

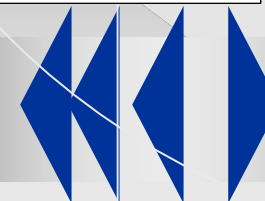
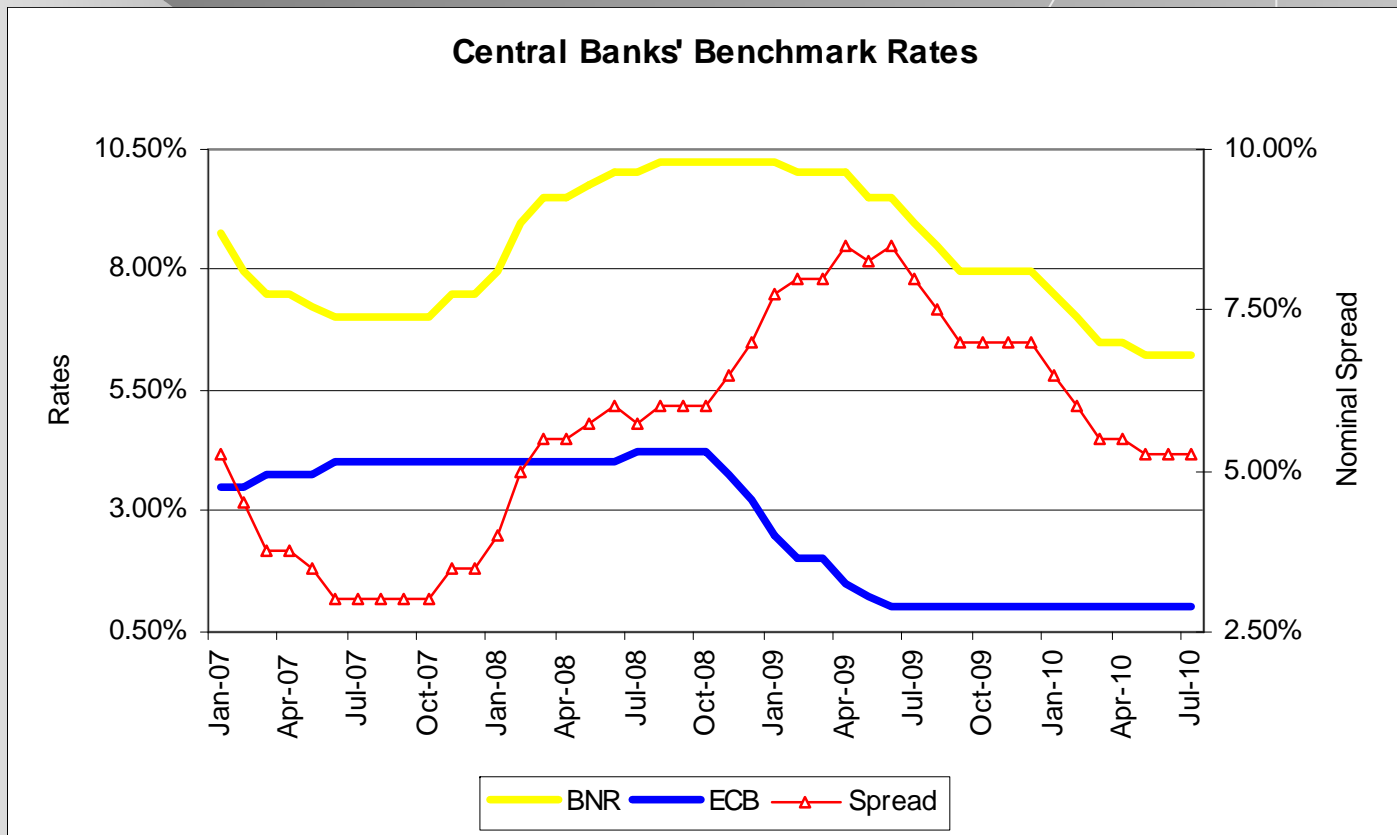
# *Pros & Cons of EUR Adoption*

