

УДК 339.743.053

**FROM EUROSATION TO DOLLARISATION: THE PERSPECTIVE OF
EURO FOR U.S. DOLLAR SUBSTITUTION IN EUROLAND**

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The article defines the main reasons of Euro destabilization on the world currency market, analyses the correlation between them and the exchange rate of the given currency. It reviews the perspectives of Euro to U.S. dollar substitution in Euroland countries based on the above mentioned analyses and taking into account statistic data accordingly.

Key words: Euro, U.S. dollar, Euroland, currency substitution, dollarization.

Кандидат економічних наук, Полетаєв О.О., студентка III курсу факультету економічних наук Шевцова О.С. Від євросзації до доларизації: перспективи заміщення євро долларом США в євросоні / Чорноморський державний університет імені Петра Могили, Україна, Миколаїв

У статті визначено основні причини дестабілізації євро на світовому валютному ринку, проаналізовано взаємозв'язок між ними та курсом даної валюти. На основі проведеного аналізу та з урахуванням обробленої статистичної інформації узагальнено перспективи валютного заміщення євро долларом США в країнах Євросоні.

Ключові слова: євро, доллар США, Євросона, валютне заміщення, доларизація.

Кандидат економічних наук, Полетаєв А.А., студентка III курсу факультета економічних наук Шевцова О.С. От євросзації к долларизації:

перспективы замещения евро долларом США в еврозоне / Черноморский государственный университет имени Петра Могили, Украина, Николаев

В статье определены основные причины дестабилизации евро на мировом валютном рынке, проанализирована взаимосвязь между ними и курсом данной валюты. На основе проведенного анализа и с учетом обработанной статистической информации обобщены перспективы валютного замещения евро долларом США в странах Еврозоны.

Ключевые слова: евро, доллар США, Еврозона, валютное замещение, долларизация.

Introduction. The recent Euro to U.S. dollar exchange rate researches emphasize the possible collapse of the Euroland currency. As Euro started to drop down in March 2014 [6], the currency market reacted with an obvious response: the demand for Euro declined.

The problem of Euro-U.S. dollar substitution is of a current interest in the European Union countries: as the citizens lose their trust to Euro, they start to search for a more stable currency for their savings. As a result, the Euroland currency will continue to be replaced by dollar and drop down in value rashly [4].

The world globalization has got a new trade called “dollarization” recently. Over the last year, the US dollar strengthened to be the most widespread and stable currency [2]. As the Euro rate goes down, the dollarization level increases in all of the EU counties, that may lead to their official dollarization in future.

The analysis of recent research and publications. The given question of Euro to U.S. dollar substitution has been investigated in the works by T. Balino, A. Bennett, E. Borenszein, E. Berg, E. L. Feige, M. Faulend, V. Šonje, V. Šošić T. Stubbington and other.

However the above-mentioned works are poorly aimed at the problems of Euro-U.S. dollar substitution. There are no fundamental investigations in this area yet, though the statistic basis is open enough for the research.

Setting the objective. The purpose of the article is to define the perspective of Euro to U.S. dollar currency substitution in EU countries.

The tasks of the research are:

- a) to define the reasons of Euro to U.S. dollar exchange rate destabilization;
- b) to analyze the perspective of Euro to U.S. dollar currency substitution in European Union countries.

The main material of research. Historically, Euro was created by European countries as a dollar substitute: the European Union needed to be independent on USA currency and strengthen the relations between member-countries. Therefore, the Euro area or Euroland was to created. The new currency was introduced as a means of payment in January 1999 in eleven countries: Austria, Belgium, Germany, Holland, Ireland, Italy, Luxembourg, Portugal, Finland, and France. Then, in January 2001, Greece joined the Euro-system, in 2014 – Latvia and Lithuania. The original Euro to U.S. dollar rate was fixed at $1 \text{ EUR} = 1,736 \text{ USD}$ or $1 \text{ USD} = 1,6665 \text{ DEM}$.

However, Euro had no currency notes or coins till the end of 2001. One could open a bank account in Euro, but it was impossible to get the cash. Banknotes and coins were transferred at a rigidly fixed rate and then paid in local currency, It was also possible to use Euro currency credit cards in stores. Euro banknotes and coins were put into circulation in January 2002.

To ensure the stability of Euro, all member-countries of monetary union had to correspond to the strict stability criteria, enshrined in the Maastricht Treaty. When the official Euro currency was set, it started to drive other currencies out (in Euroland countries), first of all – U.S. dollar, the main competitor. The monetary politics of the European Central Bank was directed to increasing Euro to U.S. dollar exchange rate. The main goal was achieved in November 2002, when Euro reached 1,0021 comparing to U.S. dollar.



