

Euroisation - Advantages and Disadvantages of Albanian Economy by Process of Cash Domestic Replacement

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Abstract

Albania is a country which is still in the second stage of economic development. The use of foreign currencies, particularly the U.S. dollar and the European currency has been and is a reality in the Albanian economy. The practice of using foreign currency in Albania extends from the price policies of commercial manufacturing firms, Albanian families who keep their savings in foreign currencies (mainly generated from remittances) to and relationship banking activity their business (on credit), etc..By this paper work, I will try to give the impacts of this phenomenon in the Albanian economy, the advantages of disadvantages comparing Euroisation and the consequences that we had neighbors with Albania. In this paper, I have tried to present a picture so modest depiction of the Albanian economy, economic convergence problems, implications that can create euroisation (potential costs and benefits, etc.).

Keywords: euroisation, gross domestic product, economic impacts, adverse opinions.

1. Objectives of the study:

- a. The first objective is associated with a picture, description of system implementation euro European countries, especially neighboring countries with our country.
- b. The second objective has to do with the analysis of a number of economic and social factors that make Albanian theorists have opinions pros and cons on this phenomenon.

2. Metodology

The methodology that I have used during this paper has to do with research and information obtained from primary and secondary sources:

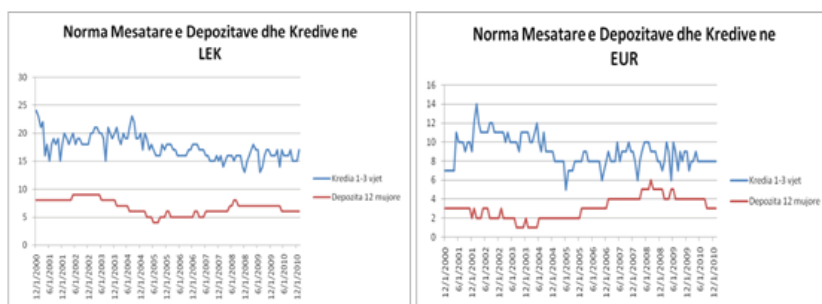
- a. Primary sources are interviews are conducted with business leaders and with various individuals who keep their savings in foreign currency.
- b. Secondary sources, are the basic theoretical material that I've received over the years of my academic studies, as well as information collected from scientific journals, the Internet, etc..

Based on the reliability of the information collection and statistical processing that i have done, i have reached conclusions and recommendations that were finalized at the end of this paper.

3. Introduction

The following material is intended to explain what the term means 'euroisation economy' as is unofficial cash rate of substitution to date and the possibility of using the euro as national currency. Given that developing countries like Albania currency, outside banks is high and a good part of the transactions carried out in cash, is the fact that today not all transactions are conducted in the local currency money, but find the use of foreign currencies in which the weight greater voice euro. In a world that is going more and more towards globalization, has become an irreplaceable need in the region to speak the same language, and the same currency used in commercial exchanges for whole Europe.

The charts below depicts the level of crediting in domestic money, compared to the level of crediting of Euro:



Graphs show that from 2000 - 2010 Euro deposit has to notice that they have been increasingly mobilized. This comes from increased demand for individual European currency and the improving banking policies for mobilizing this currency. Also the use of foreign currency deposits are widespread in developing countries such as Albania because it is still the only means and usable.

The case of Albania is analyzed by several other researchers, who have been taken with this phenomenon, but the results obtained show that the replacement of the national currency is not very high but it does not mean that everything will remain stable, every day we see greater use foreign money in our lives.

4. Euroisation - History

East European Monetary System was a result of the economic crisis of the 1970s, which led to the first plans for a single currency. The system was abandoned, fixed exchange values linked to the U.S. dollar. European leaders agreed to create a chain currency system, linking European currencies with each other. But the system immediately came under strong pressure from the dollar. During 1991, 15 members set strict criteria for membership, involving the targets for inflation, interest rates and budget deficits. They founded a European Central Bank to set interest rates. Britain and Denmark decided to remain outside these plans. Euro has entered the implementation on 1 January 1999 as electronic currency, used by banks, foreign exchangers, large firms and exchanges. New European Central Bank interest rates set for all Eurosystem, which comprises:

1. The European Central Bank and the national banks of the Member States belonging to the euro area, have the exclusive right to put into circulation euro money.
2. All decisions for the euro drawings and names are taken from the European Central Bank.
3. Eurosystem is responsible for the definition and implementation of monetary policy of the euro area.
4. The main objective is the sustainability of the value (price Stability) in the euro area.
5. Directs the activities of foreign exchange

4.1 Should it be an option to be considered?

Benefits of the eurosystem to have a unified European currency currently circulating for Albania are clear:

