Adoption of the Objectives of the Monetary and Economic Union and European Financial Integration

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Abstract

The European concerns, with old traditions in forming multinational financial markets, developed in the integration of the financial markets and of the European banking systems which allowed the investors from any European country to follow the orders on the best market, through the best beneficiary, benefitting from the most effective financial-banking services. This market offers sophisticated and modern financial tools, which cope with the needs of the invertors, portfolio managers, transnational companies and traders, having an impact over the balanced economic development of the European countries and unemployment reduction.

Keywords: *financial-currency, banking and capital market, dual prices; compensation and discount facilities; portfolio management services; liabilities markets; assets market; money-currency market; derivative products markets; credit market.*

1. Introduction

The paper discusses the appearance of the European Economic Monetary Union and the integration of the European financial markets as a process which was followed by reorganizations of the financial systems at worldwide level, including the European level.

These reorganizations discussed below are tied to a wider opening of the financial markets for the variety of the financial resources, total transformations of the monetary circulation and of the financial tools– debt and patrimonial -, the revolution of the transmission systems, reorganization of the transaction systems, important changes in the competitive processes etc.

The studied matter is also very important to see the impact of the introduction of Euro as an international currency.

The introduction of Euro meant also the integration of the capital markets and the European banking systems. These markets supplied sophisticated and modern financial tools, which answer the needs of the investors, portfolio managers, transnational companies and traders

2. Literature review

2.1 The main economic objectives taken into account at the appearance of the Monetary Economic Union were: the removal of the exchange rate fluctuation, trade and investments promotion, increase of the enterprises benefits, reduction of the transaction costs, competitiveness improvement.

The increase of the Monetary Economic Union, the objectives and the status of the European Central Bank based on the convergence criteria have offered a perspective for the internal and international monetary stability. Afterwards it had a structural contribution over the economic increase and hiring the workforce.

The analysis of the advantages associated with the bringing into force of the European Economic and Monetary Union shows:

Increase in the financial-monetary and international currency durability

A common European currency is an important symbol of the EMU and represents an alternative for the American dollar as associated tool for international liquidity, the ”national” currency of such a large market getting the same degree of accessibility as the dollar is enjoying today. The two major international currencies are in competition, and the most stable of them is preferred in international transactions. Thus, per total, the stability of the international monetary system has increased.

Particularly, Europe has as an advantage the fact that the national currency can be used sooner than the dollar, as a reserve asset, allowing to be used as a central monetary authority to regulate the level of the exchange rate with the rest of the world.

The removal of the mutability and uncertainty of the exchange rate implies a more effective assignment of the resources within the union in more ways:

1. By increasing the effectiveness of the prices mechanism as a resources assigner. The volatile and unpredictable exchange rates have as outcome difficulties in interpreting the market signs. The resources are not correctly assigned, and the unemployment is more increased than under other conditions. A monetary union leads to a reduction of the natural unemployment rate in the member states.

2. Stimulation of the member states industrial sectors. The volatile and unpredictable exchange rates favor the resources transfer towards the unbendable goods sector, which is not exposed to the international competitiveness and is greatly unaffected by the changes which is not exposed to the international competitiveness and is on the whole unaffected by the great enough and unanticipated exchange rates. The appearance of the European Union, through the encouragement of the resources transfer back to the industrial sectors, leads to an increase of the average rate of increasing productivity in the member states, as well as to an unemployment decrease.

3. Increase of the competitive forces within the union. The cost of the exchange rate management risk doesn’t vary greatly according to the size of the company. Therefore, the uncertainty of the rate exchange represents a disadvantage especially for the small and medium sized companies. The appearance of the Monetary Union has removed this disadvantage.

4. Registration of the greater increase rates of the trade and intra-community investments.

Decrease of the transaction costs on the financial markets

Within the intra-community there are costs related to the conversion rates from one currency to another or an attempt to cover the exchange risk.

Among the member states there has been registered a great degree of integration regarding trade, capital and monetary fluctuation.

The adoption of a single currency was a major merger factor. The liberalization of the capital and financial-banking services movement from Europe has become self-acting and irreversible, with all the known advantages regarding the personal freedom and the economic effectiveness.

Equilibration of the balance of payments

Within Europe the single currency has removed greatly a series of issues related to the balances of payments, turning the “adjustment process” into a mechanical and smooth one. Up to present the resources dissipated collecting, analysis and discussion of the statistics of the intra-European balance of payments can be thus oriented towards a more productive use.

