexpected changes in the macroeconomic environment of a country or a region, which deteriorates the balance of production, investments, governmental expenses and
trade. The most threatening type of economic shock for the unique currency area is the one known as an asymmetric shock, called so because it affects the countries in a different way.

Economic shocks could be caused by drastic increases or decreases in the demands of primary goods and services from a country.

Before the introduction of euro currency, the countries in the euro area could manipulate asymmetric shocks (and the risks which often followed) in three main ways: adjustment of interests rates, intervention upon exchange rate and final adjustment. Among these, the adjustment of interests’ rates was the most important. It provoked the reduction of borrowing expenses, which quickened the investments in economy and the input, at last launching the economic growth.

Within the conditions in which central banks from the euro area have rendered the authority in the area of currency policy to the Central European Bank from Frankfurt starting from 1st January 1999, independent adjustments of interests’ rates have been impossible. Consequently, with the exception of cases in which economic shocks strike simultaneously all the 11 participant countries and with intensity approximately equal, the adjustments of interest rates cannot be used to solve the economic shocks.

The adjustment of the exchange rate was an instrument of monetary policy situated within the reach of each country until the introduction of unique currency. Selling great quantities of currency on external market exchange, the central bank of a country could, when facing a national recession, depreciate the national currency and thus decrease the price of its goods from abroad. This fact could increase the demand of its importations in the entire world and could promote a powerful recovery of the economy. The euro currency eliminates this instrument of monetary policy, because it is the unique currency for all the countries from the euro area.

The adjustment of fiscal policy is powerfully restricted by the introduction of the euro currency. When an asymmetric shock brings the country in a state of recession, usually, the governmental expenses grow. So, the governments deepen budgetary deficit because they spend more money on social programs. These expenses simultaneously introduce a large amount of money in economy, quickening the input and economic growth and determining the outcome of economy from recession.

The passing to the euro introduces some severe rules for the modalities of fiscal stability, the participants having to adhere to the Stability and Growth Pact, an agreement that imposes that all budgetary deficits of the governments from euro area should be smaller than 3% from GDP (Gross Domestic Product). Preventing countries from borrowing too much, a consequence of the Stability and Growth Pact is that the governments from euro area cannot allow an important growth of public expenses during crises, fearing they might surpass the stipulated limit.

The introduction of the euro currency has an impact upon the capacity of the countries to face the asymmetric shocks, forbidding independent modifications of interest rates, stopping the depreciations of national currencies and a restriction of governments’ capacity to spend for the stabilization of an economy. In these conditions, one may ask if individual economies from euro area could face the asymmetric shocks without the possibility to handle fiscal and monetary policies, which they had before euro introduction. There is a fear that some countries will enter in recessions and that they cannot overcome over reasonable periods of time, in the absence of the three instruments of recession combat.

A contribution to the represented risk in euro area by economic shocks also has the inflexibility of the work force market. In Europe the work force mobility is three times smaller than in the USA where there circulates a unique currency in the 50 states spread on a large surface, without depreciations of the currency and without massive annual budgetary deficits. But the USA represents the place in which there are the most flexible work force markets in the entire world, with a high degree of work force mobility. Work force movements simultaneously reduce the
unemployment rate, determining the economic revival. Moreover, in the USA there is a unique language, only one government, an extremely manifold and uniform middle class and a common cultural history, whereas the European nations are different and disparate.

The European Union is less capable of overcoming economic shocks and for another reason, which is the absence of a fiscal transfer system. So, in USA, the unique central government can transfer enormous amounts of money in its states, which represents a powerful and efficient way of stabilizing the economic differences between the American states.

The European Union needs an efficient international system of fiscal transfer. In the euro area most of the contributions are paid by national and local governments. These governments give to the European commission from Bruxelles an annual budget of only 2.5% or only 1.25% from the European Union GDP. Among the nations from the euro area there occurs only a very small fiscal transfer, and the chances for these to grow in the future are small, because the politicians who propose important fiscal transfers to other countries draw electors’ adversity.

Another major risk faced by the European Union, besides that presupposed by financial shocks, is the absence of a “federal European government” unified and powerful.

