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# POSSIBLE RISKS OF THE WITHDRAWAL OF A MEMBER STATE FROM THE EUROZONE

Theoretical  
article

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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, about the possibility of the avoiding the member State position, the present paper will propose, as analyzing 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 is 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 founds;*
- a very important risk which also have the character of a political risk and which have an important position being a source of complex and difficult European macroeconomic problems and also which could become the precedent thus created towards other member states possible process of avoiding the member state position.*

## INTRODUCTION

Given the current situation of the Euro area, the Member States follow all the announced macroeconomic issues by taking into account also the scenario of the submission of the request for the withdrawal from the Eurozone; this analysis will highlight the main points of the impact on the economies of the other Member States of the European Union.

The main macroeconomic risks associated with such withdrawal from a Euro area of any of the Member States, even where this withdrawal option is checked, are as follows:

- the Internationally Euro devaluation, as a consequence of such obtained economic instability of the euro area;
- the reduction of the single European budget revenues;
- the reduction of the contributions to the turnover of the European Central Bank;
- a risk that has a character of political risk but either being a profound macroeconomic consequences is the precedent that will be set up by the named situation so that could be followed by any other Member State in the direction of withdrawal from the Eurozone.

### 1. GENERAL VIEW OF THIS STUDY APPROACH

Analysis approach is concentrated on the risks given as follows:

- at the moment of this analysis, the withdrawal from the Euro area of a Member State is not the result of any decision by any of the Member States neither or of any recommendations from the European Union, that will be treated as a possibility;
- the key elements impact on the economies of other European Union Member States becomes, as the possible embodiments of such scenario, already presented as a risk which is possible to become associated with variations constituted as scenarios and on which is possible or not to intervene in national economic policy measures or European ones. Considering this aspect, the defining character of this study is taken into account, as a continuation of the present analysis, by monitoring the problem of possible withdrawals of some Member States from the Euro area and deeper analysis takes, as input

data, the results of this study, corresponding concrete with the data regarding both the future position of those Member States in relation to the Euro area and the positions of other EU Member States or administration towards any risks that could result from such a process.

### 2. IMPORTANT MACROECONOMIC RISKS THAT COULD INFLUENCE OTHER MEMBER STATES SAVINGS SITUATION LIKELY THE WITHDRAWALS FROM THE EURO AREA

The options in relation to the position of the Member States which take into account the scenario of the withdrawal from the Eurozone might be as follows:

- a controlled retire and also accompanied by the national administration, in cooperation with the European Union one; in such case, the elements of the common business processes may occur, in the absence of such administration formula, the EU shocks on the economy, which consequently affect the European national economies - effects transmitted through multiple paths available due to the development of the European integration;
- further the European integration process and therefore the presence of the Eurozone;
- the possibility of the withdrawal, in the formula of an uncontrolled exit, from the Eurozone of a Member State is considered, in the sense of this study, excluded because it considers that a decision in this area, from any Member States, should be associated with an appropriate cooperation from the European Union, the main motivation being the avoidance of any severe macroeconomic shocks in the Union. Therefore, this analysis will take into account, as an input data, the following:
- the controlled withdrawal, accompanied by the administration concerning, in cooperation with the European Union, the elements of the common business processes;
- based on European and national macroeconomic policies, the European

national economies, in the direction of the risk management, could arise from this process controlled removal of the Eurozone member states.

For the present purposes, the term "controlled withdrawal" refers to the following controls:

- the Member State concerned, in the direction of the management of the potential risks, that could produce effects on the national economy in this process, may involve the EU or national economies in major macroeconomic risks;
- the Member State concerned, in cooperation with the European Union towards the risk management objective, could produce low effects on the national economies of the European Union.

The main macroeconomic risks, associated with the withdrawal from the Euro area of a Member State, even where this withdrawal option is checked, are:

- the internationally Euro devaluation, as a consequence of the economic instability of the Euro area: this risk could be considered, in the sense of this study, as a potential risk, even if the presence of a controlled withdrawal from the Euro area takes into account the following aspects:

- a low level of the predictability of international economic conjuncture, not only at the economic level;

- the level of predictability affected substantially by the lower level of the predictability; in such a situation, influenced by the economic behaviour of the main elements of the economy development;

- in the sense of this study is considered that the current macroeconomic problems, associated with the current international circumstances, are associated with the availability of macroeconomic policies towards the control of a highly complex process as the withdrawal of a member from the Eurozone, or from the political objective expressed in the direction that the withdrawal control of the Euro area for the named Member State may not be at 100%; in such situation could be sustained the economic potential to implement this policy willful, especially given the serious macroeconomic problems of the Member States, especially by taking into account the withdrawal scenario Eurozone - problems that have their source in the high level of the indebtedness of the national economy and also in the very low potential to

the support of this level of the debt results of the national economy;

- the reduction of the single European budget revenues will certainly reduce the future amounts of funding meant to continue the process of the European integration, especially taking into consideration a medium term; however, it is possible to identify a source of funding to balance this potential reduction of funds but is possible, in such formula, that the expenses will be greater;

- the reduction of these contributions to the turnover of the European Central Bank, will reduce the future amounts of funding meant to conduct the ECB open-market operations, also like the previous case, having in mind medium and long term; however, it is possible to identify a source of funding to balance this funding reduction potential and also the expenses could be greater;

- a risk that also has a character of a political risk but with profound macroeconomic consequences is the precedent that could be set up by any other Member State in the direction of the withdrawal from the Eurozone, especially taking into consideration that were already announced similar intentions from several Member States – this potential risk could enforce the already mentioned risk elements and could also rise serious problems further to the European integration process development.

