THE EURO CRISIS OR THE CRISIS OF THE EURO ZONE

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„Europe cannot just stop half-way –
it must be much more ambitious."
(Jean-Claude Trichet, 2011)

Rezumat

Acest articol este rezultatul dezbaterilor care au loc în cadrul centrului nostru de cercetare, susținute de echipa de cercetători care se ocupă de câțiva ani de adoptarea monedei euro de noile state membre ale Uniunii Europene (UE). Recenta criză financiară a ridicat

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problema credibilității monedei euro şi a puterii acestei monede de a continua să fie un proiect atractiv la nivelul Uniunii Europene, într-un moment în care atât țările din zona euro cât şi cele din afara acesteia trebuie să facă față la numeroase provocări. Mulți consideră problemele actuale ca putând să aibă drept efect desființarea zonei euro, vorbind despre o criză a monedei euro şi temându-se că acest proiect se va prăbuşi după zece ani de existență, sărbătoriți cu fast. Se ştie că euro este un proiect încă neterminat față de cerințele teoretice pentru o zonă valutară optimă, dar implementarea acestuia a depins mult de voința politică a statelor membre fondatoare ale euro zonei, cu condiția ca disciplina politicilor economice menite să asigure convergența optimă să fie respectată integral. Criza financiară cu efectele sale în domeniul economic, al datoriilor suverane şi al consolidării fiscale a arătat că viteza politicii monedei unice este departe de a fi în concordanță cu evoluția politicilor fiscal-bugetare naționale, calitățile acestora fiind din ce în ce mai divergente. Mai mult, criza datoriilor a arătat că țările sunt foarte ocupate cu probleme lor interne şi că au nevoie de mai mult spațiu pentru a acționa pe plan intern sub presiunea socială la care sunt supuse guvernele, astfel încât aplicarea principiilor Pactului de Stabilitate şi Creştere este mai laxă decât oricând. Acesta este punctul central asupra căruia se concentrează Comisia Europeană în cadrul procesului de întărire a coordonării economice dintre statele membre în cadrul guvernării europene îmbunătățite, Pactul pentru Euro fiind discutat şi implementat în vederea îmbunătățirii competitivității şi a creşterii gradului de convergență. Este vorba de criza zonei euro, care antrenează „suferința" monedei euro, astfel încât sugestia că Uniunea Monetară are nevoie de un pilon economic, de exemplu un fel de „unificare" a politicilor fiscal-bugetare, este o realitate impusă nu numai de teorie, ci şi de existența practică a euro, considerat ca fiind unul dintre cele mai curajoase proiecte economice realizate vreodată. Problema constă în rezolvarea crizei zonei euro printr-un leadership puternic, menținând angajamentele inițiale de construire a unei Uniuni Monetare şi Economice autentice, ceea ce înseamnă o responsabilitate mai mare pe umerii statelor membre într-un moment foarte dificil. Sarcina poate fi, probabil, mai uşoară, echipa de cercetare încercând, prin dezbateri, să înțeleagă mai bine sensul multora dintre evenimentele recente.

Abstract

This article is a result of the usual debates taking place within our research centre, being conducted by the research team that has been dealing for several years with the adoption of the euro by the new member states of the European Union (EU). The recent financial crisis brought in the middle of many assessments the question of the euro credibility and its power to continue to be an attractive project at the level of the Union, at a time when countries from both inside and from outside the single currency area had been seriously challenged. Many people were looking to those challenges as deadly for euro, talking about a crisis of the single currency and the fear that this project will vanish exactly after ten years of existence, celebrated with enough feast. It is known that euro is yet an unfinished project compared to the theory requirements of the optimal currency zone, but its implementation counted a lot on the political will of the founder member countries of the euro zone, in the sense that the discipline in economic policies aimed at the optimal convergence depending on the principles on which a full-fledged currency zone is working will be correctly fulfilled. It was the financial crisis with its effects in economic, sovereign debts and fiscal consolidation fields that have brought to the attention that the speed of the single monetary policy is far from being fitted with the move of the national fiscal – budgetary policies, their qualities being more and more in divergence. More than that, the debt crisis showed that the countries are very busy with their own internal problems and they need more space to act domestically under the social pressure to which their governments are exposed, so their application for the principles of the Stability and Growth Pact is more lose than ever. That is the core point that the EU Commission is engaged in the process of strengthening the economic coordination between member states within the framework of improved economic European Governance, the Pact for Euro being discussed and implemented for the sake of a better competitiveness and a higher degree of convergence. It is about the euro zone crisis, out of which euro is suffering, so the suggestion that the monetary union is in a great need for its economic pillar e.g. a kind of „unification" in the fiscal-budgetary policies, is a reality imposed not only by theory, but by the practical existence of euro, as one of the most courageous economic project ever done. The whole matter consists in the need of solving the euro zone crisis in terms of a strong leadership, keeping *alive the initial engagements of building up an authentic Economic and Monetary Union that means a greater responsibility on the shoulders of the member states at a time when to respond to it is more difficult than ever. The task probably can be easier, the research team trying to understand better the meaning of the many recent developments through debating them.*

Key words: euro, crisis, convergence, mix of policies, optimal currency area, competitiveness, budget deficit, fiscal consolidation, public debt.

