

THE EUROISATION OF THE ALBANIAN ECONOMY - AN IRREVERSIBLE ROAD

Majlinda Bello
Mirela Cini*
Frederik Çuçllari

Abstract

This paper focuses on the process of euroisation of the albanian economy. Like any other process, even euroisation has its benefits and costs. The prevailing opinion is that the advantages of euroisation, at least for a short period, are profoundly evident especially in developing countries where aspirations for EU entry are great. The Albanian economy has experienced the financial euroisation since 1992. Considering the actual conditions, for Albania, an alternative to be considered would be the unilateral euroisation. Costs and benefits of unilateral euroisation are related to each-other, but in the case of Albania, they tend to benefit especially from a considerable expansion of trade. We all understand that the road towards European integration will pass through the euroisation of the economy. The question that arises is not if will be the Albanian economy euroised but when this will happen.

Key Words: euroisation, optimum currency area, integration, Albania.

INTRODUCTION

The cornerstone for the creation of the European Union was introduced by French Foreign Minister, Robert Schuman, in his statement of 9 May 1950, in which he mentioned the idea of previously elaborated with Jean Monnet for the union of the European Coal and Steel Community[†]. According to him, this would represent a historic initiative to build an “organized and vital Europe”, without which world peace will be impossible. The Schuman

Plan became a reality with the signing in Paris of the Foundation Treaty of the European Community of Coal and Steel on April 18, 1951. In signing the Treaty, the participating countries were Germany, France, Belgium, Italy, Netherlands and Luxembourg. Another important development came several years later with the Treaties of Rome on March 25, 1957, which created the European Economic Community and European Atomic Energy Community (better known as Euratom). The Treaty of Rome was born originally as a need of the signatory countries for a progress of the economic character. They did not stop merely at common policy in solving the needs for coal and steel but, the success in the customs union and later agricultural trade liberalization brought qualitative changes in the economies of the six member countries.

At this time, the European countries were implementing the Breton Woods system, which decided the fixed exchange rate between currencies, conversion into gold and U.S. dollar as reference currency. Under this system, the European countries had no effective monetary policies to achieve an internal balance. The main tool for achieving this balance was only the fiscal policies.

Countries signing the Treaty of Rome, in the 1970s tried to apply the system of fixing the exchange rate against the dollar but this initiative was quickly thrust into a crisis. The desire for a common monetary system in 1979 led to the creation of the European Monetary System (EMS) which determined stable exchange rates among the European currencies, but with possible correction through a fluctuation margin of $\pm 2.25\%$. The member countries would unanimously approve every possible modification of the exchange rates[‡]. Creation of the European Union under the Maastricht Treaty marked a further step in the

* Corresponding author. Contact mirelacini@yahoo.com All the authors are Lecturers at Faculty of Economics, ‘Fan S. Noli’ University, Korce, Albania

[†] The Schuman Declaration of 9 May 1950
http://europa.eu/abc/symbols/9-may/decl_en.htm

[‡] Summaries of EU legislation
http://europa.eu/legislation_summaries/economic_and_monetary_affairs/introducing_euro_practical_aspects/l25007_en.htm

way of political union of Europe. This treaty entered into force by 1 November 1993. The Maastricht Treaty refers to itself as: "... a new stage in the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen." (Art. A). Besides a number of changes for the Treaties of the European Community and Euratom, it also contains the instrument for the creation of the European Union – the process of creation of which is considered as incomplete. The treaty is the first step on the path toward creating a European constitutional system, which will include the communities themselves. With the Maastricht Treaty in 1992, it is strengthened the desire to have a single European currency, strong and durable. On 1 January 1999 eleven member countries adopted the euro as a common currency. The European Central Bank is responsible for the monetary policies of the European Union. On 1 January 2002 the first banknotes were released in the member countries.

The birth of the Euro, with no doubt, is the most important financial phenomenon and was the result of a long process of cooperation and transformation of ideas and policies among European countries. Euro was the best possible European answer versus the massive globalization of the global economic and financial markets.