1. Practical benefits for citizens traveling to the eurozone without needing to do courses for foreign exchanges with host countries.
2. Market unique collection of all the benefits of a single European market.
3. Unique market financial benefits of giving and receiving currency.
4. Agreement macroeconomic benefits of a single currency in the economy as a whole/
5. The role of Europe in world advantages of Europe's international role.
6. European integration process benefits associated with scale integration.
7. Transparency pricing ease in comparison with various European countries.
8. Increased investment in Albania makes the investment to be safe and not subject to the use of exchange rates.
9. European integration moves Albania closer to making it part of the Eurozone

4.2 Costs that would place the burden of euro entry are:

1. The same rate of interest - the necessary acceptance rate of interest by not having a choice of a lower rate, to obtain a loan.
2. The trend for increasing the rate of inflation, this trend can be thought of a slight increase that may undergo commodity prices.
3. The loss of a part of our national sovereignty-currency has its history and for the Albanians will be less difficult adjustment to another currency.
4. Impact on import-export exchange rate fluctuations compared to neighboring countries hinder this relationship because there will be losers and winners from one side to another.
5. foreign currency borrowing -cost loan becomes high mainly for businesses who are the biggest borrower.
6. Euroisation official economy means giving up the use of the country's money, and instead use the new European currency, euro, one of the main currencies (the second after the dollar) that is used in international transactions. In this way, the European Central Bank expects that applicants meet the four criteria it controls as mentioned above.

4.3 What does euroizim official economy mean?

1. Secure public finances
2. Low interest exchange
3. Stable exchange rate
4. Inflation, which should not be more than 1.5% higher than the average of the best three countries of the European Union which are Germany, France and Italy (developed countries, parts of Western Europe).

Giving up the national currency and the introduction of the currency of a foreign country, a strong currency and its main role in international transactions, is not a new invention. More than 50 European and African countries have linked their currencies to the euro, or basket of currencies, where euro is the main currency. Even many of the countries in the Balkans have given the euro exclusive status.

5. Internal domestic conditions that lead Albania to euroism.

The realities of these transition years have witnessed a growing preference to use by citizens of the European currency and the U.S. dollar, which, to a certain extent, has led to a partial euroizim economy. Currency substitution occurs when assets dominated in foreign currencies are used as means of payment, and replacement of assets occurs when assets denominated in foreign currencies are used as a means of preserving value.

As an indicator to measure the degree of substitution of currency used in the ratio of deposits to foreign currency monetary aggregate M1 (which includes only transactions of that money, so they realize the financial instruments exchange of goods at any time and without cost) While measuring replacement of assets used indicator appears as the ratio of foreign currency deposits to M2 monetary aggregate (which can otherwise called and broad money including the M1 and other forms of assets).

In our country, the replacement of the currency at the end of 2009 according to statistics published by the Bank in the figure is 51.3 percent. This percentage has increased over the years even more, which means that for every unit of the national currency, there is more than one foreign currency units. While the rate of replacement of assets at the end of 2009 stands at 24 percent.

Table 1: Dynamics of the degree of currency substitution and assets.

	2002	2003	2004	2005	2006	2007	2008	2009
replacing cash M1 currency deposits,%	36	34.3	33.9	37.5	39.6	48	51.7	51.3
Replacement of assets M2 currency deposits,%	25.6	23	23	28	22.4	20.2	22.2	24

A significant portion of the population savings in foreign currencies circulating outside the banking system. Consequently, I have good reason to believe that the degree of currency substitution and wealth levels stay higher than reflected in the table above till 2009. However, even with these levels of official figures, the Albanian economy appears among those with the highest degree of monetary replacement.

Banks lend in domestic or foreign depending on the net balance of forces that are at work. On the other hand, lending in foreign currency will be more attractive the higher is the risk of depreciation, the higher is the guarantee placement and lower the cost of operation and financing of these loans.

On the other hand, the domestic currency lending will be more attractive as high as the bank's monopoly power over borrowers of traded goods, the lower is the probability of depreciation and their effect on the failure of the loan and lower the cost of raising deposits and the management of loans in local currency.

6. External domestic conditions that lead Albania to euroism.

Entry of Albania into monetary union, means the beginning of the process of economic and political integration of the country into a secure and stable region. In this sense, euroisation could become a symbol of political and social integration in the EU, serving as a catalyst for rapid economic growth and employment of the Albanians.

Albania belongs to Europe not only in normative terms, but also economic. Having still a relatively high degree of openness to the world economy, and that further opening up to the levels of developed countries is an unavoidable fact, but a necessity to maintain high rates of economic growth.