Increase of the monetary-financial and internal currency stability

With a single European currency, the regional inspections don’t play an important part in the monetary decisions, which sooner tend to ensure a general stability, than a single inflation rate instead of twenty seven. This indeed is an extremely important consideration due to the fact that, just as Antonio Martino stated: “I don’t know any economist who can fight the idea that the proliferation of a regional currency within a certain country would increase the general currency stability, at the national level” [2].

Decrease of the interest and inflation rates

Indeed, the interest rates within the union after 2002 have decreased, but with a reduced anticipated inflation and in the absence of the risk perks attached to the weaker currencies as a depreciation insurance. With all these after the beginning of the financial crisis in 2007 we have been facing an increase of the interests and especially of the inflation.

2.2. Constraints and frustrations caused by the economic and monetary union

Despite the above apparent advantages, there are some objections frequently met regarding the EMU.

Loss of the national economic sovereignty

In this context, EMU can be defined as the power of the national European states to determine and implement the first preferences regarding the economic and monetary policies, regardless of the policies and the events from other states. The loss of economic sovereignty of the states which results in EMU are split in two:

- The loss of control over the economic and financial-monetary policies

Therefore, a country involved in the European Union cannot implement a policy made to reduce unemployment, whereas its partners are involved in adopting policies designed mainly to reduce the level of inflation. If a country intends to adopt a certain economic policy, it should first win the battle over the objectives of the economic policy.

- The loss of the individual control over the tools of the economic and monetary policy

This must be implemented in close cooperation with other states, implemented centralized by the supranational bodies, such as: The European System of Central Banks (ESCB) and the European Central Bank (ECB). Such authorities introduced joint monetary policies for the EU, with the centralized determination of the variables for the monetary emission and interest rate. It is clear that in such situation there are important sovereignty costs. It is possible, for instance, that the macroeconomic policy which is appropriate for the EU as a whole, not to be appropriate for a certain individual region. That's why a series of questions occur:

To what extent would these apparent losses of economic and national currency sovereignty become reality regarding the EMU? Does the economic and monetary sovereignty really exist in the contemporary Europe or is just an illusion? The answer to these questions is very important due to the fact that, if the countries enjoy up to present an important control over their economies, then there is a loss of sovereignty. If, on the other hand, the economic and monetary sovereignty is limited, then the losses of sovereignty are accordingly limited.

This is a controversial issue; it cannot be verified empirically and depends on a great number of relatively complex factors. Valerio Lintner's opinion is that, "... under increasing independence conditions in a world presently characterized by the power of deregulated capital and of the currency markets, there are boundaries for the small and medium European economic capacities to control independently their own economic business. Thus, common promotion of the economic policies can represent for the national European states as a partially refund method of control over their own economy – "collective sovereignty" is anyway preferred to the lack of absolute sovereignty." [1]

Distributional impact

The distribution of any economic profit which resides from the EU is not equal, and the costs of the structural transformations which reside from a Monetary Union are concentrated in some regions of the union.

In the first place, the cost of joining the EMU is borne unequally by the poorer regions of the EU.

Secondly, EMU eliminated another important boundary to operation of the free markets within EU. From a neoclassic perspective, the free markets, in general, and in particular the free movement of the capital and of the financial-banking services within a region, have to increase the economic welfare by facilitating a certain effective resource allotting, and in the same time, to promote the profit leveling of the production factors among the states, in such a way to converge within the Monetary Union. Still, from a different perspective, the free markets can lead to the aggravation of the national and regional differences regarding the real welfare, the more prosperous areas taking advantages on the poorer countries and regions.

Depriving the national governments of an important revenue source

Currency appearance is an important source of revenues for the national governments, and these haven't been prepared to give them up too easy.

We presented above the main global aspects of the Monetary Economic Union, which each member stat will face the following years. Still there are implications of the euro introduction over the consumers and the trade societies regarded through their participation on the single financial-monetary and currency market.

2.3. EMU and its involvements over the consumers and companies

2.3.1. Effects over the Consumers

The effects over the consumers must be watched under certain aspects:

Link among currencies

The irrevocable conversion of the participating currencies to EMU and to the single currency, euro, took place on the 1st of January 1999, as it is known. Euro had the same external value as ECU at that moment. ECU ceased to exist, and the contracts designed in ECU were turned into euro, with a 1:1 rate.

The participating currencies don't have exchange rates anymore, but fix conversion rates. Initially, euro use was possible only in transactions which didn't imply cash, but because after the 1st of January 2002 the use of euro not to be banned anymore. All the contracts were changed by legal euro operations, and euro coins and banknotes were also placed on the market. Euro had in that moment the legal status of European currency, which means that the payments were not refused anymore. Euro, as well as the national currencies will be in circulation for a time of maximum 2 months. At the end of this time, placing at intervals but no later than the 20th of February 2002, the national currencies lost their validity, their exchange in banks being still available for a period.

