ADVANTAGES AND DISADVANTAGES OF A SINGLE CURRENCY - EURO

AVANTAJE ŞI DEZAVANTAJE ALE MONEDEI UNICE - EURO

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Abstract: *After accession to the European Union the greatest challenge is compliance with the criteria for joining Economic and Monetary Union. Introduction of the single currency in Europe was one of the most spectacular events in the world monetary history. It took almost half of the twentieth century to reach this goal. There are still some potential members of the European Monetary Union and it is very important for them to estimate properly all advantages and disadvantages of this decision.*

Key words: *integration, euro, single currency, Maastricht criteria*

INTRODUCTION

Introduction of the single currency in Europe took almost half of the twentieth century and was one of the most remarkable and unprecedented events in the world's monetary history.

It started on 1st January 1999 when eleven countries, members of the European Union, decided to replace their own legal tender with a brand new one - Euro. Since that, the Euro has been the official currency of: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxemburg, the Netherlands, Portugal, and Spain.

Since the introduction of the Euro in eleven member states on 1 January 1999, five additional member states have joined the Euro area, the most recent one being Slovakia on 1 January 2009. This implies that 11

member states have not yet adopted the euro (Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Sweden, Denmark, United Kingdom). Two of these member states, namely Denmark and the United Kingdom have a special status: out-put clause.

For Romania the 1st of January 2007 represented an extremely important moment, our country officially became part of the European Union, after a relatively long process of accession, negotiations for accession being started in 2000. Following Romania's accession to the European Union, the greatest challenge is the adoption of the single currency – Euro.

The moment when Romania and the other countries will make this step depends on fulfillment of so-called nominal and real convergence criteria.

The nominal convergence criteria set by the Maastricht Treaty are:

- ***Price stability.*** The price stability criteria implies that the inflation rate of member state must not exceed by more than 1½ percentage points that of the three best-performing member states in terms of price stability.
- ***Interest rate convergence.*** The nominal long-term interest rate must not exceed by more than 2 percentage points that of the three best-performing member states in terms of price stability.
- ***Exchange rate stability.*** The member state must have participated in the exchange-rate mechanism of the European monetary system without any break during the two years preceding the examination of the situation, the exchange rate has to fluctuate between ±15% band and short term high changes of the exchange rate are not acceptable.
- ***Fiscal stability***
  - ***Government deficit.*** The ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding financial year.
  - **Gross *government debt.*** The ratio of gross government debt to GDP must not exceed 60% at the end of the preceding financial year.

The real convergence criteria are not the object of the Maastricht Treaty, given the fact that initially, only developed countries with similar, comparable economic structures joined the European Union. But the very moment the problem that Eastern and Central European countries join the

European Union came up, the problem of real convergence became of the utmost importance.

These real convergence criteria lead to the ensuring of a high degree of similitude in the structure of the economies of countries willing to join the European Union with the structure of the economies of countries already members of this union.

Real convergence criteria refer to:

- the degree of economy openness, expressed by the importance of the total of imports and exports a country has in the GDP;
- he importance of the bilateral trade with EU member countries from the total foreign trade of the respective country;
- the structure of the economy expressed by the importance by which every important sector (industry, agriculture, services) takes part in the formation of the GDP;
- the level of the GDP per capita, expressed by the nominal course or by the parity of the purchasing power standard (PPS).

MATERIALS AND METHODS

The single currency of the European Union member states is a significant change in the economic, political and social life. It is important that the countries get ready for this change and their citizens understand its importance. In order that they recognized the advantages ensuing from implementing the single-currency, but on other hand equally recognized the challenges presented by this process and realized also the possible partial disadvantages

The benefits of the Euro are manly in the economical sense. Introducing the single currency leads to gains in economic efficiency. These gains can be divided into two groups. One is the elimination of transaction cost and the other is the elimination of risk which comes from uncertain fluctuation of the exchange rates.

Transaction cost appears in different ways, as a fixed commission or the spread between the buying and the selling prices of any given currencies. The currency conversion costs disappear and it is important either for individuals or for companies dealing with their foreign partners.

One common currency also creates a simple platform for price comparison, makes price differences more noticeable and helps to equalize it across borders. Disappearance of transaction costs and price transparency certainly makes the common financial market in Europe deeper and more integrated.

Although the single currency – euro, brings substantial advantages, it also has many disadvantages. The most two important costs are: one is a cost of institutions and individuals adjustment to a new currency and the other is a lack of national monetary policy as a important tool for a member state to adjust to the economic equilibrium when it experiences an economic shock. While introducing a new currency, public and private institutions of the new European Monetary Union member state have to spend enormous amount of money to adjust invoices, price lists, office forms, payrolls, bank accounts, databases, software. But this disadvantage seems to be less important than the other one. Economic shocks are unexpected changes in the macroeconomic environment of a European Monetary Union member state that results in imbalance of production, consumption, investment, government spending and trade. The worst one for the states is that which affects members unequally and it is called an asymmetric shock.

RESULTS AND DISCUTIONS

Introduction of the single currency in Europe was one of the most remarkable and unprecedented events in the world monetary history. It took almost half of the twentieth century to reach this goal and it brings significant change in the economic, political and social life.

Although the single currency brings advantages, it also has disadvantages. The main advantages of the single currency are the elimination of transaction cost and the elimination of risk which comes from uncertain fluctuation of the exchange rates. The main disadvantages is a cost of institutions and individuals adjustment to a new currency and the other is a lack of national monetary policy as an adjustment tool when a member state experiences an economic asymmetric shock.

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Following Romania's accession to the European Union, the greatest challenge is the adoption of the single currency – Euro. The moment when our country will make this step depends on fulfillment of so-called nominal and real convergence criteria.

CONCLUSIONS

Introduction of the single currency in Europe was one of the most spectacular events in the world monetary history. The single currency of the European Union member states is a significant change in the economic, political and social life. It is important that the countries get ready for this change and their citizens understand its importance. In order that they recognized the advantages ensuing from implementing the single-currency, but on other hand equally recognized the challenges presented by this process and realized also the possible partial disadvantages

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