

Costs and benefits of poland joining the european monetary union



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European monetary union is based on the assumptions of presence of fixed exchange rate, free movement of capital and coordinate monetary policy. Fixed exchange rates are preferred by producers and consumers of the European economy, since the economy becomes more predictable. In such market conditions, it is easier to foresee the future and plan the actions that are to be taken up in the future. The second assumption - free movement of capital - is crucial for optimizing the use of capital and for enlarging the benefits that come from it.

The third assumption is coordinate monetary policy; its role is vital in creating monetary union, since it ensures that the countries participating in the union have the same aims and together strive to make the union work for the benefit of every single country. Firstly, I would like to concentrate on the benefits of introducing Euro. The implementation of a fixed exchange rate brings about the end of currency or currencies instability. There are no more fluctuations and because many countries are in the union, the money used is much more stable.

Thanks to this, the economies are more resistant to speculations. This in turn helps the consumers and producers because they do not need to worry about the changes in prices caused by flexible exchange rates. Secondly, when it comes to international trade, it is easier to predict future market and implement necessary changes, make adjustments and obviously decrease the costs. For instance, companies which trade internationally need not spend extra money on administrative costs of accounting for currency fluctuations. Lower costs lead to growth and development of those companies.

Thirdly, when there is a single currency there is no need for hedging, this particular precaution is taken by companies that have to protect themselves from the unfavorable effects of flexible exchange rates. Hedging is obviously costly, so if it can be avoided the companies are better off. In other words, the companies do not need to protect themselves from losses that come from exchange rates fluctuations, because there are fixed exchange rates. The resource allocation is also much better if the prices are fixed. When it comes to benefits for regular people, they are easily seen when travelling.

There are no extra fees for exchanging money. The prices are similar or at least they are supposed to be similar, In the future the wages perhaps would be similar in different countries. The important fact for the clients is that they can easily compare prices across countries and choose the best offers from the whole Euro zone. When it comes to inflation the goal of the governing European Central Bank is to keep it low (lower than 2%). This might help the countries which have high inflation to maintain it on the reasonable levels. However, it is disputable if it is solely an advantage.

On the other hand there are many threats and disadvantages of single currency. The countries that are in the euro zone are diverse and have different economic performances, which are a threat, since there might not be one 'suitable for all' monetary policy. Every single country is at the different stage of the economic cycle, some of the countries experience rapid growth and would prefer higher interest rates, whereas other countries choose stable and slow growth. Because of this it is not possible to choose the best solution for all of the countries.

Some of them will lose and some of them will gain, at least by the time the common policy has been implemented. But problems appear at the very beginning, the change of currency is a cost itself, since changing coins and banknotes is expensive, but this is not all. The machines used in banks and shops have to be adjusted for the new currency. It is a huge cost but once it is paid there is no need to worry about it any longer. Another disadvantage of introducing Euro is that the countries lose their independence when it comes to fiscal policy.

No country in the Euro zone is allowed to have higher debt than 3% of its GDP, this might cause the slow downs of the countries experiencing rapid growths. What is more the tool of exchange rate is no longer usable; the countries governments may not help their trade by lowering or increasing exchange rates. This method is disputable since the effects are temporary and it also takes some time for the mechanisms to work. The inflation rate is no longer dependant on the country and the adjustment mechanisms for asymmetric real shocks is not available.

When it comes to the asymmetric shocks they might be avoided by movement of the labor, but it is not easy within the European community that speaks many languages and has no common language. By common language I understand a language which every single member of EU speaks fluently. Another reason against introducing common currency is that it enables the transfers of monetary shocks across countries.

If there is only one currency in the country it can protect itself against the negative effects of the crisis that is present in another country, a great example of this I Poland which did not feel the crisis of 2007 as fast and

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severely as the Euro zone countries. Summing up, there are many benefits of joining Euro zone. The most important ones are: the reduction of the risks connected with flexible exchange rate, and thus creating stability within Europe. The growth that comes from favorable market conditions and the benefits for regular people, such as a possibility to travel without having to worry about additional costs connected with exchanging money.

The benefits for the companies which need not to worry about the additional costs that accompanied accounting for flexible exchange rates, and the time spend on it. When it comes to the disadvantages the most prominent one is surely the lack of independence of countries, when it comes to creating monetary policy. The other threat is the fact that it is easy to transfer monetary shocks very easily in a single currency zone. In my personal view, the benefits in long run should outweigh the costs. Therefore I am for, when it comes to joining the Euro zone.