THE IMPACT OF INTRODUCING EURO ON THE LEVEL OF INTEGRATION AND DEVELOPMENT OF THE EUROPEAN MONETARY AND FINANCIAL MARKETS

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Abstract
Adopting the single currency is a fundamental moment in the process of completing the single market. The substitution of national currencies with the euro has allowed removing uncertainty due to fluctuations of exchange rates, the last obstacle to a full freedom of exchange. Maintaining price stability, the primary objective of the Eurosystem, is a prerequisite for sustainable development revenue. Ensuring the conditions in which monetary policy can contribute to meeting the European Union is to promote economic and social progress and the highest level of employment. An assessment of the effects of the single currency can not be reduced to an analysis of the latest, on the contrary, it should be considered from two perspectives, on the one hand directed towards analyzing the situation that made possible this radical change regime, on the other hand, an analysis that is designed to future developments, not necessarily immediately ones. Some important effects of the introduction of the new currency were observed even before 1999, others came forward in the following years, while others appear only in the long term.

Keywords: *euro; Single Market; integration and development.*

JEL Clasification: *O1*

I. INTRODUCTION

Eurosystem monetary policy's main objective is price stability, defined as an annual average increase of this rate, harmonized with the prices of a consumption lower than 2%, followed medium term. Based on this definition of price stability we can say that both inflation and deflation are pathologies that can and should be prevented.

To pursue price stability, the Eurosystem uses a strategy that, considering the complexity of factors influencing inflation, incorporates several theoretical schemes reference and econometric models. This is based on an analysis of currency developments (in particular monetary aggregate M3 reference) and a set of other richindicators, real and financial, on recent developments and future economy. Therefore rests with the Board of the European Central Bank's duty to exercise monetary policy assessment. There is no automatic adjustment mechanisms to the evolution of prices and monetary aggregates.

Since the start of EMU, Eurozone inflation has averaged 2.1% and thus was above 2% in almost half of the months included in the first two years (with a maximum of 3.4% on May 2001). These data might means, at first sight, that the primary/ main objective of the Eurosystem can not be reached, but a closer examination of the evolution of the main economic variables in recent years before euro adoption, denies this impression.

II. EUROZONE ECONOMY

Eurozone economy was exposed to a series of shocks with strong inflationary potential. Between January 1999 and November 2000 Euro exchange rate has suffered a massive depreciation against the dollar. In the same period there has been a sharp rise in oil prices and continuing. As a result of combining the two phenomena, oil quotations in euro, increased almost fourfold, passing (based on monthly averages) from less than 10 euros to 38 euros per barrel.

These developments were reflected in prices on consumption in the euro area, both immediately by using energy products, and indirectly, as the effects of those increases were passed different stages of the production chain(Garcia-Herroro A., Wooldridge P., 2007). Meanwhile, during 2001, the Eurozone economy was further affected by a shock on food prices caused by livestock health needs that interested in various countries in the area (epidemic "mad cow"). In order to avoid shocks described that had a lasting effect on inflationary expectations of economic agents, the Board of the European Central Bank increased several occasions rate: between November 1999 and October 2000 refinancing interest rate has increased from 2 25% to 4.75%. Monetary policy actions made it possible to maintain wages and low levels of inflation, and the values of several variables.

Longer-term inflation expectations of developments confirms that there has been questioned credibility of monetary policy. The indications of these expectations may be obtained either indirectly from the financial variables (especially the difference between nominal and indexed income on certain types of bonds) or indirectly by surveys conducted among economic operators(Paolo Del Giovane e Grande Giuseppe, 1997). Both sources indicate that from early 1999 to the present expectations about long-term inflation in the Eurozone were an average of less than 2%. The most relevant investigation at the time was that the Euro-Zone Barometer in September 2001, that showed a 1.8% inflation for 2006.

It is necessary, however, to carry forward in a more clear and rigorous debate about the effects of the transition to the euro. The strong growth seen in the first months of 2002 in certain service sectors (eg at restaurants) in some countries in the Eurozone are likely also enter into a proper report cash.

In aggregate, the available records indicate that the impact was more modest: according to Eurostat assessments that may have contributed to less than 0.2% increase recorded harmonization index of consumer prices in the Eurozone in the first half of 2002 (1.4% from the previous quarter). In almost all countries in the area, the perception by consumers was an inflation much higher than that measured in the official statistics, which reflected the likely difficulties in assessing the correct index average increase in prices increases in specific goods and services or goods such as certain nature of the food, public services, newspapers purchased more frequently. It is important to note that some of these increases are largely independent of the transition to the euro, such as when fresh goods, whose prices have suffered the effects of unfavorable meteorological factors.