Dual prices

During the two months transition period, a dual system of prices was used in shops and companies. The duration of the period was decided after consulting representatives of the banking industries, stating the fact that a sudden change is not physically possible. Even more, the cash dispensers wouldn't have been possible to be changed right away.

It seems that two months was the right time for the public in general to get used to euro and to learn how to use it as payment means and account unit, even if its minimization was attempted as much as it was possible.

Banking services

The public noticed that all the payments and the saving accounts, customer credits, loans etc. were converted into euro on the 1st of January 2002. All these, as well as the other contracts, were turned into euro according to the laws in force, based on the conversion rate. All the amounts to be received or paid kept their value, so that there were no profits or losses from this point of view. The regulations of the European Council set the fact that those existing contracts, such as pensions, insurance policies, term deposits, mortgages and so on, should remain in force, including the application of the interest rate and refinancing, and the cash withdrawal from the banks pay desks were performed even from the start in euro.

The banking operations remained in the national currency up to the effective conversion deadline, to avoid the expenses and possible errors which could turn up at transforming the balances and the transactions both in euro and in national currencies.

The value of the transactional titles was set only in euro, for instance, for the new emissions of government bonds. This thing was done for the inter-banking payments.

Before the conversion date, new accounts could be opened or transactions in euro performed, but these implied more costs than advantages for the customers, because they were asked to keep their accounts in the national currency, since the payments had to be made in that currency. Founds transfers both for the private customer and for the companies had to be made in euro, but they were asked to accept payments in the national currency to the complete time expiry of the transaction.

Consumer benefits

The exchange of the travel money or import payments was needed until the final phase of the European Monetary Union. After that, the consumers were spared of the effort of such an operation.

It was assumed that the prices would decrease immediately after the European Monetary Union came into being, as the exchange rates were set irrevocably, and the banks were not forced to include a margin for the currency risk transactions. An administration tax is perceived.

Likewise, bank taxes for international payments were substantially reduced after the accommodation of the payment national systems within the union.

Another benefit was that the foreign prices don't have to be recalculated in their own currencies anymore by the consumers. It is easier to compare the foreign prices in their own currencies, as it is easier to compare their prices and products from different states, the market becoming more and more transparent. This gave an impetuous to the competition favoring the customer, the pressure against the prices becoming weaker.

The appearance of the single monetary markets contributed to the hiring of workforce, bringing prosperity in the EMU space not only by increasing competitiveness, but also by setting prices and exchange rates.

2.3.2. Effects over the companies

Different organizations were directly involved in planning the final scenario for the introduction of the single currency, organizations which tried to minimize as possible the associated costs.

The stages undergone regard:

- Identifying the changes determined by the introduction of the Euro

The companies had to prepare for the transition to the single currency by identifying the basic changes which had to be performed. According to the features of the company, size, international operations changes took place in: price lists (dual prices during transition); cash register and cash dispensers for coins and banknotes; existing contracts; invoice systems and price transfers; wage systems; accountancy systems, in balance sheet and profit and loss accounts achievement; liquidity and capital flux management; financial policy; data systems.

All these changes which took place within the structure of the companies were combined and also with the software planning, trainings being needed for both suppliers and customers in the same time.

Different studies convey the fact that the training periods for the adoption of the single currency differed from three months, for small companies, to three years for big transnational companies.

- Contracts

In the carrying out of the contracts there was a continuity, and at the end of the transition period, for those expressed in ECU the conversion was undergone in euro according to the European Council regulations, at a 1:1 parity. The fix rates for the term loans were also not changed until the due date, but the interest plus the leading is awarded in euro. Thus, it was recommended for the contracts outside the EU ending on the 31st of December 2001, if it is not mentioned by the parties, still set in ECU or another currency about to disappear, to include a clause to transform in euro at an official conversion rate.

2.4. The ideal European financial market

The ideal European financial market meant:

- Common regulation framework to ensure the protection of the investors and the loyal competitiveness, without useless obstacles;

- Effective compensation and deduction facilities joint for all the European Union countries;

- Trade and communication systems to ensure the transparent and effective distribution of information. Technology played an important part in the self-acting transaction, sending orders and title quotation communication;

- Futures and options contracts in the entire Europe;

- Straightening of the taxes and commissions on stock market transactions and banking operations;

- A competitive framework which quickened the effective development of the financial activity.