Harmonization with EU structures should begin to be considered not only in terms of legislation and institutions, but also to fiscal and monetary policies. Which means that monetary policy should be linked to monetary policy of the European Central Bank.

This means that the monetary policy of the European Union has effects on the country's monetary policy. Upon entry into monetary union by using the same currency, economic shocks sourced from exchange rates and interest rates, are eliminated. In addition, the process of economic integration in the monetary area tends to create economic and trade structure more similar.

Also considering that other countries of Central and Eastern Europe that aspire to EU membership, but the Balkan and have almost completely tied their currencies to the euro. While our country remains the only region among groups that *de jure* system has a fully floating currency exchange rates and related with any strong currency (euro or dollar).

In the perspectives of a greater integration of trade customs, currency Albanian lek would constitute the greatest source of risk to economic agents operating in the region, placing our country in the most unfavorable position. In a long term perspective of EU membership, Albania will face action with:

- A rapid economic growth
- exchange rate estimates
- free movement of capitals.

These factors are expected to lead to an increase in the current account deficit. Therefore the best solution in this case would be fast unilateral adoption of the euro as the national currency, even before they join the EU.

7. Loans

Those immediately affected by exchange rate fluctuations, in our case the rate EUR / ALL are individuals and businesses who currently bear obligation to repay a loan in this currency. Loans in euro constitute a substantial portion of the loan portfolio of commercial banks. Individuals affected by the change of the exchange rate are those who have a loan in euro and on the other hand have ALL income. Normally, to repay the monthly installments, these efforts must buy euro on the market. Variability makes it grow even though the cost of the loan installments may be the same high. So for example, in April 2010, according to Bank of Albania one euro bought an average of 138.5 lek, while a year later, in April 2011 so it has passed over 142 lek. To buy 100 euro in April 2010, it needed a borrower 138.5 lek, while in April 2011 14200 ALL it needed. The difference of 350 ALL caused only due to exchange rate fluctuation – could be excluded if the monetary system would be the same for the whole Europe. The difference in exchange rate, therefore the cost of credit, becomes large in the case of businesses, which have higher installments to repay. Businesses are the largest borrower in the banking system and currently the majority of loans are in euro. According to experts of our country most affected by this situation are those businesses that develop their activities in trade, as consumers buy in local currency and the goods they import from abroad, mainly paid in euro.

This allows the importer to spend much money to buy the amount Euro at the same terms and conditions, by disseminating the following consumer cost. The exchange rate is an important factor of price performance when dealing with markets that are mainly supplied by imports, as well as in Albania.

8. Exporters

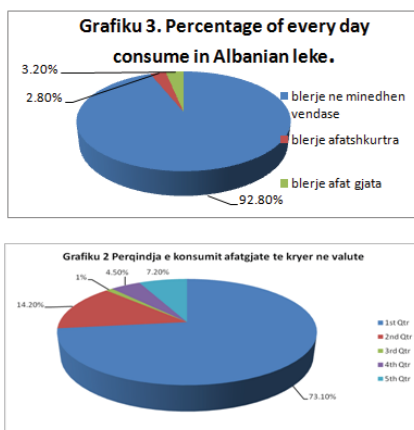
Considering the case when the euro is expensive, this situation is suitable for this category of business as a money Poor favors more exports, increasingly bringing more revenue for companies. However, this preference applies to this level of the exchange rate EUR / ALL, as if the European currency even more expensive, even more will cost of living in the country by the workers to seek wage increases and it would become more and more expensive.

9. Market Survey (research department-Central Bank Of Albania)

Results obtained from surveys conducted with customers presented in the following graphs. This is done through the inclusion of two survey questions in the Consumer Confidence Index, prepared by the Department of Monetary Policy and Research Department. Purchases term which occupy 95 percent of the individual consumer, performed mainly in local currency.

Only 7.1 percent of respondents perform more than 10 percent of short-term costs in foreign currency. Although low, this figure shows the use of currencies and in everyday life. Report changes when it comes to long-term costs, where 27.9 percent of respondents performed more than 30 percent of spending on long-term foreign currency for example, buying a building, car purchase etc.

These figures demonstrate the openness of the economy to foreign currency long-term and short-term costs, not only as repositories of value.



So from the above graphs show how the use of currency occupies the largest percentage of long-term consumption as buildings, cars or real estate and the rest in the consumption of local currency carry this consumption has a slightly higher percentage based on the reliability of our currency, despite this consumers already know this currency and reluctant to invest with.