Bucharest  
September 23, 2010

**Tony lordache**

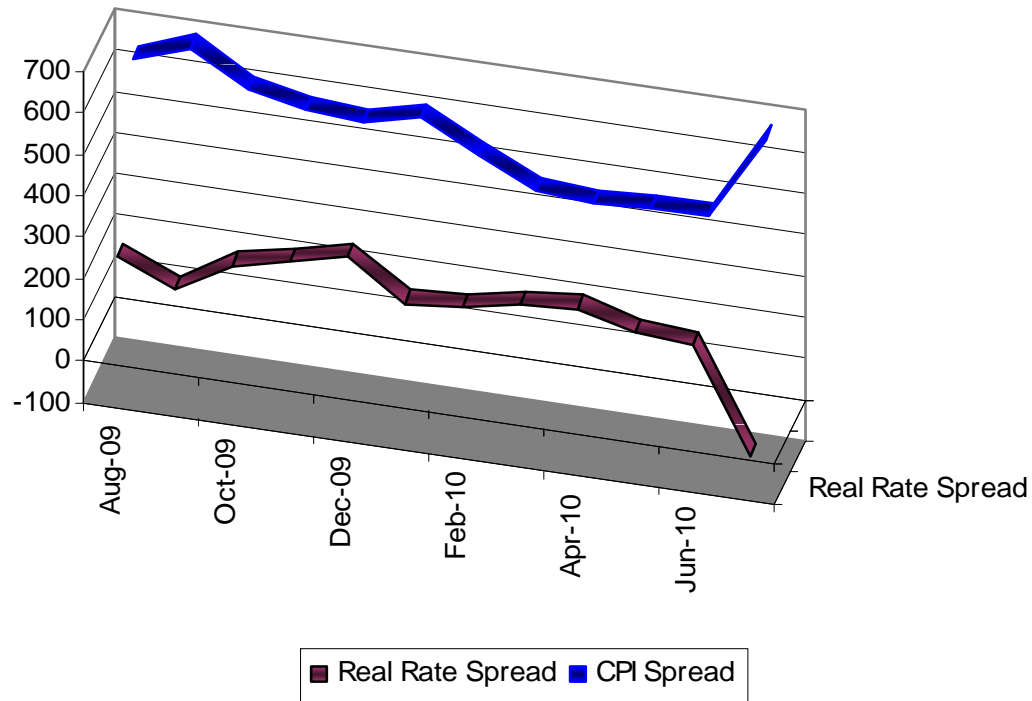


# Maastricht Convergence Criteria

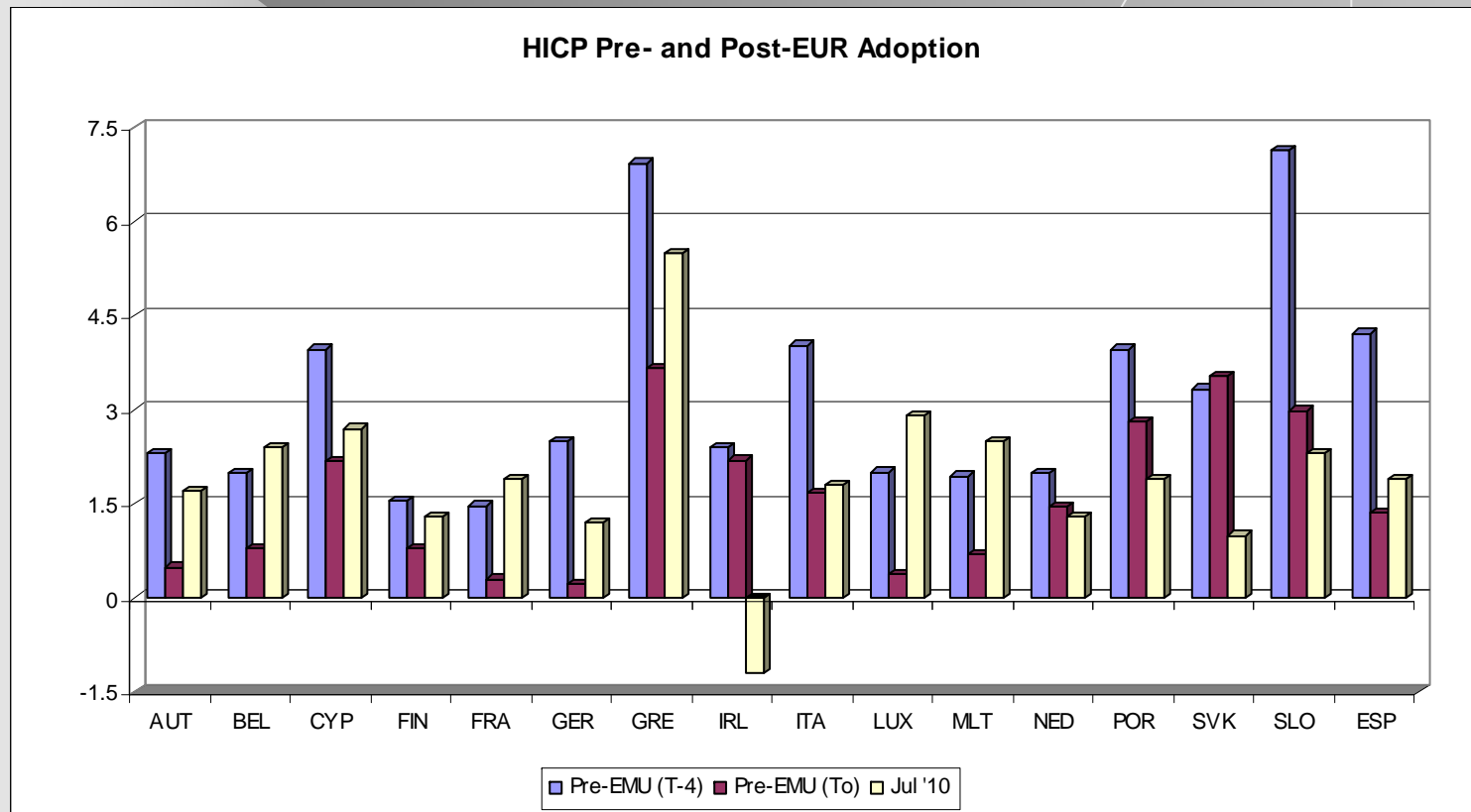