JEL classification: E42, E52, E62, G01, H63

Brief retrospective of the trust in strong currencies

Since the end of US dollar convertibility in gold, in a narrow meaning (citizen deposits) and then in a broader meaning (central banks deposits), which took place from 1971 to 1973, the international economy entered a new stage of monetary stability management on global and national level, moving away from the principles established at Bretton-Woods. The trust in the relatively fixed exchange rates, passed through the gold parity, had to be replaced with the trust in flexible exchange rates, the meaning of the convertibility and trust in the convertible currencies also being changed by searching for new benchmarks.

The latter have been represented in the Western Europe of that time, by the acceptable limits of the national exchange rates variability compared to the US dollar, discussed by the ministries of finance and by the central bankers of the European Economic Communities member countries, the founding member states having the privilege to have convertible currencies among themselves and among them and the US dollar. This is how the syntagms “monetary snake” or “monetary tunnel” were born, signifying in principle, the threshold and rule of intervention on the monetary market, either for allowing a currency to revert to the pre-set lane of evolution, either for changing its parity because of the significant deviation of the fundamental indicators determinants of the exchange rate.

On this background of the concerns for the credibility of the strong currencies exchange rate – actually connected to the globalization of economy by the higher dynamics of the international trade compared to the economic growth, by the costs of the international trade determined by the currency exchanges, by the cost of the raw materials which were traditionally rated in specific currencies, by the transfer from economic advantages to competitive advantages etc. – we are witnessing the necessity to shift from the US dollar as reserve currency to a "more international" currency in terms of associating it to several fundamental factors of the "top" economies, always on grounds of trust, credibility, stability, balance between what it is convenient and what it is not convenient, on the reference to a less partisan "average" for one or another issuer of convertible currency.

The International Monetary Fund, concerned by the external balances of an economy undergoing globalization and observing the obsession for a credible currency, created the stand-by facility to support the deficit of the balance of payments of its members, confronted with the sustainability problem of major foreign debts. However, some of the beneficiaries, particularly the developing countries major producers of raw materials, wanted this facility to no longer depend on a single reserve currency, namely the US dollar. This is how the SDR (Special Drawing Rights) appeared, on the basis of a basket of currencies thus structured as to give a broader credibility than just a single currency.

The fall of the Iron Curtain in Europe and the resulting enhancement of globalization based on sharing the same values in much wider political and economic spaces, facilitated the dynamism of the political project of European integration, the European Economic Communities passing to the next stage, of the European Union whose essence is the Single Market and the Economic and Monetary Union, which needed a single currency for circulation, respectively a symbol of transition towards a political union.

The current euro had as predecessor the ECU, another way of "merging" within a single currency the diverging evolutions of the national currencies of the most developed European economies. We must notice the trend to get closer to a credibly anchored monetary symbol in which a larger population can trust. This step was taken in Europe by the decision to create the single currency – the euro – in 1999, on the basis of not just extended theoretical studies regarding the optimal currency areas, but also on the basis of strong political will, which to compensate the imperfections of the quotidian realities compared to a theoretical model, which hinted more towards an illusion of single currency than to a real one.

The euro, from the economic point of view, is a product which denotes the temporary determinism of the politic on the exigencies of the economic theory, but with the assumption that the euro zone countries will have evolutions which will eventually close the gap of structural convergence. The actual evolution of the single currency in terms of the trust invested by a large population denotes a lag of the political commitments to decrease the gap against the exigencies of the optimal currency areas theory and the recent financial crisis only proved that the expansion of this lag may endanger the project itself.

Euro, a project still unfinished

This is how the father of the single currency – Otmar Issing – said when he was speaking of the future of the euro, but with the belief that the started project will enjoy that political support which may bring the euro zone within the parameters of a true optimal currency zone. The political support was understood as a will of the executive from the countries with less developed economy, at the moment of introducing the single currency, which maintains the processes of nominal convergence on a firmly sustainable trend.

Maybe the ambitions of that moment relied on the political will to accomplish the structural reforms needed to attain the theoretical criteria and characteristics of an optimal currency area, but this is contradicted by the subsequent functioning of the euro zone (materialized, among other, by the relative decrease of the competitiveness on the single market and on the international markets). Looking back, and looking to the single monetary policy pursued by the European Central Bank (ECB), at present it can be considered that the central parities of conversion of the national currencies into euro were set wrong, in the case of those particular countries, the benefits of the single currency being eroded by the slower pace of the reforms.