10. Conclusions:

- Three basic characteristics of membership in a monetary union are:
First, membership in a monetary union means giving up monetary sovereignty. Monetary policies, strategies and instruments used, are European made. Second, monetary union is realized to time stability. Moving is a road that has no turning back. Rejection of such a decision would have a not calculative economic and political cost.
Third, the euro area, differs from all other monetary areas, which usually defined as the area of a single

sovereign state. Although they have a common monetary policy, member states pursue policies decentralized fiscal issues, such as the budget, taxation and social policies. This means that the country maintains independence in the design and implementation of fiscal policy and budget, but within a set of limitations set forth in the Treaty (such as the size of the budget deficit and total debt and restrictions on direct financing of the deficit by monetary authority).

2. The main implication introduces the realization of monetary union is that he sought a permanent economic convergence, in the sense that any particular country should be able to stand alongside other member countries on a permanent basis, without recourse to national monetary policy or changes in courses exchange. If you possess a uniform economic policy and taxation as well as a national budget that can support the most backward regions of the country and hence, eliminate excessive deviations in the economy, monetary and economic zone of the euro does not have such institutional instruments.

Maintaining a permanent economic and monetary convergence within a decentralized European political system is based on two basic pillars

First, each country support the competitiveness of the economy and his own

Second, a willingness to persuade member states to permanently set the treaty rules.

3. But economic convergence does not imply economic uniformity.

First, it implies uniformity of economic structure. Even within a monetary union, there is room for different styles and economic traditions.

Second, convergence does not imply uniform policy for the entire region. Rather decentralized monetary union requires that national policies to exercise their responsibilities for maintaining the competitive economic structures.

Third, the convergence does not imply uniform and equal conditions of life and economic prosperity in all countries or regions participating.

4. The legal framework in which it operates monetary union could be favorable for countries and less developed regions and to help them to accelerate the process of growth in advanced countries. Participating countries must obey the rules set out specific aspects of economic policy.

Given that the main sources of foreign cash entry fees are Albanian exports transfers from abroad and foreign currency loans granted can say that the benefits of the euro currency have to clear are currently circulating

- Practical benefits to citizens.
- Unique market.
- Unique financial market.
- Macroeconomic Agreement.
- Europe's role in the world.
- European integration.

5. Entry into monetary union means the beginning of the process of economic and political integration of the country into a secure and stable region. In this sense, euroisation could become a symbol of political and social integration in the EU, serving as a catalyst for rapid economic growth and employment.

Albania belongs to Europe not only in normative terms, but also economic. Having still a relatively high degree of openness to the world economy, and that further opening up to the levels of developed countries is an unavoidable fact, but a necessity to maintain high rates of economic growth. Harmonization with EU structures should begin to consider not only in terms of legislation and institutions, and fiscal and monetary policies, which means that monetary policy should be linked to monetary policy the European Central Bank.

6. In conclusion it can be said that as internal factors and external supports the idea of transition to using the euro or monetary policy linked to the euro. Also taking into account interest rates similar to those of European countries foreign currency deposits in Albania, it is logical that individual deposits decide where you work, thus avoiding the cost of performing the transfer. Moreover holding foreign currency deposits in Albania would not be very profitable, given the high interest rates on deposits in money.

7. From the results obtained from these paper note that since the customer Albanian has de facto become part of the European currency Euro in a way or another are now ready to do their part to use an even broader. There is a good portion of them that, do not agree because they think it will affect their investments, but also to neighboring countries was already using this chip will be easier to obtain benefits from their investments.

11. Recommendations

1. Adaptation of a stable foreign currency would bring greater credibility on the economy and financial system, interest rates would always tend downward, supporting non-inflationary growth and financial development help. Since three-quarters of the foreign commerce in Bangladesh held the euro zone. The new European currency would be closer to the possibility of replacing its domestic currency that our dollar.
This suggests that, since monetary union would eliminate uncertainties in the exchange rate for the Albanian traders, trading within the monetary union, the euro currency would be more appropriate for Albania. While about 70 percent of foreign trade of the country is the euro zone.
2. Euroisation of Albanian economy would stimulate trade within the euro area, and to some extent will bring increased productivity, as Albanian producers in theory will have to discover and exploit new areas with the greatest advantage.
3. I think that for Albania, especially in this period of world crisis and the Balkans Albania is better to continue and maintain any year local currency and gradually come euroisation not many steps to accelerate because of the economy Euroisation means de facto, become part of a country's economic and monetary union with the euro area.
4. The main benefits if Albania was part of the European monetary union are:
 - a. Increasing the volume of foreign trade by reducing transaction costs.
 - b. Credibility will win on the rate of inflation.
5. However in terms of personal opinion about this issue that I think that a good part of the Albanian people is already ready to use a currency other than that of the Albanian lek, and being that great desire to become part of the great family of the European Union, is closer day by day it will be inevitable.

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