**As a first conclusion**, the Romanian economy and generally speaking the economy of any of the Member States of the European Union, should, primarily, remember the potential risk of depreciation of the Euro. In a first approximation, such as risk could be perceived as an advantage that could be achieved through foreign trade operations. This study refutes this idea given the following:

- in such a situation, it is possible that both policies levels, namely at the microeconomic level and the Eurozone one should contribute to the macroeconomic consolidation towards a financial quotation export prices to improve the financial stability of such contracts; such as measure is considered, from the perspective of this study, as an imperative in order to ensure appropriate economic results of operations for export;

- Romania's monetary policy itself and generally speaking any national monetary policy is likely to move towards the direction of creating a new currency basket as a

consequence of the need to increase the stability of the currency in the approach to macroeconomic policy, especially by taking into view that in a situation of a potential instability, the possibility of a targeted approach to monetary policy directed towards the exchange rate would be impossible. Consequently, the risk of a first withdrawal from a Euro area of a Member State, even in the controlled variable, would be a reason of the Euro devaluation, which could have the following effects on European economies:

- losses from exchange differences on various trade and financial agreements;
- the need for review of the currency basket by the monetary policy, specifying that this effect would be associated with a flare only in the situation of the internationally instability of the euro;
- a second risk of the withdrawal of a Member State from the Euro area, even in the controlled formula, could be considered the following scenarios:
  - the scenario on an eventual withdrawal of the investments of the Member State in other EU countries as a result of leaving the Eurozone member state is considered, in the sense of the present study, as unrealistic scenario at this time because the European economies offers more opportunities than the economies of the mentioned scenario and the withdrawing from the Euro area, in such a situation, of the microeconomic policies will be geared towards protecting capital and ensuring conduct further business;
  - the scenario on an eventual sale of business failure that Member State in other European countries to other investors, as it is considered to be unrealistic for the same reasons listed in the previous paragraph; as a plus, the currency and the financial instability are predictable and does not favor such transactions, or microeconomic policies, so, are unlikely to be directed in such directions.

### **3. PROBLEMS REGARDING THE ACTUAL EUROPEAN SITUATION**

The current international macroeconomic situation revealed the following main problems within the European Union:

- the high level of heterogeneity of the composing from different national macroeconomic entities in relation with the

depth and speed of the process of European integration - reason why it was not yet possible to establish a regional structure with an administrative capacity able to administer the risks, shocks and macroeconomic effects due to situations like the economic crises, or to allow the member states to establish their own operational national systems of the macroeconomic administration. This would join the institutional and politic characters, which would compel the national states to get ready for the upper stages of the process of integration;

- in the acceptance of this analysis, these duties should be sized in an agreement with the structural economic and social characteristics specific to each member state;

- lack of a program for the consolidation of the national macroeconomic administrative systems, which would allow the establishment of a consolidated regional administrative system by correlating the time and speed coordinates of the process of integration with the specific economic and social elements of each member state; this consolidated regional administrative system would be dimensioned in the agreement with the administrative necessities resulting from the common problems, in relation with the depth of the process of the European integration;

- existence of administrative deficiencies within the European institutions - deficiencies that support the perpetuation of the insufficient administrative capacity:

- lack of the function of banking monitoring within the European system of the Central Banks;

- insufficient administrative capacity of the function of control of the budgetary execution;

- insufficient correlation of the decisions regarding the destination of the funds from the unique budget with the actual requirements of enhancing the competitiveness of some economic and social sectors;

- insufficient preparation of the accession states and of the member states to approach important stages of the process of European integration (such as: insufficient pre-accession readying of the business environment in order to improve the absorption rate of the European funds; such as: insufficient post-accession readying of the business environment in order to assimilate the community acquires; insufficient preparation of

the local public administration institutions to improve the absorption rate of the European funds). The main consequence of this aspect is the appearance of the transmission channels for asymmetric shocks, additional to those associated to the program of regional integration;

- failing to consider the level of the heterogeneity of the existing and potential member states – level of heterogeneity that should be correlated with the depth and stages of the process of the European integration; consequently, the macroeconomic heterogeneity of the member states induce, within the regional system, effects that are propagated by the associated transmission channels, and which generate secondary effects that were multiplied by the current conjuncture.

The main result of this situation is the insufficient administrative capacity both at the European and at the national level, becoming a real problem to manage the current macroeconomic situation, with the resulting consequences.

Thus, the present moment is associated, macroeconomically, with the priority of the administration to administrate the effects generated by the current international conjuncture; under the current given conditions of the administrative organisation of the European Union; this administrative issue has to be tackled both at the regional and at the national level.

