The Integration in the Economic and Monetary Union: when?

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Abstract: *The goal of this article is to analyze the advantages and disadvantages of adopting a unique European currency. Also, we aim at revising the new question marks raised by the current economic and financial context towards the sustainability of the Euro zone. The conclusion is that, although some countries are postponing the moment of adopting the Euro, they have trust in the future and solidity of the Economic and Monetary Union (EMU) and are prepared to adopt the unique European currency on a shorter or longer term. The countries' fears are not related to the existence of the EMU itself, but they are rather waiting for a more suitable moment, characterized by a less troubled economic environment.*

Keywords: unique currency advantages, disadvantages

JEL Classification: E52, E58

1. Introduction

The expansion of the EMU, so that it should comprise all the EU member states, represents a significant challenge, mostly amid the economic and financial circumstances which characterize the current climate and the aids that have been necessary for the Euro zone member states that found themselves in difficulty, mainly Greece, Portugal or Spain.

The situation of the states which are EU members, but which are not in the Euro zone is as follows: The Great Britain and Denmark benefit from the "no-join" provision, as the national authorities of these countries are those to decide the moment to join the EMU, while Sweden does not meet the criteria regarding the currency rate and the legislation compatibility with the European System of Central Banks (ESCB). The referendum organized in September 2003 regarding the unique European currency resulted in a 56.1% votes against adopting the Euro. Sweden's opposition towards adopting the Euro has started to drop as the Swedish Crown reached a historic high compared to unique currency.

The other states which have recently joined the EU in 2004 and 2007 (Estonia, Latvia, Lithuania, Cyprus, Malta, Poland, The Czech Republic, Slovakia, Hungary, Romania and Bulgaria) did not meet, on the moment of accession, the criteria to join the EMU and, thus, they were allowed to make the necessary adjustments. These states committed to joining the Euro zone as they fulfilled the convergence criteria. Thus, Slovenia joined in 2007, Cyprus and Malta in 2008, Slovakia in 2009 and Estonia in 2011.

The preparation of the premises necessary to adopt a unique European currency consisted in the first step of denominating the Leu starting with August 2005. Adopting the Euro currency represents a big challenge for the Romanian economy.

2. The advantages and disadvantages of adopting the Euro currency

In order to evaluate the sustainability of the Euro zone we consider opportune to look over the advantages, but also the disadvantages of adopting the Euro currency. The 17 states which currently form the Euro zone have increased the population from the EU member states that use the Euro as a common currency to 331 million inhabitants. Adopting the unique European currency involves both advantages and disadvantages.

Regarding the benefits of adopting the Euro, they are beyond doubt. The most important is related to eliminating the exchange rate risk and stimulating the foreign trade. Eliminating the exchange rate risk could be regarded as a protection for the economy, but the population could be subject to serious repercussions, as the people would experience a diminishing of their living standards, mainly because Romania, by joining the Euro zone, does not meet the competitiveness criteria. The business environment would really benefits from this, as the decisions taken in the business process are often affected by the future modification of the exchange rates. Regarding the reduction of the exchange rate volatility in relation to the currencies of other commercial partners, we mention that when the exchange rates are less predictable, the foreign investments become risky and a company is less likely to grow on external markets. On the contrary, as the Euro currency replaces the countries' national currencies, the exchange rate related risk is completely eliminated.

Another indisputable advantage of introducing the unique European currency consists in eliminating costs associated to transactions. Before introducing the Euro, the transactions were performed using the currencies of different countries, each with various associated costs and inconveniences, each being able to be converted through banks, exchange offices etc., in exchange for some taxes represented either by fixed commissions, or by the difference between the acquisition and selling prices for any other given currency. The reduction of the transaction costs will be obvious both at the population level, and the company level, but the latter will also benefit from the reduction of the administrative costs associated to managing currency transactions.

Membership in the EMU and the elimination of the transaction costs and of the exchange rate risks would lead to an expansion of the foreign trade between Romania and the Euro zone, which will also trigger an increase in the direct foreign investments and a better productivity, associated with a flow of new technologies which would align us to the EU standards. Also, adopting the Euro would contribute to the comparability and transparency of the local prices in relation to those from other countries of the Euro zone. A unique currency makes prices, services and salaries from different countries comparable, which improves competition among markets. The reduction in costs of capital through lower interest rates has positive effects on investment decisions and on long term economic growth.