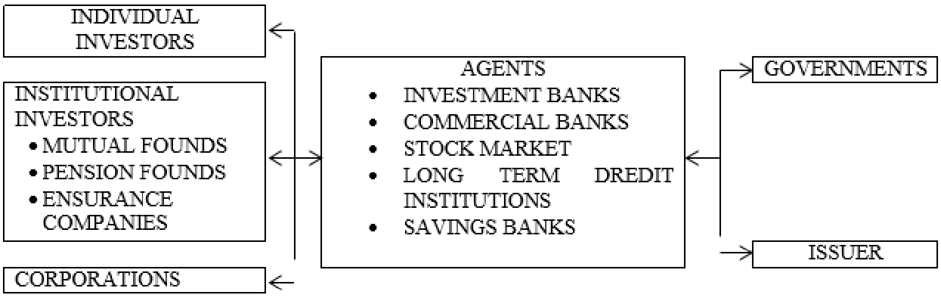
The ideal financial market also meant specialized and professional staff, competitive prices, a flexible management system which can combine the long term plans with the ability to answer promptly to the changes and effective use of the technology, with an essential part in the management process and in the delivery mechanism. The risk control, operation surveillance and profitability were emphasized.

Demand on the financial market

Before the EMU was formed a relatively stable demand was registered on the European financial markets from the investors. But after the appearance of the EMU, serious changes took place which determined the participants (see fig. 1) and the markets to react to new or improved strategies regarding investments, quotation, compensation and deduction, delivery services of the financial products.

Some specialists [3] identified some trends in the European financial market demand. Thus, the marginal tendency towards economy of the investors has increased these founds being placed more in financial products than in bank deposits, being aware of the importance of making the right investment choice.

Fig. 1 Participants to the European financial market



Knowing and meeting the customers' demands was the key for success. The customers became more sophisticated and demanding.

The institutional investors proved high professionalism focusing important flux of investment in pension funds, mutual funds and insurance companies. As the big companies, they become familiar with the risk management techniques.

The characteristics of the market demand were set by the participant types on the financial markets: individual, institutional investors, and corporations.

The direct investments of the individual investors in exchange securities registered an increase, while the indirect investments on the capital market increased greatly, including the portfolio management services.

The criteria in choosing the agent on the market was safety (security) offered to the customer, image and qualified staff, as well as ability to deliver specialized services; commission and the other taxes play an reduced part in choosing the institution to manage the investments in exchange securities (see fig. 2).

Fig. 2 Services of portfolio management for individual investors

CUSTOMER CRITERIA (in the order of their importance)	COMPARED ADVANTAGES (%)			
	Banks	Financial investment companies	Mutual founds	Insurance companies
Safety, stability	66	1	11	20
Image	67	5	8	15
Staff qualification	44	27	8	9
Long term performance	25	15	37	16
Previous relations	78	10	3	5
Accessibility	91	2	2	3
Products variety	76	5	7	7
New or innovative products	32	28	14	16
Short term performances	28	24	26	10
Commission, price	29	31	17	14

The capacity of the institutional investors has increased significantly, due to the funds received from the individual investors, corporations for pension and treasury found [4]; the provisions reflect the fact that the most rapid development is for the pension funds and insurance companies.

The efficiency criteria for the institutional investors were the following the orders, high qualification of the staff and an efficient compensation and deduction system. The commissions and taxes played a great part, especially due to the competition which conducted to the decrease of tariffs and their unification.

The increase of the demand on behalf of the investors have created new opportunities for the market participants; but they had to invest seriously in technology and IT to cope with the increasing volume of the transactions and to control the costs associated to the supplied services.

The market participants who proved capable of creating a distribution network had to resort to technology to substitute the absence of a physical office. Anyway, important investments were needed in the delivery services of the financial products, which could not be undergone without a clear business strategy and without understanding the computerized communication.

The corporations have turned into the most sophisticated investors on the financial market in the last years, approaching in their operations a strong professional approach, due to the fact that they offered a great importance to some effective and innovative solutions than to tariffs practiced by agents.

But supplying more effective services means keeping on investing in technology, and also changings in the organizations and transaction procedures.

2.5. Tendencies of the European currency financial-monetary market

Tendencies of the European financial market convey a series of very important aspects, which have to be taken into account by the participants.

Competition among agents in general and in a smaller extent the customer demands and the market regulations are the main determinants of the changes on the market, serving the big corporations of the institutional customers. The foreign agents have certainly brought new tools, experience and a new portfolio management style, and the banks are trying to follow the compensation of the loss of the traditional deposits of their customers.

Strategic placement depends on the present environment which offers unique opportunities to those able to implement and develop particular strategies for each business.