No doubt, the "marketing" of introducing the euro, in the beginning as account currency and therefore as actual currency of circulation, was done on the basis of the benefits of this currency for the single market in terms of costs, flexibility and price stability, with effect on other indicators of the real economy, and also with the effect of anchoring the long-term inflationist expectations.

The euro offered the individual and corporate consumers a broad area with a minimal risk of the exchange rate variations, an area in which the repeated devaluation is avoided and the facilitation of the commercial and financial/investments flows are permanently unimpeded by protectionism. All these benefits and many other appear with the condition that the monetary union is accompanied by an authentic economic union, whose expression is in national budgetary and fiscal policies convergence.

Maybe the most visible result in terms of the euro zone macro stability was reflected by the inflation rate, and the most significant example is that of Germany, reputed for the abnegation of a good functioning of the euro, and where inflation was at the lowest level during the years after the introduction of the single currency: 1.5% annual inflation rate in 1999 – 2010, compared to 4.9% in the 1970s; 2.8% in the 1980s; 2.2% in the years before the euro changeover.

This is a meritorious result in terms of the single monetary policy, although the elapsed period was not spared of many economic and financial shocks, more so as the stabilization of inflation to 2% didn't affect employment. On the contrary, the data suggest that the introduction of the euro allowed the creation of 14 million new jobs, compared to just 8 million in the USA, during the same period.

However, soon after the showy celebration of 10 years from the introduction of the euro, as the effects of the financial crisis on the real economy turned more acute, the single currency crosses, as many analysts say, **its first crisis**. What this crisis was, is a major question, because the euro cannot be seen independently of the economies using it, of the economic area – the single market – which supports its advantages, of the single monetary policy led by the European Central Bank, of the functioning of the Pact for Stability and Growth managed by the European Commission, of the informal decisions of the Eurogroup focused on problems of community fiscality and budget.

The euro crisis was identified with a steep depreciation versus the US dollar within a specific context. The authors believe that this context, although dominated by the economic crisis, was analysed, unfortunately, in a narrow manner, too conjunctural, exactly when the attention should have focused on the things not yet accomplished by countries which were using the single currency during its short history.

The ensuing financial and economic crises revealed much of the sorrows of the recent past of the global evolution in terms of macroeconomic balance. Although many difficulties have been blurred by the performance of the period known as the “Great moderation”, one cannot forget the episodes of regional currency crisis, regional external imbalances due to the asymmetrical accumulation of debts and currency reserves, of excessive budget deficits throughout Europe, of oil price hikes with “compensatory depreciations” of the US dollar etc.

On the background of the most serious financial crisis from the beginning of the third millennium, the euro crisis may be considered as part of the global crisis, but it has to be verified whether it is strictly connected to the international financial crisis as a conjunctural response, or it reflects the structural problems of the weaker economies from the euro zone (Greece, Portugal, Spain), which tested the strength of the more powerful economies (Germany, France).

Evolution of the euro and of other reporting benchmarks

For the euro area, the sovereign debts have rather a hint of internal debt, the financial bailing out for countries in difficulty being done by loans in euro. It is very true that the movement of the single currency was determined first of all by the basic internal imbalances of the economies from the euro area and by their perception as risks by the investors. However, we cannot overlook the impact of euro volatility when we are speaking of balance sheets and wealth, and in this situation we would better see what we are talking about: the fluctuation of euro versus the US dollar or the fluctuation of the dollar versus the euro and not in relation with the basis of each issuing party, but in relation with other benchmarks of the global market quoted in US dollars.

We think that the relevance of such analysis is, for the time being, the most suited method to distinguish between a “conjunctural currency crisis”, namely of the euro, and the systemic crisis of EMU functioning, which is still seeking more profound solutions and which need a different approach.

Within this context, the external sector of EU in its broadest meaning and the net export, in the precise meaning of driving force out of the economic crisis, both seen through the international input trade flows required for the functioning of the euro area economies, can give a better orientation on the effects and reactions to the moments of excessive volatility of the euro, knowing the exchange rate gap impact on many economic variables.

The appreciation, depreciation and, generally, the volatility of the euro is always perceived versus the US dollar and less versus other hard currencies such as the British Pound or the Japanese Yen. It seems more important now, still within the context of the global crisis, that a return to the traditional way of seeing the evolution of the currency markets by what actually happens with the US dollar is more relevant.

The euro is a young currency and maybe a successful one, but for the time being it is only taken seriously as a reserve currency by the EU member states which didn't join the single currency and this is more of a conventional problem than a problem of monetary economy. On the other hand, the US dollar still is certainly an international currency of reserve, with advantages and disadvantages for the issuing state. Furthermore, all the raw materials, which are not only **refuge assets** for the investors in special circumstances, but also inputs for the world economy, particularly for the economy of the developed states, are rated in US dollars.

