



## **PROBLEMS REGARDING THE POSSIBLE WITHDRAWAL OF SOME MEMBER STATES FROM THE EURO ZONE**

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### **Rezumat**

Având în vedere situația actuală a unor state membre ale Zonei Euro care, pe fondul unor probleme macroeconomice dificile, au anunțat luarea în calcul, ca scenariu, al înaintării cererii de retragere din Zona Euro, prezenta analiză va evidenția principalele elemente de impact, asupra economiilor altor state membre ale Uniunii Europene, ale posibilei materializări a unui astfel de scenariu

Principalele riscuri macroeconomice asociate retragerii unui stat membru din Zona Euro, chiar și în varianta în care această retragere este controlată, sunt următoarele:

- deprecierea monedei unice europene la nivel internațional, ca o consecință a percepției de instabilitate economică a Zonei Euro;
- reducerea veniturilor bugetului unic european;
- reducerea contribuțiilor la fondul de rulaj al Băncii Centrale Europene;
- un risc ce are și un caracter de risc politic dar cu consecințe profunde macroeconomice este și un precedent ce va fi astfel creat de situația respectivului stat membru în direcția retragerii din Zona Euro.

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**Abstract**

By taking into consideration the actual difficult macroeconomic situation of some of the Member States of the Euro Zone, as it was already published, as a scenario, the possibility of the avoiding of the member State position, the present paper will propose, as analysis subjects, the main impact elements on the other European national economies of such producing scenario. The main risks associated of such scenario, even if such process will be an administrated one, are the following ones:

- the depreciation of the Euro as a result of the economic instability perception at the Euro Zone level;
- the reducing of the European Budget incomes;
- the reducing of the European Central banks working funds;
- a very important risk which also have the character of political risk and which have an important position being a source of complex and difficult European macroeconomic problems, could be the precedent thus created towards other member states possible process of avoiding the member state position.

**Keywords:** macro-economy, currency risk, administration, system, conjuncture, instability.

**JEL Classification:** F 59

**General approaching perspective of this study**

The study uses risk-analysis as revealed by the following aspects:

- At the moment when this analysis is made, the withdrawal of a member state from the Euro zone is not the result of the decision of that particular member state or of EU recommendation, which means it will be dealt with as possibility;
- **The main elements of impact on the economies of the other EU member states, of the possible materialization of such scenario, will also be presented as risks because, at this moment, they are associated to different variants in the form of scenarios, which may not be modified by measures of national or European economic measures.**

Given this aspect, considered as defining for the character of this study, **we consider**, as a follow-up of this analysis, monitoring the possible withdrawal of some member states from the Euro zone and going deeper with the analysis using some actual data regarding both the future position of the member states regarding the Euro zone and the positions of other EU member states in terms of managing the possible risks that may arise from such process.

**The main macroeconomic risks that might influence the economies of other member state in the situation of possible withdrawals from the Euro zone**

The options regarding the position of the member states which considered the withdrawal from the Euro zone may be the following:

- **Controlled withdrawal**, accompanied by the administration, in cooperation with the European Union, of the elements of joint economic processes that might produce, without such administration, shocks on EU economy, thus causing by consequence effects on the national European economies – effects transmitted via the multiple channels developed during the process of European integration;

- **Continuation of the process of European integration** and, therefore, of the presence within the Euro zone;

- **Uncontrolled withdrawal** of some member states from the Euro zone. In the acceptance of this study such option is excluded because such decision of any member state is associated to a proper cooperation from the European Union, the motivation being to avoid the production of serious macroeconomic shocks within the Union.

Consequently, our analysis will use the following inputs:

- Controlled withdrawal, accompanied by the administration, in cooperation with the European Union, of the elements of joint economic processes;

- Intervention, via European and national macroeconomic policies, on the European national economies, to administer the risks that might arise from the process of controlled withdrawal of some member states from the Euro zone.

For the purpose of this analysis, the term of "controlled withdrawal" refers to the following elements controlled by that particular member state:

- Towards administering the potential risks that might produce effects on the national economy. The European Union or some national economies might get involved within this process, on behalf of the states crediting the economies of the potentially affected member states or of the states that might run serious macroeconomic risks;
- In cooperation with the European Union to administer the risks that might produce effects on the EU national economies.

The main macroeconomic risks associated to the withdrawal of a member state from the Euro zone, even if this withdrawal is controlled, are as follows:

- **International depreciation of single European currency**, due to the perception of economic instability of the Euro zone. This risk is considered, in the acceptance of this study, to be a potential risk, even with a controlled withdrawal of the member state from the Euro zone, due to the low level of predictability of the current international conjuncture, not just at the economic level. The current macroeconomic problems associated to the present international conjuncture display a low availability of the macroeconomic policies to control such a complex process as the withdrawal of a Euro zone member state. Thus, the political will expressed towards the control of the withdrawal of a particular member state from the Euro zone may not be 100% sustainable by the economic potential to implement this political will, particularly considering the serious macroeconomic problems of the member states which considered their exit from the Euro zone; these problems resulted from the high indebtedness of the national economies and from the very low potential of the national economies to support this liability;

- **Reduction of the revenue to the single European budget**, which will cause the reduction of the funds allocated to the process of European integration on the medium and long term. However, a source

of financing might be possible identified which to provide additional revenue;

- **Reduction of the contributions to the running fund of the European Central Bank** and, therefore, the reduction of the future funds allocated for open market operations. Like in the previous, case, a source of financing might be possible identified on the medium and long term, which to provide additional revenue;

- A risk that may also be a political risk with serious macroeconomic consequences, is the **existence of a precedent** created by the decision of that particular member state to withdraw from the Euro zone, particularly since several member states considered this option. This risk might aggravate the risk elements that we have mentioned before and might cause serious problems to the continuation of the European integration.

