

The euro's challenge to the dollar

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Sur Supervisor The Euro' Challenge to the Dollar The Euro began its journey on January 1999 when 11 original Member s from Europe agreed to float a common currency. Currently, Euro is the official currency of the 17 euro area countries with a population of 330 million. The European Central Bank (ECB) is responsible in managing the monetary aspects pertaining to the Euro. The currency was floated with an aim to integrate European states politically and economically. A single currency facilitates trade across the European Union eliminating currency exchange costs; it also protects the area from the external economic shocks such as turbulence in the currency markets and crude oil prices. The paper attempts to find out whether the Euro can challenge the US dollar in the coming years and replace it as the reserved currency. A leading international currency that belongs to a dominant economy (country) is known to have the following characteristics (Winecoff).

1. The dominant country behaves as a creditor to other nations.
2. The dominant economy means a large volume of trade with other countries.
3. The currency must maintain its value without violent fluctuations because that creates uncertainty in the business transactions.
4. There has to be an open, fluid and deep market in the currency.

During most part of the time after WWII, the US dollar has been seen fulfilling above conditions. During 80s, Japanese yen and German marks appeared to pose a challenge to the US dollar; however, the threat could not sustain for a long period of time for various reasons. By the turn of last millennia, German mark got merged into Euro and then, for some time, it appeared that Euro could pose a serious threat to the US dollar. However, the Euro can really challenge the US dollar or not will largely depend upon two major factors: how other states in the

European Union decide to join Euro land, especially the UK; and secondly, how macroeconomic policy parameters in the US dictate the journey of the US dollar in reference to its value against other currencies (Chinne & Frankel). In other words, the question is how much confidence the world community will repose in the US economy and its currency in the coming years. Needless to say that Euro's own performance is equally important in providing economic stability in the European Union that will continue to expand over time. It is important to note that even after more than a decade of the Euro launching, some of the major Member States of the European Union that include Britain, Denmark and Sweden has preferred not to adopt the Euro as their currency. Currently, the Europe is passing under unprecedented financial crisis and economic recession that began during 2008 has created huge economic turmoil in the countries such as Greece, Spain and Italy that form a part of European Union (European Commission). The Euro zone has plunged into a crisis due to some of its member countries violating fiscal measures with huge deficit spending for political gains. For example, Greece's sovereign debt crisis had its roots in its massive spending through huge deficit budgeting, misreporting, and economic mismanagement. In 2010 Greece was provided with a bailout package to the tune of \$163 by the European Central Bank; however, that was not enough to rescue the nation. Greece was provided with another bailout package in 2011 to the tune of \$178 billion along with the deal that forced private parties to write-down the Greek debt; however, that was not enough and terms were again altered in 2012. So is the case with Ireland and Portugal, Italy and Spain (Alessi). The ongoing crisis has eliminated the possibility of

the UK entering into the Euroland for at least couple of years until the crisis gets resolved and the Euro gets stabilized with an international perception that the euro will be able to maintain its value. Low inflation rate is another criterion for becoming a reserve currency and that, of course, is not uniformly met in entire Euro zone (Chinne & Frankel). The countries such as Italy, Spain, Greece, Ireland and several other rising economies within the Euro Zone face a high rate of inflation. Euro is not fit as a leading currency to challenge the US dollar from this criterion as well. Euro can provide deep and efficient market mechanism with respect to all major currencies of the world; however, euro zone's macroeconomic stability is still questionable due to ongoing financial crisis. It will take at least couple of years before they could provide a stable exchange rate. Conclusion Thus, it is amply clear that ongoing debt crisis in Euro zone has dampened any possibility of the Euro becoming a reserve currency replacing the US dollar. It is true that the US experiences some of the issues such as rising negative trade with some of the countries such as China, Japan yet its dollar has not lost its formidable clout on the world market. It is unlikely that the Euro can challenge the US dollar in coming years. Works-Cited Alessi, Christopher. "The Eurozone in Crisis. Council on Foreign Relations." Web. 14 November, 2013. <http://www.cfr.org/world/eurozone-crisis/p22055> European Commission. "Economic and Financial Affairs." Web. 14 November, 2013. http://ec.europa.eu/economy_finance/euro/ Chinne, Menzie; Frankel, Jeffrey. "Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency?" The National Bureau of Economic Research. Web. 14 November, 2013. <http://www.nber.org/papers/w11510> Winecoff, Kindred. "Why The Dollar's

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