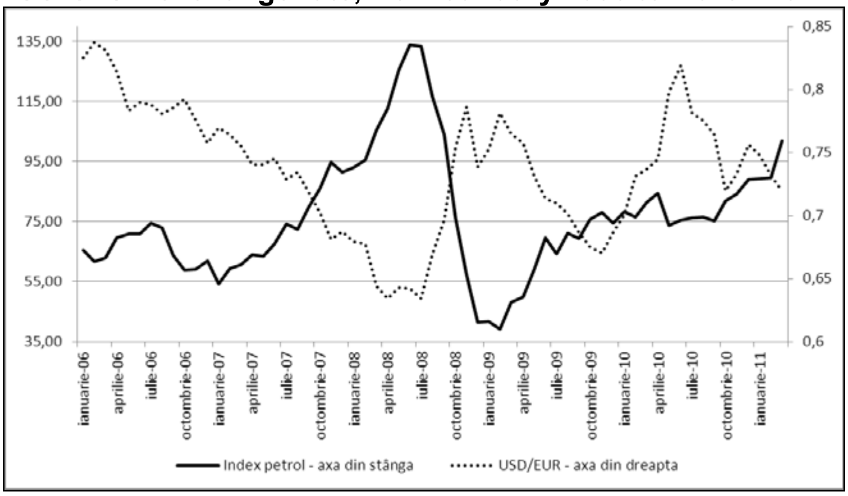
Therefore, if we compare the evolution of the dollar/euro exchange rate (and not inversely) with the evolution of the price of the hard commodities such as the gold, crude oil and wheat, we will have another perspective of analysis. Let us not forget that the volatility of the dollar triggered debates on the change of the reserve currency or to find another one – with no reference to the euro – while the volatility of the price to some hard commodities just because of the evolution of the dollar/euro exchange rate, determined some exporters of basic products to propose a different currency of rating – and only now reference has been made to the euro. Also, the volatility of the dollar prompted the reorganisation of the external assets of some countries, with increased focus on the euro and DST.

If we will take into consideration the dollar/euro exchange rate and if we compare it with the evolution of the quotations for the oil and wheat (see Charts 1 and 2) we will notice that usually, even by simple overlapping of charts made at the same scale, by the volatility of the dollar exchange rate which only a country with reserve currency can afford, the world economy benefited from the flattening of real increases of the quotations for the mentioned products, which had the advantage of maintaining the export competitiveness of the developed countries importing those products. It should be noted that the pattern of which we speak also verifies within the context of the recent crisis, the analysed period being 2006-2011.

Regarding the gold (Chart 3), beyond its industrial utilizations, it is a strong asset of reserve under specific conditions, and while the anticyclicity which was obvious before the crisis is somehow lost after it, this is due to the phenomenon of generalized loss of trust of the investors in the monetary assets on the background of the "currencies war". We must admit here that this so-called war actually reflects imbalances in the fundamentals of the USA economy in competition with China, under the pressure of the effects of the crisis and of the European economy.

Chart no. 1

Evolution of the crude oil price (USD/barrel)[1] and of the USD/EUR exchange rate, from January 2006 to March 2011