The expenses of the countries from the euro area cannot be controlled directly by a unique authority. Consequently, some states can surpass the annual budgetary deficits specified in the Stability and Growth Pact without announcing that or can refuse to pay the established fines. This way, the countries considered constant from the fiscal point of view can be affected by the excessive borrowings of the other countries, because excessive solicitations came on a capital market from a powerful borrower grows the borrowings’ cost for all the others who borrow in euro, even if there are different national interest rates. There is also the risk that a member government may be insolvent, risk which could discourage the financial markets and implicitly, could destabilize the economies from the euro area.

The accomplishment of an economic union without a powerful policy union implies a risk, because severe policy tensions could undermine the economic union. The absence of a powerful policy union includes the risk that controversial problems such as NATO expanding or disagreements referring to frontiers, might disrupt the European Union. Regional tensions could affect the economic stability and growth in the euro area.

With all these risks, the euro currency is powerful, chances of its complete collapse being reduced. The economies from the euro area give signs of vigorous economic growth. The economic shocks are in fact extremely rare and do not always lead to economic divergences. And the desire to resolve the problems in the interest of the institutional framework is great, which reduces the vulnerability of the euro currency.

The introduction of the euro currency which replaces the national currency of the participant states in the euro area, has a series of economic advantages, among which: the elimination of the risk related to the exchange rate, the reduction of transaction expenses, the increase in prices transparency, the deepening of financial markets, etc.

The risk of the exchange rate is one of the factors, which determines the quality of international business circumstances. So, the less predictable the exchange rates’ evolution, the more unsafe foreign investments are. The euro currency, replacing the international euro currency, perfectly eliminates the risk created by the exchange rates between participant currencies. This will represent an advantage for international investments in the euro area.

The risk appearing from exchangeable rates can generate a disadvantage for any consumer, producer or investor making a decision and whose presence involves the payment of a good or of a supply job.

Before the introduction of euro currency, the tourists who went on trips in Europe collated the discommodities and the costs of a higher currency, each of these being recognized in certain
areas from the European Union; each currency can be obtained, with the corresponding costs, by dint of banks, of exchangeable currency houses, desks of touring and of the companionships of these credit cards taxes are eliminated through the introduction of euro currency.

The economic branch of touring occasions has reduced apart from one in the area of international trade. Thus, given the fact that each participant state to the euro zone has its currency, a big number of dealings were necessary. The majority measures outside the country frontier involve certain incident to costs conversion of the mottoes, as a rule, realized by dint of big financial institutions.

The economies generated by the introduction of euro currency are substantiated due to the volume of the international trade scrolled in the zone of European Union.

The transparency of prices bred through the introduction of the euro currency. A unique currency produces differences of prices, of goods, jobs and workforce from different countries more evident, improving the competition among markets.

In absences of euro currency, the consumers from the European Union zone could meet difficulties in prices comparison from outside of the national frontiers.

The prices converted to euro offer a simple and consistent standard to formulate comparisons. The discrimination of prices is more difficult now else than was before the introduction of euro. Therefore, the differences in price between identical goods and services on continents shall else exist due to the settlement of prices on the strength of interaction among the offer, demand and decisions in a large variety of average competitors.

The deepening of the financial market favours the beginning and the scroll of the business. Before the introduction of euro currency, the transformation in investments of economies of the owners of economies the affected age of the psychological and economic costs presumed by the eleven national currencies. Each type of financial instrument, from the governmental titles and the loans granted by commercial banks feather to the shares accustomed, were quoted in the national currency. This fact has separated the financial markets, discouraged, foreign investments and could have been available even in the absence of incident costs connected by transactions and risked incident to exchangeable rate.

The euro currency has fundamentally changed this situation. From the 1\textsuperscript{st} January 1999, the big fellowships from the euro zone have quoted the financial instruments, inclusively one previously emitted, in euro. For both investors, and for those who borrow, these evolutions made the financial European markets more powerful, more accessible and more liquid.

Another advantage of the introduction of euro currency is connected by the changes in behaviour of financial markets and companies.