By analyzing the disadvantages of adopting the Euro currency, one can notice the Romanian economy is completely different from that of the Euro zone. After joining the Euro zone, Romania will not be able to use the exchange rate as an adjusting instrument. The exchange rate facilitates the absorption of shocks and the impossibility of using the exchange rate as a buffer for economic shocks requires a stable, solid, competitive economy. If there is no such thing, the effects that will appear can be dramatic. The major disadvantage brought upon by the accession is the loss of the monetary policy independence, as this can lead to the occurrence of the so called asymmetrical shocks. These are represented by unexpected changes in a country's macroeconomic environment, with effects on the production balance, consumption, investments, public expenditure or trade. These shocks can originate in the demand for

the goods and services from a certain country. If before adopting the Euro the asymmetrical shocks could be handled by means of adjusting the interest rates, interventions on the exchange rate or financial adjustments, once the unique European currency is adopted, the independent adjustments of interest rates are no longer possible due to passing the authority regarding the monetary policy to CEB.

In order to join the Euro zone, we should mainly concentrate on increasing the competitiveness, on coherent public policies and on an agenda based on structural reforms.

The economist Ionut Dumitru put into balance the arguments for and against postponing the process of adopting the Euro. Thus, in the category of arguments supporting a more rapid adoption of the Euro one can find: the high level of Euro use in the economy, the high exchange rate risk as result of debts in foreign currency, the close commercial relations with the Euro zone as well as the fact that postponing the Euro adoption would lead to a diminishing of the motivation to perform structural reforms. However, we consider the arguments which fall in the category of those supporting a later adopting of the Euro as being more numerous and important, namely: the low level of GDP per capita, the high inflationist pressures, o reduced correlation of the economic cycle with that of the Euro zone, a different structure of the economy, the sustainability of the public finances, in that there is a high pressure on expenditures and the budgetary income records a low level, as well as the major need for structural reforms (Dumitru, 2011).

The scope of adopting the Euro is a decision for Romania only, through the monetary policy strategy of the Romanian National Bank (BNR), adopted to achieve the proposed goals.

3.The perception of the Economic and Monetary Union sustainability in the current context

A country which wishes to join the EMU has to go through three important moments (Gherghinescu, 2002):

- prior to joining the European Union, the monetary policy remains in the candidate country's responsibility, with the freedom of choosing the monetary and exchange rate regime;
- once the country joins the European Union, the exchange rate policy becomes a common preoccupation for both the country and the European Union; the newly entered countries benefit from a grace period of at least two years until adopting the ERM II;
- subsequent to fulfilling the convergence criteria stipulated in the Maastricht Treaty, the country is soon to adopt the Euro.

Table no. 1 The objectives of the Eu member states regarding accession to EMU

Country	Objectives regarding the participation to EMS II	Established date as objectives for joining the EMU
Latvia	Maintaining a narrow fluctuation band of ± 1% (The Latvian Lati joined the ERM II on 2 May 2005)	1 January 2014

Lithuania	Maintaining the standard fluctuation band of ± 15% (The Lithuanian Litai joined the ERM II on 28 June 2004)	1 January 2015
Poland	Maintaining the standard fluctuation band of ± 15% (The Polish Zloty has not yet joined the ERM II)	No target date, as soon as possible
The Czech Republic	Participation as short as possible (2 years), with a standard fluctuation band of ± 15% (The Czech Crwon has not yet joined the ERM II)	No target date
Hungary	Rapid accession depending on fulfilling the convergence criteria (The Hungarian Forint has not yet joined the ERM II)	No target date
România	Maintaining the standard fluctuation band of ± 15% (The Romanian Leu has not yet joined the ERM II)	Initially 2014, subsequently modification for 2015 (impossible to achieve) A new possible objective 2019
Bulgaria	Maintaining the standard fluctuation band of ± 15% (The Bulgarian Leva has not yet joined the ERM II)	No target date

Source: authors' interpretation of information provided by the European Commission

For the Central and East European countries, joining the Euro zone involves certain advantages, such as (Stoica, O., Căpraru, B., Filipescu, 2005):

- it eliminates the exchange rate risk as far as commerce and financial relation within the EU are concerned, considering over 70% of imports and exports are performed in relation with countries from the European Union;
- favours the acceleration of economic growth and attraction of foreign investments, especially as, during the last few years, the candidate countries have become increasingly attractive for the foreign investors;
- imposes a discipline in the national financial policies, under the conditions in which, within the Euro zone, they are subject to The Pact for Stability and Growth (which mainly aims at keeping the budgetary deficits under control);
- ensures the promotion of an efficient monetary policy, oriented towards securing the price stability;
- ensures the promotion of an efficient monetary policy, oriented towards securing the price stability;
- allows for reducing the national interest margins as to reach the European average and the growth of financial-banking products and services, as result of market globalization.

Still, for many Central and East European countries, giving up the national currency, although it represents an attribute of sovereignty, does not seem to be a very high sacrifice, considering these countries have long been faced with inflation.