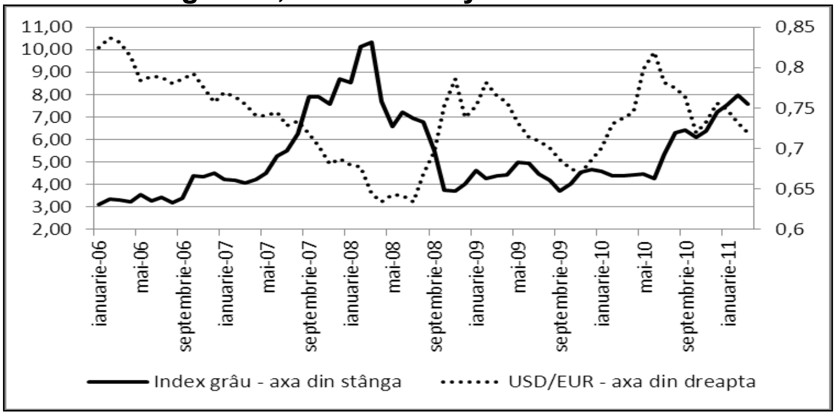


Source: Bloomberg

[1] *Spot price for WTI Crude Oil in USD/barrel (about 160 l).*

Chart no. 2

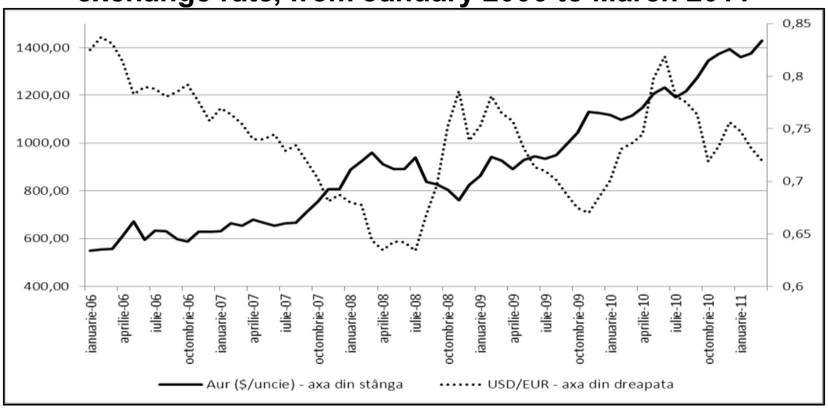
Evolution of the whet price[2] (USD/bushel) and of the USD/EUR exchange rate, from January 2006 to March 2011



Source: Bloomberg

Chart no.3

Evolution of the gold price (USD/ounce)[3] and of the USD/EUR exchange rate, from January 2006 to March 2011



Source: Bloomberg

[2] *Spot price for wheat - USDA No. 2 Soft Red Winter/Chicago Illinois in USD/bushel (60lb/about 36 l).*
[3] *Spot price for gold in USD per ounce (Troy Ounce, 31.1035 g).*

The observed phenomena of anti-cyclicity occurred on the background of the evolution of the demand to supply ratio, but we should not forget that usually, the exporters of raw materials were confronted with dysfunctionalities on the side of supply normal generation (strikes, sabotages, working accidents, weather problems etc.) which altered the **perception of the pressure on the demand side** (particulars advance storage as provisionary assets, not because of the exchange rate, but taking into considerations that the penury will increase the quotations price in the future).

On the other hand, the demand for raw materials has always been predictable in the developed states, during the stages of normal development, while China, due to the major internal investments and of the hosted Olympics created additional pressure on the demand for crude oil at that moment, its real price being much below the nominal price of almost 140$/barrel, being flattened by the depreciation of the dollar versus the euro.

At the same time, the exporters' reason to increase the price for raw materials on the account of the dollar exchange rate doesn't express the total truth; it is just partially correct if we look at the overall investments in exploitation, compared to the predictable and foreseeable demand.

We insisted on such analysis in order to remember that the currency facilitates the international exchanges of goods and services, and looking at it exclusively with respect to the monetary market considerations is not enough. Under these circumstances we will revert to the problem exposed in the title, with the option that we cannot speak of a simple crisis of the euro.

It is sure that the trust in the euro has been undermined at the level of the citizens first by the symbolism of the lost national currency in favour of the euro. This affects the solidarity of the euro zone countries, while the countries outside the euro zone start to doubt not necessarily the single currency, but the time, even *sine die* of adopting it. The opinions expressed in Czech Republic, Poland and Hungary are known, where although there are national plans for the adoption of the single currency, certainly much advanced than in Romania, the temptation to set data is almost completely blurred. The euro project, before being a monetary one, is a political one, and from this point of view it needs strong popular support accompanied by the best accuracy of accomplishing the nominal criteria – and particularly given the crisis conditions –this unfavourable affects even the popular support.

The single monetary policy interest rate did not always fit with the proper behaviour of the public finances in many countries from the euro zone, particularly during the economic crisis, Greece, Portugal, Spain and Ireland being among these countries. It is obvious that under such conditions, the budgetary austerity imposed to some countries was much more burdensome than the one imposed to other states, hence the financial solidarity was doubted, at least by the slow speed of reaction of the governments to the necessities of financing the budget deficits, compared to the alert speed of reaction of the ECB and of the other central banks (FED, Bank of England, Bank of Japan) to the monetary problems.

The financial crisis has proven, retroactively however, that the shield of the euro through the economic discipline of Germany could not mask the weakness of the public finances of the countries which are "apparently" prepared for the single currency at the moment of its introduction.

The euro zone rediscovers the acute necessity of a collective budget discipline. This is the reason why the Stability and Growth Pact didn't change at all, just at the moment when the reforms in other sectors, particularly in the financial sector, are agreed and even started.

It is likely certain that the recent crisis has shattered the approach of the progress needed to attain the convergence criteria, but this cannot be approached separately from one of G-20 objectives: setting a full set of indicators measuring the global imbalances. We also agree with the opinions of other economists who question whether some thresholds should be changed or not, as well as their pertinence concerning the phenomenon of convergence in a world, the European one included, dominated by excessive sovereign debts compared to other historic periods.

The correlations and connections, either those set by the Maastricht criteria, or those that we are meeting today under completely different circumstances, show us that if we speak of the euro crisis, it is an effect of what has happened in the economies of the countries which adopted the single currency and, implicitly, we need to speak rather of the **euro zone crisis**. This crisis is much more comprehensive than the recent financial and economic crisis, its evolution being more expanded historically and behaviourally.