From this perspective, it appears necessary to review the progress of the process of the European integration; particularly since the processes of the administration of the current macroeconomic situation, to be implemented, presume drawing up programs of macroeconomic policies specific to the characteristic situation of each member state, both in terms of macroeconomic specificity and in terms of the elements delineating the evolution of the present conjuncture within the national boundaries.

Thus, in the acceptance of this analysis, we propose the prioritizing, both at the regional and at the national scale, as the main objective of any administration program of the current macroeconomic situation; the secondary objectives would be the elimination of all risk factors by decreasing the system of the transmission channels for the macroeconomic shocks and effects within the regional system

to the normal level associated to the process of the European integration. Next, the future progress of the process of the European integration must be reviewed in terms of:

- setting the stages;
- setting the depth of the process.

Starting from the administrative pattern presented earlier, these coordinates will depend mainly on the number of the multitudes composing the regional system and also on the level of heterogeneity associated to this pattern.

In the acceptance of this analysis, the current macroeconomic stage of the process of the European integration is due mainly to the fact that the political decision-making factor has been considered – and has therefore acted accordingly – as having a higher importance than the macroeconomic decision-making factor.

Starting from this aspect, as a possible solution for the sustainable evolution of any macroeconomic system, could be proposed the establishment of a consolidated decision-making fundament, by the establishment, at the institutional and conceptual levels, of a medium of cooperation between the political decision-making factor and the macroeconomic decision-making factor, as essential factors, reciprocally independent and with equal weight, of the economic-social evolution.

#### 4. CONCLUSIONS

Given the present analysis, the only risk to European economies, related to a possible withdrawal, from the Euro area, of a Member State, even in the controlled formula, would be Euro devaluation.

Where such a journey of that Member State will prove to be a precedent followed by other Member States of the European Economic and Monetary Union, the European single currency depreciation risk is already becoming a major risk that changes in foreign exchange risk of instability and which is likely to cause risk of financial instability, especially given that the macroeconomic and microeconomic policies have a sufficient degree of manageability of these risks at this level before being considered likely to occur risks of depreciation and other macroeconomic indicators that are talking about general macroeconomic instability. Moreover, the rising of such a risk, namely the

withdrawal of several Eurozone Member States, generates a substantial reduction of the potential of the European Economic and Monetary Union support through macroeconomic policies and also of the further process of the integration process - the only variant ensuring the macroeconomic stability and performance standards made - creating, in this way, the depreciation of the general situation of the macroeconomic level, which can reduce the amount associated with international investments in the Union with substantial consequences for the achievement of the Union macroeconomic indicators. Worsening risks listed could be produced also by the current international macroeconomic situation - a situation that, from the perspective of this analysis, there is not an economic crisis, as the economic crisis is defined by the theory, but has symptoms of an economic crisis but because, in the past 20 to 30 years of the actual economic development, the administrative capacity of the macroeconomic system was substantially outstripped by the capacity of the system development of the real economy, leading to failures following macroeconomic model: economic and social development based on perfect cooperation (space-time dimension) between the macroeconomic administrative system – as the coordinating factor and the real economy – as the motor factor - failures which perpetuates, generated the emergence of macroeconomic imbalances, which in turn perpetuates, generated related situations like symptoms of economic crisis - situations that, in turn, can generate, by perpetuating deep crisis. As a general matter, such administrative crisis prospects for generating specific crises in the first stage, as the financial-monetary system is one of the first receiver of the crisis effects, which in turn can generate specific areas of supply and demand crisis.

**As final conclusion**, the current pattern of the European Union must be reviewed and redesigned so as to ensure a correspondence between the current and potential resources on the one hand, and the assumed objective, on the other hand. The current functional deficiencies of the macroeconomic system of the European Union have been also emphasised by the risk phenomena at the international macroeconomic level, in the absence of which the designed pattern would have had a higher probability of

implementation with a much lower degree of erosion.

## 5. PROPOSAL AND RECOMMENDATIONS

From the perspective of this analysis, it draws attention to the potential increased risk of worsening the international macroeconomic risks, especially having in mind the actual situation, overlapping insufficient administrative capacity of the system and macroeconomic policies that situation, in turn, produces a very low level of predictability . In such situation it is considered necessary to enhance the system capacity associated macroeconomic policies so that the appropriate management should become a complex level of current and future international economic relations - that has a complex network of channels for transmitting appropriate macroeconomic shocks.

For the specific case of the problem considered, it is recommended the permanent monitoring activity of the performance of increase further the integration process of the European Economic and Monetary Union, combined with the flexible approach of the national macroeconomic policies in order to prioritize the national interests for maintaining of a sustainable state by taking about the national economy in the current international circumstances. Such an approach is considered, in the sense of this study, as a performance formula for a performance continuation of the process of the European integration, which must be associated with the national levels accumulation of features stability, balance and sustainability which gives the potential to build together the Union macroeconomic and social process.

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### **Biographical references**

I am an economist with PhD in economics in 2006, with experience in research activities in the financial and monetary fields and also with experience in banking, finance and international trade; my main areas of professional interest are: macroeconomics - the system of macroeconomic policies, management and banking strategy, investments management, bank risks administration.