Picture 1. The EUR to USD historical exchange rate

As it is shown on Picture 1, Euro has been growing up to July 2008, then it was destabilized by the global financial crisis. Finally, Euro started to fall continuously in the beginning of 2014.

The possible reasons for Euro destabilization are next [8]:

1. The differently oriented policy of two world major central banks.

It is expected that FRS will increase the interest rate this summer from 0,25 % to get rid of “cheap money”. At the same time the European Central Bank (ECB) floods the economy with money in order to persuade that inflation will raise in the future, thereby reducing expected real long-term interest rates.

2. The negative impact of recent sanctions.

It is also worth mentioning the European Union’s sanctions against Russia, as well as retaliatory sanctions Russia, as one of the reasons for the Euro exchange rate fall over the past year. All these actions have narrowed the market for European goods and services and led to rise in prices of many export commodities, stimulating the deflation and fall of GDP.

3. The intent of Greece to leave Euroland and bring back the national currency (drachma) into circulation.

It is already expected that the demand for Euro is to decrease with this monetary reform of the Greek government. Greece will exclude using Euro in all

kinds of settlements, which means that a big amount of money supply will be roughly thrown back from the country. As a result, unclaimed Euro may become cheaper.

4. The risk of deflation in Germany.

Many scientists connect the current Euro destabilization with the negative inflation rate in Germany – one of the most powerful countries in the European Union.

Table 1

The inflation rate in Germany comparing to EUR:USD exchange rate, the average monthly value

Date	Inflation rate in Germany	EUR:USD exchange rate
April 2014	0,014	1,3806
May 2014	0,0133	1,3742
June 2014	0,0085	1,3598
July 2014	0,0104	1,355
August 2014	0,0085	1,3328
September 2014	0,008	1,291
October 2014	0,008	1,2671
November 2014	0,008	1,2476
December 2014	0,0057	1,2319
January 2015	0,002	1,2666
February 2015	-0,004	1,1666
March 2015	0,0009	1,084
April 2015*	0,003	1,0791

*the forecast by Forex Crunch

As it is shown in Table 1, the inflation index decreases as well as the Euro falls down. The correlation between the indexes equals 0,807, which means the high relation. Therefore, the conclusion of Euro's strong dependence on Germany inflation rate may be made.

5. The growth and global strengthening of the dollar.

Euro and U.S dollar are the two major world currencies that inversely depend on each other. Therefore, the currency substitution is possible. For its analysis, the current dollarization index (DI) should be counted for every country on Euroland [5]:

$$DI = FER/M_3, \quad (1.4)$$

where M_3 – money supply;

FER – foreign exchange reserves.

The received data and calculations are set in Table 2.

Table 2

The monetary aggregates and dollarization rates calculated for the European Union countries [7], February 2015

Country	M_3 , EUR Bln	FER, EUR Bln	DI, %
Austria	286,62	22,51	7,85
Belgium	483,9	22,13	4,57
Cyprus	23,37	0,85	3,64
Finland	147,19	9,48	6,44
France	2086,34	152	7,29
Germany	2486	172,12	6,92
Greece	180,45	5,72	3,17
Ireland	227,6	1,49	0,65
Italy	1347,58	127,01	9,43
Latvia	10,55	2,98	28,22
Lithuania	20,52	1,139	5,55
Luxemburg	287	0,75	0,262
Netherlands	883,74	37,23	4,21
Portugal	166,77	18,95	11,37
Slovakia	48,2	3,89	8,06
Slovenia	20,39	0,36	1,79
Spain	1072,7	47,38	4,42

As it is shown in Table 2, Latvia, Portugal and Italy have the highest dollarization level, Luxemburg – as the richest and one the most stable countries. According to Berg, acceptable value of DI is 1,5-15% [1]. Therefore, now there is a risk of currency substitution in Latvia only. On the other hand, most of the Euroland countries are stable in using Euro that means the general dollarization risk is very low – 6,4%.

Conclusion. The current reasons for Euro destabilization were analyzed in the research. The dollarization level was calculated and analyzed for every Euroland country.

Based on received data, the author proved that the risk of currency substitution in EU countries is minimal. As the common dollarization index for Euroland countries amounts to acceptable value, Euro is not about to be replaced by U.S. dollar.

The appropriate monetary policy of the European Central Bank and central banks of member-countries are to prevent Euro to U.S. dollar replacement, but still, scientists think that the big wave of currency substitution in EU countries may start as soon as EUR:USD exchange rate reaches 1:1.

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