The EU risks not to be able to compete with the most dynamic nations, even in this generation, and the solution preventing the EU to be removed from the international economic competition is the establishment of a fiscal region "because a fiscal federation can solve two problems". The first problem is to transfer the burden of the shocks on a fiscal region, which is much more resistant than a national fiscal policy. The second problem is the fact that a fiscal union with a good fiscal policy can bear much easily the burden of reorganization than the national independent fiscal policies, the fiscal union being a bumper absorbing the possible shocks. We must also add that the independent fiscal policies, particularly in some countries from the euro zone presumes a high moral hazard, as shown by the persistence of the lack of budget discipline, lost between the necessity for the macro professional discipline and the micro populist pressure. However, there are some disadvantages of the fiscal union: domination of the powerful states, with a higher budget and fiscal harshness, on the weaker states which already have consistent fiscal-budgetary deficits; the lack of independency allowing "fiscal competitiveness" among the EU member states; impossibility of a "fine tuning" of the budget and fiscal problems with a strong economic and social impact etc. However, not few times, the invocation of the arguments against a fiscal union may be an easy cover and a perpetuation of the current state of fact: persistent disregard for the budget discipline under the conditions of alarming fiscal-budgetary deficits, particularly with the euro zone.

This is how the euro project, under the conditions of the crisis and of a weaker political fiscal-budgetary commitment, needs badly to be completed by the "multilateral fiscal pillar". Therefore, the problem of the euro is not the fluctuation of its exchange rate versus the US dollar, with moments of high volatility; rather, it is about the basics of the exchange rate, a single monetary policy undisturbed politically and an individualist national fiscal policy influenced massively by the economic and social behaviour of the European citizen, on the one hand, and by the elections cycle, on the other hand.

Crisis of the euro zone

After the critical stages of the financial and economic crisis have elapsed, we must ask ourselves, regarding the EU and the euro zone, if we can limit the circumscription of the euro zone crisis only to the aspects of a cyclic crisis. Most opinions consider that although the consolidated exit from the cyclic crisis may be long, the recovery demonstrating fragility, the crisis of the euro zone must be seen rather through the necessity to ensure the functionality of the single currency closer to the principles of an optimal currency area.

Undoubtedly, at the level of the public perception, the priority of the politicians from the EU member states is to restore the growth and to reduce unemployment. The reduction of the public debt is also a priority (maybe less relevant immediately for the population as long as the income from labour is not affected), and it depends on the rate of fiscal consolidation in every country.

Technically, the fiscal consolidation must take into account the fiscal space for manoeuvre, which is a problem of the politic, because it presumes the development of medium term credible plans for the fiscal consolidation and for the acceleration of the financial sector recovery. The latter, unfortunately, are among the emergencies appeared after the crisis and they may influence the comfort given by the statements about the end of the crisis, about the absorption of the high unemployment rate and, more recently, about holding up the new inflationist pressures.

The rescue bench, always invoked, is that the advantages of the single European market can be capitalized only if there is a **stable single European currency**, which implies, at this sufficiently tensed stage, a rather unpleasant medium-term trade-off between the citizen and the executive. Beyond this bench, which proved to be unstable under the conditions of global shocks, there are increasing discussions lately that only a “Fiscal Union” would provide the necessary macroeconomic anchor against the regional shocks. How? Right through the **reform of the national systems of social insurances and taxation**, which will bewilder the taxpayer that is using the euro and not only, exactly when he was told that the crisis is over, even though there may be some problems (see the conclusions of the G-20 finance ministers at the Paris reunion).

The virtues of making a fiscal union seem to prevail on the reticence at different levels, the process reflecting and repeating maybe exactly the fears which existed when the decision to make the single currency was taken. However, through the prism of what is good about the euro, we consider that the present fears of a future – and maybe fast – fiscal union are less justified even at the historical moment of he conjunctural economic nationalism revival, but sufficiently marked by the lack of a properly articulated mechanism for the general management of the crisis.

Such as the financial crisis revealed moral causes too, it is not accidental that the supporters of the EU fiscal union speak about fewer moral risks for the member states, limiting the intentions, wishes and possibilities of the national entities to spend more than they produce, with the consequence of enslaving loans. The monetary union has established limits – maximum 3% deficits and public debts no more than 60% of the GDP – but the crisis also revealed the deficiencies of undermining the Stability and Growth Pact.

This is demonstrated by the adoption of insufficiently strong laws in terms of budgetary discipline, lacking consistent warning thresholds against dangers and risks and with no possibility to penalize the governments for failing to accomplish the medium-term fiscal objectives. This is the argument which led towards an initial solution of approving the national budgets of the EU member states by the community structures, before being debated in the national Parliaments. The solution is seen as an element of community caution to the budgetary excesses which exposed the euro zone to the risk of unsustainable public debts.