If we refer to Romania, which gave up its target of adopting the Euro for the second time, we could say that, among the monetary policy priorities, one can notice a preoccupation for ensuring the continuous consistency of the mix of macro-economic

policies and structural reforms, as well as for promoting the adjustments necessary for growing the resilience and flexibility of the Romanian economy (BNR, 2011). Having these goals, Romania, on the one hand, joined the Euro Plus Pact in 2011, aiming to consolidate its public finances, to ensure the financial market stability and to grow the external competitiveness through policies related to labor market and the goods market, and, on the other, signed in 2012 the Treaty regarding stability, coordination and governance within the Economic and Monetary Union, in order to promote the budgetary discipline and to fulfill the objectives for sustainable economic growth, workforce occupancy rate, competitiveness and social cohesion.

In order to align itself to the administrative evolutions from other states, Romania also has experienced the creation of entities meant to coordinate the process of adopting the Euro. Thus, in February 2010 the Committee for passing to Euro and for debating the nominal and real convergence issues was founded, while since May 2011 the coordination at a national level of the preparations for adopting the Euro has been performed by the Inter-Ministry Committee for Adopting the Euro.

We consider that the reduction of the inflationist phenomenon should remain a priority for the future as well, because, in the case of a volatile inflation, we will be able to have neither low interest rates, nor a stable exchange rate.

In this context, the priorities of the monetary policies should aim at (Dijmărescu, 2007):

- sustainability of disinflation process;
- the long term creation of a internal capital market and the interest rate convergence;
- stability of the national currency's exchange rate (under the conditions of its full convertibility) around the long term balance level;
- the continuation of performing the structural reforms.

In order to eliminate the existing gap, which separates us from the European Union standards, we should spare no effort in achieving an economic restructuring and realizing a viable investment program, so that both the real and nominal convergence criteria to be simultaneously realized. *We consider that, without a correlation with coherent and healthy macro-economic policies, the monetary policy cannot solve all the difficulties the European integration involves as it will only ameliorate these difficulties or accelerate this process to a certain degree.*

Also, as far as the Euro zone sustainability is concerned, the current context has witnessed contradictory opinions placed on the background of the tensions which characterized the last years' macro-economic situation, as many question marks have been raised in this respect.

The Euro zone has entered its second decade of existence with the ambition of becoming an increasingly important player in the global economy. The expansion of the Euro zone will strengthen its role of important economic player, by contributing with population and GDP, but it is also conditioned by an increase in the integration level. The objective of the Euro zone for the next ten years is to strengthen the position of the European currency as an alternative to the dollar and to have it adopted as reference currency for as many countries outside the Euro zone as possible, so that it takes over the first place as main reserve currency in the world economy.

However, bearing in mind the global economic crisis, the very existence of the Emu has been questioned, as well as the possibility that some countries would leave the Euro zone. The economists have tried to draw an outline of a post-crisis EMU future, issuing contradictory opinions. We will try to present a couple of them.

On the one hand, Issing (2010) considers that, besides the shocks the Euro zone has been subject to, it will also have to face other tough trials, mainly due to the

imbalances existing in the member states, which will only be overcome through structural reforms, meant to increase the markets' flexibility, especially that of the workforce. Eichengreen (2010) relies on the fact that, in the future, the unique European currency will succeed in overcoming all these barriers and, moreover, it will be much stronger, while the EMU will expand by integrating new members. Also, the Euro currency will become a much more important quotation, as commercial transactions with countries adjacent to the Euro zone (The Great Britain, Turkey, Russia) will be only be performed using this currency. Still, in more remote areas of Europe, the dollar will remain the main international currency. On the other hand, Noyer (2010) shows himself confident in the future of the Euro currency and considers that, for its ten years of existence, it has been stable enough. More than that, he considers that the EMU would not have resisted the shocks it had been subject to (strong fluctuations of the dollar, oil shock, the deepest economic and financial crisis) without its currency which acted as a protection barrier, offering an increased stability to the member states. For the strengthening of the unique currency, it is necessary to improve the macro-economic monitoring and to finalize the Euro zone's financial integration process. The retail payment process can be accelerated by applying the SEPA (Single Euro Payment Area). Noyer also considers that the Euro would be able to comprise, at the level of the year 2019, 24 European Union member states, which would mean extending the EMU with another seven member states. In order to accomplish this, it is necessary that the GDP per capita gap between the poor countries and the others to be reduced, and he stated his optimism regarding the Baltic countries, Poland, The Czech Republic and Hungary which, in the interval 2010-2018 will achieve this, and his pessimism regarding our country and Bulgaria which will need to additional years for this target.