# Maastricht Convergence Criteria

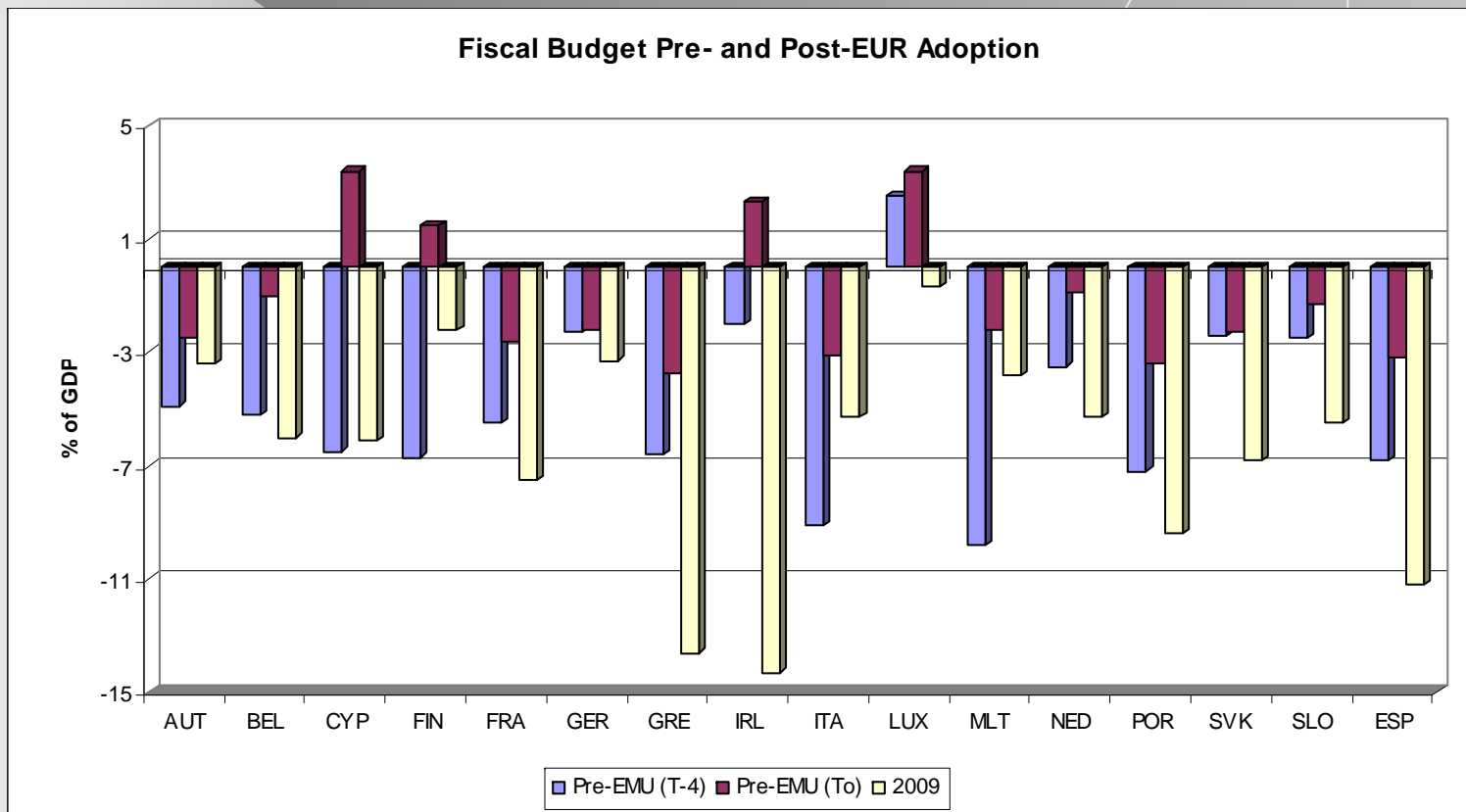
RO vs. EU-16 Real Rate Spread & RO vs. Top 3 CPI Spread