The key question is how possible is a fiscal union of the EU, which will require a central fiscal authority, similar to the ECB on the side of the monetary policy. The process of creating the fiscal union cannot be predictable as a date, but the member states didn’t forget that the EU purpose, set by the treaty, is the political union. Therefore, procedures and teams can start working for the basics of a central fiscal authority independent of the EU, using the pattern of the euro project, although this initiative may be launched at an unfortunate moment in terms of the citizen trust in the European integration.

We think that the insistency of warnings from the highest level, either from EU, or from international financial institutions such as IMF, is a recommendation to continue the project towards its ideal. Herman Van Rompuy, EU president, said in November 2010, at the height of the Irish crisis, that the “euro zone and the European Union will not survive if the budget problems of some member states are not solved … we are confronted with a crisis and our survival depends on it. We must collaborate to allow the euro zone subsists. If the euro fails, then Europe will fail. However, I trust that we will overcome these problems”. ECB president, Jean Claude Trichet, also used harsh words, when he stated that he cannot assume the irresponsibility of some executives, referring to the same lack of financial discipline. The Czech President, Vaclav Klaus, known for his increasing Euroscepticism, would have supported the right of an EU member state with derogation from the euro to negotiate the permanent dismissal of the single currency, since there is no more support for the project from a group which might represent the interest of the Czech Republic in this respect.

Joseph Stiglitz, Nobel Prize laureate in Economics, was showing in his recent book “Freefall”, that the “euro was (!) an interesting experiment but, like the almost forgotten exchange rate mechanism that preceded it and fell apart when speculators attacked the sterling in 1992, **it lacks the institutional support required to make it work**”, which is true.

Under the given circumstances, the American economist stated that the “source of the problems confronting countries like Spain and Greece is that they cannot use their national currency as an adjusting element for their economies, because the euro has a fixed parity”. This is a direct hint to the devaluation of the national currencies, if they would still be around, which would have allowed the economies to consolidate by stepping up the exports. Stiglitz was also critical about the European governments which cut steeply and suddenly the public expenditure, which may trigger, besides higher sovereign debts, a persistence of the economic crisis on large geographical areas. We cannot overlook Stiglitz’s remark that the “**the USA may have caused the global recession, but now Europe is responsible for it**”.

Stiglitz’s solution, which would officialise the already existing break between the northern and southern EU, as effect of the crisis of inadequate policies on the continent, however, extremely shocking, was either the exit of Germany from the euro zone, or the division of the euro zone in two sub-regions, one of the solid economies and one of the frail economies.

While observing the structural nature of the euro crisis and the conflict between the monetary governance and the fiscal-budgetary governance translated as a conflict between techniques and policies, between the textbook discipline and the political responsibility, we must not overlook the new mechanisms and facilities which appeared in 2010 and which are in advanced stages of study and implementation, their task being, we presume, to facilitate the **transition** to a fiscal union-type solution. This is the European Financial Stability Facility (EFSF), whose purpose is to aid the euro zone economies experiencing difficulties, either when the cost of the loans is very high, or when they can no longer borrow from the international markets.

ESFS will be replaced in 2013 by the European Stability Mechanism (ESM), which will allow the euro zone member states having problems of liquidity to use emergency funds (500 billion euros); the source of this money is a problem yet to be solved. At this moment, George Soros, a good knower and practitioner on the global financial markets, is confident in the future of the euro, saying that "**there is determination on the side of the governments from the euro zone** to keep the single currency operational".

The uncertain future of the public debts

The rescue quality of the future ESM is already doubted; the arguments for its utility and permanency, i.e. the **stability** in the euro zone and the buffering **capacity** against the crisis of debts, are under severe criticism. The worrying derives from the level of the "safety net", the amount of the mechanism being contested, particularly since after Greece and Ireland, the potentiality of the debts crisis in Portugal and Spain frightens the financial markets.

It is true that the ministries of finance from the euro zone wanted to send a signal to the financial markets showing their determination to act. The markets, however, fear that the safety net available to the Monetary Union is not enough to answer a possible crisis of the debts, higher than the current estimations.

This possibility is configured in a report on the dynamics of the public debts on a 30-year time-frame published under the umbrella of the Bank for International Settlements (BIS): "The future of public debt, prospects and implications", by Stephen Cecchetti, M.S. Mohanty şi Fabrizio Zampolli. According to the authors, the debt related to the GDP will reach 600% in Japan, will exceed 500% in the United Kingdom, 400% in Greece, the Netherlands, France and the USA, will be about 300% in Germany, Austria, Spain and Ireland and between 250-300% in Portugal and Italy. The evaluation hypotheses were: (1) the economic growth in real terms will be the one estimated by OECD for the post-crisis period; (2) the proportion of the real revenue to the budget within the GDP remains at the level of 2011; (3) the interest rates will be at the level of the average rate from 1998-2007.