The innovation rhythm on the developed financial markets will increase as a result of the financial crisis started in 2007, which also showed the lack of national and international regulations on the financial markets from USA and EU.

Concentration on the European financial markets has increased due to the competition and requirements of the financial markets. The biggest corporations of each country have increased their market share in all the activity sectors, except portfolio management. Concentration is achieved sooner through mergers and acquisitions rather through internal activities. The banks are the main producers of the merger and acquisition processes under conditions of the present crisis, with the purpose of determining the increase of the market shares.

The success management strategies should take into account the risks and should be oriented towards long and short term profitability.

The risks in a changing environment determined by the increased competition imposed the financial investment companies and the banks the need to ensure more risks in search for bigger profits. The capacity to accept and administer risk has become decisive in the market fight. The complexity of the financial products has added new risk valences on the European financial market.

In what regards the tools and the transactions on the financial market, the following conclusions can be drawn:

The bonds market was traditionally divided in two segments: national bounds market and the Eurobonds one. Once with the introduction of the euro, the national markets have integrated forming a unique European bonds market, and the Eurobonds markets from Europe got a new meaning at the international level. Thus, it became a more profound and liquid bonds market, a more attractive one for the investors, due to the share of the exchange securities issued in euro increased within the portfolio.

The derivate products market after the introduction of Euro have become the greatest sector of innovations, the very volatile markets and the interests of the institutional investors determining the demand increase for hedging tools. EMU had a direct impact over the structure of the contracts by excluding the derivations based on the currencies among the participating countries.

The banking sector won a lot from the enlargement and the deepening of the European financial market, which became truly comparable and competitive to the one of the American dollar which still dominates, but will have to face big costs too.

The credit market will be in a strong competition with the capital market, as a consequence of the expansion of the exchange securities in euro, as a disadvantage for the bank loans.

2.6. EURO as international currency

Tendencies which arose from the international financial markets confirm the fact that the future WMO of the 21st century will be based on the dollar-euro-yen triangle.

The single European currency undergoes a long way to reach from behind the dollar as an international currency. Euro will reach its target when it overcomes the present condition as a regional currency, to increase the spreading degree and the services offered to the world economic and financial community.

The euro accession to the status of key international currency is determined by the: EU leader position of the international trade; concentrating exports on the developed countries area (what will determine the extracommunitar Central Banks to make reserves in euro too); the role the trans-nationals have with the registered office in the in Euro-land.

3. Conclusions

To conclude, we can appreciate the appearance of the euro, intended a strong and stable currency, is meant to re-launch Europe in the competition with the United States and Japan, by resetting the spheres of currency influence on the world market. The reunion in euro of the most important currencies as volume of the financial fluxes creates condition for the increase of the number of the countries found on the European economic orbit.

But Euro has to pass the trust test at the European and international level. After ten years of "virtual" existence, the single European currency turned up bad from the direct fight with the dollar on the currency markets, especially that after the beginning of the present crisis of the sovereign debts which affected severely many countries from Europe, the euro region (Greece, Spain, Portugal, Italy, Ireland).

As euro will consolidate its position – especially after the serious effects of the present financial crisis – as a stable currency used in a broader region it is possible that euro will become at a large scale the currency for the financial and commercial contracts.

The joining of the euro in the currency game creates the conditions to fade the considerable differences between the image reflected by the exchange rates and the basic economic data, differences which tend to start a great financial and commercial crisis.

The gradual increase of the balance of the countries with currency deposits in euro will lead in time to the balance of the International Monetary System. Presently it is dominated by the dollar, in conditions which almost half of the external American trade is with countries whose currency is connected to the American currency, supporting the favorable position of the dollar in comparison with its real purchasing power on the world market.

The portfolio reassignment will depend mainly on the orientations given by the differences possible between the debt rate on the euro market and other international markets. The beginning of the interest reduction at Euro started after the beginning of the sovereign debt crisis from the euro region, BCE reducing in 2012 the interest to 1%. Besides this, the stability and homogeneity conditions of the market from the euro region will be able to act as an attraction sight for the investors' attacks.

The appearance of euro is thought to bring deepening of the cooperation at the global level, based on the convergences in the currency policies of the global economic leaders. This tendency assessment was performed many repeatedly, when the banks from the euro region, United States and Japan coordinated their efforts to temper the financial markets, breaking the shocks to which euro, the American dollar and the yen were exposed to.

This might be one of the advantages of the euro launching: awareness on behalf of the financial world leader of the risk of acting "by yourself" and of the advantages the step coordination might bring.

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