## Maastricht Convergence Criteria



## Maastricht Convergence Criteria



# Cost-Benefit Analysis

- ◆ Do the marginal benefits outweigh the marginal costs?
  - ◆ (+) eliminating FX risk/volatility/hedging
  - ◆ (+) MM rates will converge toward EU average rate (table #1)
  - ◆ (+) long-term increased trading volume (table #2)
  - ◆ (+) increased capital inflow – VC & FDI (table #2)
  - ◆ (+) long-term strong income growth
  - ◆ (+) fiscal policy discipline
  - ◆ (+) no more NBR interventions on the FX markets
  - ◆ (+) opening the doors for accessing the capital markets, including the credit markets (private and public entities)
  - ◆ (+) the budget ALM will have to be addressed and ultimately fixed
  - ◆ (+) a substantial increase in market competitiveness (Ottaviano, Taglioni and Di Mauro, 2009)



# Cost-Benefit Analysis

Table #1: Spreads MM Rates ESP/POR/GRE vs. EU

[bps]	Pre-EMU (T-3)	Pre-EMU (T-2)	Pre-EMU (T-1)	EMU (T1)
Spain	273	124	51	-25
Portugal	246	153	51	-26
Greece	647	533	181	11

Source: Industrial and Financial Systems (IFS)

Table #2: FDI/Exports Annual Growth Rates

[%]	FDI Growth Rate		Exports Growth Rate	
	Pre-EMU (T-t)	EMU (t)	Pre-EMU (T-t)	EMU (t)
Spain (t=3)	3.2	19.5	3.1	3.7
Portugal (t=3)	8.6	16	7.8	4.6
Greece (t=2)	6.1	5.5	0.1	-0.8

Source: Industrial and Financial Systems (IFS), National Central Banks



## Cost-Benefit Analysis

- ◆ Do the marginal benefits outweigh the marginal costs?
  - ◆ (-) relinquishing own monetary policy will leave little maneuvering power in case of an economic downturn
  - ◆ (-) susceptibility to asymmetric shocks or asynchronized cycles
  - ◆ (-) the contagion effect that could lead to massive capital outflows and hence to a Capital Account vulnerability
  - ◆ (-) a short-term credit boom could resurge and a property bubble could follow
  - ◆ (-) short-term post adoption inflation will hurt consumer spending
  - ◆ (-) no guaranteed immediate positive effect on funding the fiscal deficit and on servicing the running debt
  - ◆ (-) if fiscal policies are deficient, the capital outflow could accelerate