For the Romanian economy and, in general, for the economy of any EU member state, of the risks we presented, we must notice the risk of Euro currency depreciation. Such a risk might be perceived as an advantage due to foreign trade operations. This paper rejects this idea on the grounds of the following aspects:

- In such situation, both the microeconomic policies and the macroeconomic policies from the Euro zone may decide for the consolidation of the financial quotation of the export prices in order to improve the financial stability of such contracts; this measure is regarded as imperiously necessary from the perspective of this study in order to ensure proper economic results of the export operations;

- The very monetary policy of Romania and, in general, any national monetary policy may decide for the establishment of a basket of currencies as a means to increase the currency stability at the level of the macroeconomic policies, because in a situation of possible instability it would be impossible to approach the exchange rate as target of the monetary policy.

**Consequently, the first risk** of the withdrawal of a member state from the Euro zone, even in the controlled variant, would be the

depreciation of the single currency which would cause contractual losses from the difference of exchange rate. The depreciation of the single currency would require a fresh analysis of the currency basket of the monetary policy; however, this effect would be associated only to an acute international instability of the European currency.

A **second risk** of the withdrawal of a member state from the Euro zone, even in the controlled variant, would affect the investments of that particular state in other states. Several scenarios can be described:

- Scenario regarding a possible withdrawal of the investments of that particular member state in other EU member states after that state exits the Euro zone. Such scenario is seen as unrealistic in the acceptance of this study because, at this moment, the European economies provide more opportunities than the economies of the member states which considered withdrawing from the Euro zone. In such situation, the microeconomic policies will be directed towards protecting the invested capital and ensuring the further run of the business;

- Scenario regarding a possible sales-give up towards other investors of the business of that particular member state in other EU member states. This scenario too is seen as unrealistic in the acceptance of this study on the same grounds as those mentioned above. Furthermore, the predictable currency and financial instability is not to the advantage of such transactions. It is little probable that the microeconomic policies are directed towards such directions.

### **Conclusions**

Considering the above analysis, the only risk of the withdrawal of a member state from the Euro zone, even in the controlled variant, is the depreciation of the single currency.

If such action of withdrawal will be followed by other EMU member states, the risk of the single currency depreciation will turn into a major risk of currency instability that may cause risks of financial instability, particularly under the conditions in which the macroeconomic and microeconomic policies don't have a proper level of administration of

such risks. From this level forward, major depreciation risks may occur for other macroeconomic indicators too, a general macroeconomic instability. Furthermore, the onset of the risk of withdrawal of several member states from the Euro zone would generate a substantial reduction of the EMU potential to support to continuation of the process of integration (the only variant of ensuring the undertaken standards of macroeconomic stability and performance) by macroeconomic policies. This would cause a general macroeconomic depreciation within the European Union, which might deter the international investments within the union, with serious consequences on the macroeconomic indicators of the EU.

The worsening of these risks also occurs due to the current international macroeconomic conjuncture which, from the perspective of this analysis, is not a proper economic crisis. It has the symptoms of an economic crisis, but its roots lie in the evolutions of the past 20-30 years of economic development, when the administrative capacity of the macroeconomic system has been substantially outmatched by the development of the real economy, which produced dysfunctionalities in a macroeconomic model in which the economic and social development relies on the perfect collaboration (in space and time) between the macroeconomic administrative system (coordinating factor) and the system of the real economy (driving factor). Such dysfunctionalities which continued in time, generated macroeconomic imbalances whose perpetuation generated situations associated, as symptoms, to an economic crisis. These associated situations may also generate, by perpetuation, deep crises. As general aspect, this is an administrative crisis that may yield specific crises in the financial-monetary system, to begin with, which may in turn trigger crises of the demand and offer.

#### **Recommendation**

From the perspective of this analysis, **we draw attention** on the high potential of aggravating international macroeconomic risks which overlap an insufficient administrative capacity of the macroeconomic policies, which may produce a very low level of predictability. In such situations, **it is necessary to consolidate** the system of macroeconomic policies so

that the associated capacity of administration fits the present and future complex level of the international economic relations, complexity associated to a corresponding network of transmission channels of the macroeconomic shocks.

For the specific situation of the analysed problems, **we recommend** to upgrade the monitoring level of EMU integration, combined with flexible approaches at the level of the national system of macroeconomic policies and with setting the priority national macroeconomic interests to maintain the sustainability of the national economy within the current international circumstances. Such approach is considered to be efficient given the fact that the continuation of the process of European integration must be associated to traits of stability, balance and sustainability which yield the potential required by a national economy to approach efficiently such a macroeconomic and social process.

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