The category of specialists who support the sustainability of the Euro zone also includes Profumo (2010) who states that "the creation of the Euro zone presents itself as an extraordinary achievement which has defied in the last ten years all the skeptics and which exceeded the most optimistic expectations and the main issue in the next ten years is its enlargement". He embraces the idea according to which, until 2019, all the EU member states will join the Euro zone, relying on its stability, considering that the European Union as a unique economic, financial and political construction, different from any other, which reunites a wide range of states, from developed countries to emerging economies, interconnected within homogenous ensemble of institutions and rules. But, what is interesting is just the fact this diversity creates the premises for a significant growth potential. One of the lessons derived from the crisis revealed that the important fluctuations of the national currencies' exchange rates in relation to the Euro had the countries outside the Euro zone more exposed to the produced shocks.

The category of critics who foresee a pessimistic future for the Euro zone includes Smaghi (2010) who believes that it will be older (as the life expectancy increases and puts a burden upon the pension system and the healthcare system, which will be financed either by additional taxes in other sectors or by reducing the expenditure allocated to them), smaller (due to the decrease in its percentage of the global GDP, from 15% to 13%) and poorer (as the resources will decrease at a global level and the public debt will grow). According to this author, this scenario could only be avoided provided the best decisions will be made. For the period2009-2019, Buti and van der Noord (2010) foresee a much tougher economic environment compared to the previous period, with much deeper implications in the internal, external and governance policy programs. The budget problem will deepen, the economic growth will be modest and the public debt or deficit will grow, even if the crisis period will be overcome. The solution proposed by the authors consists in elaborating a common

strategy which would lead to an increase in the proportion of the Euro zone economies, to a correction of the world financial imbalances and to a rethinking of the global financial system.

Maybe the most pessimistic opinion belongs to Eloi and Le Cacheux (2010) who follow the premise that the unique European currency is in abeyance and will only benefit from several (two, perhaps three) years to demonstrate its viability, as the Euro zone will dismember and throw the world economy in a much deeper economy than that of 2008. This thing will unmistakably happen if profound institutional reforms will not be implemented, by increasing the macro-economic discipline, penalizing the states which do not respect the common rules and orienting the European budgetary funds towards the states from South and East Europe in order to develop their competitiveness.

4. Conclusions

Considering all these question marks which accompany the future of the Euro zone and the economic situation from this area, one can ask themselves the following: Are the new members still interested in joining the EMU? In an attempt to answer this question, we start from the sides taken in these countries. For example, although Latvia showed itself skeptical regarding the accession to the Euro zone at the middle of the year 2012, despite fulfilling the Maastricht criteria, stating this decision depends on the situation in the Euro zone, received approval to adopt the Euro, event which will is to take place on 1 January 2014, as presented in a press release issued by the European Commission on 5 June 2013. According to this press release, the favorable decision came as result of Latvia's efficient management of the macro-economic adjustment process. Thus, the firm implementation of the UE-IMF financial assistance program had the country exit the crisis and return to economic growth. Another country which committed itself to clear deadlines for joining the Euro zone is Lithuania, its accession being set for 1 January 2015, while no efforts is being spared in meeting the convergence criteria. As far as Bulgaria is concerned, its representatives are convinced the Euro currency will survive the crisis and expect to join the Euro zone in two-three years, without mentioning a deadline, as both the Euro zone and its institutions are undergoing a reform process. The financial crisis has slowed down the Polish economy, the largest in the Central and East Europe, to the point of stagnation, so that Poland has lost its enthusiasm related to a deeper integration in the EU. The Polish government wishes decision power in the Euro zone in order to make certain that that adopting the unique currency will be beneficial for the country, despite the fact that, until 2015, the imposed criteria could be fulfilled. Thus, Poland avoids assuming a firm position regarding the accession to the Euro, waiting to a proper time when the problems from the Euro zone would be overcome. The Czech Republic, although it does not have an established date for adopting the Euro, considers that the flexible system of the exchange rate is a buffer against external shocks, so that there is no need for a rapid accession to the Euro. The Czech Republic's accession to the Euro is less likely to occur before 2019.

Romania is still strongly claiming it wishes to join the EMU, although it has already missed the proposed target two times. The question raised by this is related to the opportunity of this decision in the current context, which characterizes the Romanian economy, but also the entire Euro zone. Currently, adopting the unique currency seems to be a loss for internal economic agents and for the whole economy, considering the traits of a poorly structured economy, as it is the case of our country, due to the low capacity to adjust to economic shocks. We consider that a monetary

policy transfer to the CEB would not be the best decision in this moment and that our economy still needs time to make the necessary adjustments in order to increase the competitiveness. Currently, we still have to concentrate on and consider as priority the fight against inflation and the continuation of structural reforms. Although the decision to adopt the Euro rest with Romania, the moment for accession remains subject to numerous debates and controversies.

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