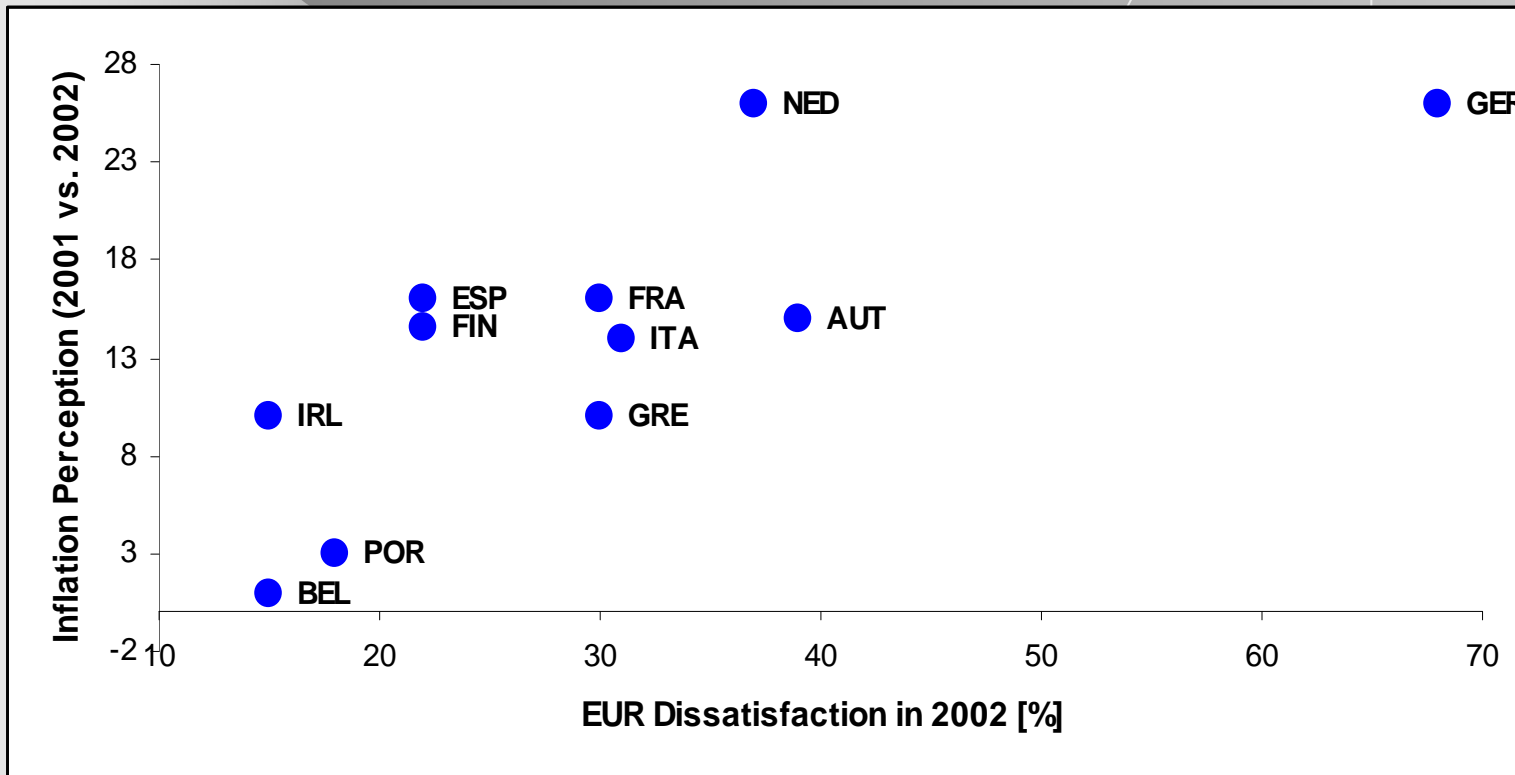


# Macroeconomic Analysis

- ◆ When monetary policy is not appropriate, the impact of interest rates on GDP and CPI will run under the EMU average (S/T) and due to the strengthening of the domestic financial markets, the IR sensitivity on GDP and CPI will converge toward EMU norm (L/T)
- ◆ Initially, the number of the domestic financial institutions will drop, as both Net Interest Income (IR spread) and Net Non-Interest Income (Fees & Commissions) will be under pressure
- ◆ Initially, the inflation expectation gap will remain high, but a couple of years into EMU, the effect will prove to be a temporary bump (see chart)
- ◆ Price transparency across EMU banking sector will shift the bargaining power more toward banks' clients (retail and corporate)
- ◆ Banks will increase their Market Securities activities, they will diversify the lending offerings and M&A activity



## Macroeconomic Analysis



## Credit Market Analysis