The macroeconomic stability is an advantage. The euro currency introduces a regime with reduced inflation and macro economical stability for many countries from the euro area. This fact is possible due to the free character of Central European Bank. The more independent a central bank is the more probable to resist ahead the politics pressures of its cabinet. The researches showed how the independence of central bank from many countries from the euro area, are not immune against politic influence. The Central European Bank is moderate after Bundesbank. Although the high level of independence of the Central European Bank brings barrels advantages for the countries already recognized for the small inflation like Germany, Austria, Belgium, and Holland, and give an economic future more stabile for the rest of countries.

The reduced rate of interests is another advantage. Inasmuch as the euro currency reduces the inflation, it also exercises a pressure in the sense of the diminution of the rates of the interests. Thus, the investors demand reduced rates of interests from the countries with elder stability of prices. This benefit is important especially for the countries, which registered poor results in
fight against inflation (Italy, Spain and Portugal). These countries currently benefit from afterwards estimations concerning inflation reduced due to acerb objective and firmness of the new Central European Bank.

The euro currency brings little inflation rates and through the decrease in the rate of risk for the currency exchange.

Thus, the supplementary interests which offer a compensation for the risk regarding the sums of money by reason of modification of exchangeable course, named bonus for incident risk of exchangeable rate, is currently eliminated from credit transactions which supervene in the euro area.

The benefit of the decrease in the bonus for the incident risk exchangeable rate can mean for Europe’s thin currency the decrease in real interest rates, which means the decrease in the financial capital in these economies. In the countries along the time, registering reduced rates of interests (for instance Germany, Austria and Holland) euro can hardly provide any help.

The euro currencies sustain the structural reform in Europe. Thus, the countries which want to enter the euro currency must adjust the economies, by carrying out the criterion of convergences and they have to adhere to the Stability and Growth Pact, which agrees to strictly limit the governmental loans and which forces its cabinets to adjust the public finance.

This kind of measures leads to the zone budget decrease and to the stimulation of the economic growth. From this viewpoint we appreciate that the euro currency leads to the modernization of European economies; globally, it stimulates a modern viewpoint.

The euro currency tends to become a currency in which the international reserve is mainly kept in. The currencies in which the reserve is invested are used by central banks, by cabinets and by the private companionships in the whole world, as long-term warehouse of value and met financial contiguous requirements.

The status of the currency in which the reserve is kept brings the benefits to the capital markets from the country, because the buyers interested in keeping a currency from invest in reserve; buy stock holdings based on this currency. This fact reduces the cost of the loans for the firms. For instance, the United States Government has been frequently able to finance its commercial deficits, borrowing very cheap outward. The status of the currency in which values are kept, allows the USA to make economies in dollars through the direct costs of conversion, because the dollar is accepted as a valid currency all over the world.

The euro currency can be an important factor of economically growth in the euro area. The reduced costs of transactions and less connected risk of exchangeable rate unite with price transparency and with a unique method of pay, increased effective amount of the markets products from the zone euro. As a result, the multinational companionships have the possibility to realize large-scale economies; respectively they have produced to an average less costs than others.

Now, the euro area expects to benefit from the little average costs, from large productivity, factors which are ensured by the big internal market. This fact is all the more possible as the Central European Bank adds stable and reduced rates of interest.

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**Costuri, riscuri și avantaje generate de introducerea monedei euro**

**Rezumat**

Introducerea monedei euro generează atât avantaje economice, cât și unele costuri și riscuri. Astfel, pentru trecerea la moneda unică în zona euro, s-au făcut cheltuieli cu modificarea facturilor, listelor de prețuri, etichetelor cu prețuri, formatelor utilizate, conturilor bancare, bazelor de date, automatelor bancare etc. Costuri importante sunt legate de producerea bancnotelor și monedelor euro. Tot un cost al trecerii la moneda unică în zona euro este reducerea unor locuri de muncă din cauza scăderii veniturilor realizate, spre exemplu, de unele bănci din schimbul de devize și din comerțul legat de arbitrajul obligațiunilor. Totodată, vor fi dezavantajate și activitățile de schimb valutar care vor avea un volum de afaceri diminuat. În afară de costuri, introducerea monedei euro a generat și riscuri care vor amenința posibilitățile de susținere a acestei monede. Un risc major este legat de imposibilitatea sau restricționarea influențării șocurilor economice de către fiecare țară prin ajustarea ratelor dobânzilor, prin intervenția asupra ratei de schimb și prin ajustarea fiscală.