Short-term outlook confirms a gradual reabsorption of tensions on the prices shown in the first months of 2002. It was planned that inflation in the area (equal to 2.1% in August) will continue to hover around 2% in the coming months.

III. PROCESS STANDARDIZATION AND INTEGRATION IN THE EUROZONE

The introduction of the euro has strongly boosted the monetary and financial integration in Europe. Assembly procedures and tools for implementing monetary policy focuses on centralizing the Board of the European Central Bank, the political and strategic functions and the decentralization of national central banks, as well as executive functions. This structure has worked effectively also because of the existence of new IT systems. This allowed provinding to the market of clear signals about current "attitude" of monetary policy, which allowed government, through the market, monetary conditions in a very large area and characterized by numerous anomalies of the creating and absorbing factor of theliquidities, due, for example, operations performed by the National Treasuries. It was also provided short-term income convergence and therefore a uniqueness to ensure monetary conditions throughout the euro area from Lisbon to Athens, from Helsinki to Rome. This was achieved thanks to proper functioning of the real time gross settlement – TARGET(Working Group on EU Payment Systems, 1995), which are transmitted much of flows directed to limit excesses and deficiencies of funds from the national banking. In order to form an idea of the size of intermediate flows numerous basic transactions is enough to consult the latest data from that period: the 2nd quarter of 2002 there was a daily average of over 54,000 cross-border payments (cross border), corresponding to a value of 489 billion euros. The share of cross-border interbank payments in total payments was 96% in value and 54% by volume.

Process standardization and integration in the Eurozone(Euro-zone economic outlook, 2007) money market was fully realized in certain market segments, such as non-guaranteed borrowings and swaps; little progress recorded other departments, such as the agreements to repurchase of short-term securities (treasury bills, treasury certificates, securities trading) whose transactions were directed until then to internal slope. This may be related to differences in market practices and in the final legislation.

The single monetary policy influences the market structure and level of euro bonds, which provide raw material for the conduct of monetary policy because all the Eurosystem's liquidity creation should be backed by collateral guarantees. The Eurosystem has identified a wide range of bonds, both public and private, that can be used to ensure and they are considered as a priority in the conduct of monetary policy there was a market for securities in euros, as often and as liquidity.

This concern is shared not only by members of the governments, but also by other issuers such as banks, financial intermediaries and businesses that are eligible for funding long-term, fixed rate, under more advantageous and lighter because of disappearance of several currencies, which led to the opening of a market of a comparable size to the US one.

Effects of the euro on the euro bond market has been significant, increasing liquidity. Based on comparable statistical data for all countries in the Eurozone in 1999-2000, consistency in euro securities issued by euro area residents increased by an average of 7% per year. Growth was particularly high (26% per year) for securities issued by operators who have used this form of financing because they have been led to intense merger and acquisition activities, especially in the telecommunications sector.

Scale and liquidity of the bond market in euros has attracted a growing number of foreign issuers: in the 2nd half of 2002, the share of bonds in euros in total international bond rose to 39%, in 2nd place after the dollar (45 %), and much ahead of those in yen (6%). In that period were stable in the euro bond market following corporations: General Motors, General Electric, Ford, JP Morgan, Petronas, British Telecom, Tokyo Electric Power Co., along with a myriad of issuers from Eastern Europe and North and South America.

European financial and monetary authorities(Banca Centrale Europea, 2005) were fully aware that the introduction of euro, besides that would have given a strong impetus to financial integration, it was not enough to create a single market in financial services. Already in 1999 it was drafted the action plan for financial services, which identifies a set of 42 directives to be introduced to achieve a financial market fully integrated into size wholesale and strongly competitive, efficient and secure elements into its retail elements.

IV. CONCLUSION

The Lisbon European Council in 2000 endorsed at the highest political level Action Plan, setting 2005 date for achieving its objectives. Despite achieving more than half of the measures foreseen in the Action Plan, a fully integrated financial market is still far from being achieved(www.europa.eu.int/euro/quest). Legal and regulatory barriers are hindering provision in an efficient financial services in several EU countries; Retail market is still characterized by national segmentation and by costsof cross-border payments much higher than those for domestic payments; on the wholesale market, where it has reached a significant level of integration, operators were able to overcome the remaining obstacles, incurring high costs, which are passed on to consumers and businesses. Barcelona European Council in March 2002 confirmed the objective of achieving a single market in financial services for 2005, setting 2003 as the date for full integration of equity-market risk. The same Council also stressed once again that financial market integration is a crucial factor in the process of making the European economy more dynamic, characterized by an increase in occupancy of labor. Due to competition derived from greater integration, consumers should benefit from lower prices and higher quality products; investors register higher profits; economic entities, especially small and medium enterprises benefit from more opportunities on access to finance and lower financing costs.

All this led to an increase in investment, the evolution of technical progress and a greater productivity.

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