Beyond the fixed elements of the evaluations, at least the statement of the ministries of finance met at the recent G-20 summit, allow perceiving that the current crisis will be long because the economic restoration, either in the developed states, or in the emerging countries, is governed by risks persisting in time. Therefore, the frailty of the European post-crisis situation, with some of the harshest austerity plans, maintains at least at the ideational level, an economic framework characterized by low budget revenues, high unemployment rate (there is a need for improving the competitiveness – see the European pact for competitiveness), the necessity for increasing the expenditure from the budget (social duties, the need for public investments, plus the service of the sovereign debt).

The financing needs, even for the budget deficits which display a relative decrease, next to the stock of sovereign debts put pressure on the level of refinancing interest rates (state loans, bonds issuing etc.) which increase the sovereign debt. The perverse effect of this cycle is that an increasing share of the revenues to the budget will have to cover the higher interest rates, while the budget resources in relative decrease will affect the European social model which was already in jeopardy, even without the crisis. Considerable budget surpluses are required to balance the situation but this is hard to do on the short and medium-term, given the elections cycles, while in the terms of a frail economic restoration, the budget surpluses are impossible without continuing the austerity programs. This vicious circle draws attention to the sustainability of a country's foreign debt and to the social vulnerability it creates.

Prospects next to the euro?

The global unrest bring into discussion another perspective of the international financial system in terms of the reserve currency, the debates ranging from fiery to calm. As European country with perspectives to adopt the single European currency, we need to ask whether this perspective is desirable at this moment.

If the two problems would not be interconnected due to the integrated character of the global financial system, beyond the euro zone, the answer would be simple. But under these conditions, it depends on the hard currency that can be trusted and which may help stabilise the value of any asset, which is an essential element for any economy.

The crisis of the euro zone has certainly blown oxygen to the debates on the **global monetary stability**. Looking to the new "currency war" determined by the necessity to reset the ranking of some currencies, currencies accountable for the massive external imbalances which have serious implications on the sovereign debts (see particularly G-2, USA – China), the convergence towards the idea that if the world wants a higher monetary stability, it can no longer depend on a single reserve currency, seems absolutely normal.

This idea means that a new currency might be based on the system of the Special Drawing Rights (SDR) currently used by the IMF, which is a conventional currency basket (US dollar 44%, euro 34%, Japanese yen 11%, British pound 11%, according to the London stock exchange) with relevance in the international economic and financial relations.

The relevance of the SDR basket changed due to the world crisis (Japan which is in deflation for over a decade, USA with a huge public debt, UK with a significant budget deficit, the euro zone in systemic crisis), and the functional emergence of the G-20 in the midst of the crisis (the institutional one even since 1999), including the BRIC[4] countries, makes the SDR basket arguable among the new centres of economic power.

The crisis of the euro zone in terms described by us overlaps the stringent need for reforming the international monetary system.

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[4] *The BRIC group consists of Brazil, Russia, India and China.*

Although it was officially declared started during the first G-20 summit in 2008, IMF representatives are worried by the gradual decrease of the appetite for the reform of the international monetary system, although all G-20 members showed their availability to substantial changes in this direction.

The beginning of 2011 brought in new troops on the field of the mentioned reform. The former IMF chief, Michel Camdessus, declared that it is the right time to reform the monetary system and that it must not be missed, the last crisis being an opportunity: “There is a window now which allows us to undertake this reform. This window will not be open for ever”, said Camdessus. In the same spirit, Robert Zoellick, World Bank president, asked the large economies to modernize the wortld monetary system so that the main currencies can work. Zoellick said that the Chinese yuan should play a more important role within a restructured monetary system, supporting firmly the idea of integrating the yuan in the SDR, specifying that China should take rapid measures to internationalise its national currency.

We consider that the reform of the euro zone in terms of the principles of the optimumal currency area, in parallel with the concerns for the reformation of the international monetary system, which could assume the euro in a new currency basket, might make the euro gain substance as a strong currency, not merely a successful experiment taken to its halfway.

Maybe this reform of the euro zone will also be stimulated by the substrate of the information coming from the rating agency Fitch Ratings, on 3 March this year, according to which the year 2011 will be a decisive one for the sovereign debts crisis from the euro zone. The beginning of the end of the crisis is strictly conditioned by the accomplishment of the assumed political commitments – the combination between a joint European response, policies of fiscal austerity and national structural reforms, a credible start of a gradual economic revival – or we will speak of an intensified crisis if the implemented policies and the expectations of the financial markets will not be met. The investors and the market are waiting to see whether Europe is capable to develop and implement **an authentic strategy for financial stability** and to make sure that the **euro zone will come out stronger from the crisis**.

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