THE THEORY OF OPTIMUM CURRENCY AREA

In economics, an optimum currency area is an area in which it would maximize economic efficiency for the whole region. This theory describes the optimum characteristics for the unification of currencies or creating a new currency. Theory is often used to argue whether a particular region is ready to pass to the monetary union, as one of the last stages of economic integration. In this way, in the case of the euro, according to this theory, it should be seen if Europe as a whole forms an optimum currency area. The European Economic and Monetary Union serve the researchers as an excellent opportunity to test in practice the principles of this theory.

The Theory of Optimum Currency Area was established by Mundell (1961) and is further

complemented with studies of McKinnon (1963), Kenen (1969).

The frequently mentioned criteria for a successful monetary union are:

- High mobility of the production factors (Mundell, 1961).
- High degree of economic openness between each other (McKinnon, 1963).
- Production diversification (Kenen, 1969).

The *first* criterion is elaborated by Mundell. According to him it is important to have the labor movement throughout the region. This includes physical ability to travel, lack of cultural and institutional barriers of free movement, the capital mobility and wage flexibility across the region. According to Mundell theory, in the countries that use the same currency, the asymmetric inflections are spread throughout the region, while, in a regime of flexible exchange rate, the cost will be focused on individual regions, that from the devaluation will reduce the purchasing power of currency. Instead of going toward more flexibility in exchange rates in Europe, the economic arguments suggest less flexibility and a closer integration of capital markets. Mundell takes into account the importance of political factors that influence the creation of optimum currency area.

The *second* criterion by McKinnon is the high degree of economic openness. In terms of a commercial high volume, flexible exchange rates become less valuable and non-effective as a mechanism to control the external balance but also dangerous for the level of price stability. The most recent empirical analyzes of the "euro effect" suggests that the single currency has increased commercial volume from 5 to 15 percent in the euro area when compared with the trade between non-euro countries.

The *third* criterion of optimum currency area, the diversification of production, has determined by Kenen. According to him, diversification weakens the role of the exchange rate as a regulatory instrument, for, the more diversified is the economy of a country the less the need for a flexible exchange. The asymmetric inflections have no effect on all sectors of the industry of a country, but they rather affect certain sectors of the economy, so that diversification of

production serves as a buffer for these inflictions.

The theory of Optimum Currency Area has faced much criticism. Keynesians and Post-Keynesians criticize the use of a currency, which is the monetary union, because this leads, according to them, to a loss of "monetary sovereignty". For post-Keynesians, "money and monetary policy are inextricably linked with the political sovereignty and fiscal authority".

According to Glavan (2004) "Monetary unification enhances the welfare of individuals only if it springs naturally from the voluntary actions of the money users. On a free market, entrepreneurs will try to respond properly to the demands of their customers, providing goods – including money – of the type, quantity, and quality desired. Therefore, only on a free monetary market would it be possible to discover what is the 'optimum' circulation of a certain currency".

In early 1990s the academic debates of the European circuits were focused on the hypothesis whether EU countries met the OCA criteria. Despite the skepticism (budget scarcity, low labor mobility make it think that the EU was not the Optimum Currency Area) that accompanied the presentation of the Maastricht criteria by introducing a common currency, the EMU showed it was one of the greater economic and political successes up until before the start of the crisis that swept the Eurozone.

UNDERSTANDING THE TERM EUROISATION / DOLLARISATION

The term dollarization is used when a foreign currency, not being necessarily the dollar, is adopted instead of the local currency. Dollarization has three main varieties: Unofficial – without a formal legal approval (when the population of a country loses confidence in its currency and prefers to use more and more the currency of another country for economic transactions)

Semiofficial – (the so-called the bi-monetary system) where the foreign currency is declared legally acceptable but has a secondary role in relation to the local currency.

Official – when a state renounces from emitting and using its currency and uses only foreign

currency.

The term Euroisation, synonymous with the term dollarization, implies the adoption of the euro by a country that does not belong to the European Union member countries which have adopted the euro as their national currency.

Euroisation of the economy, either as membership in the European Monetary Union or as a unilateral decision of the authorities of the country, means that de facto, the country becomes a part of an economic and monetary union with the euro area. What does it mean to join a monetary union? According to Xhepa (2002) there are three basic characteristics: *First*, membership in a monetary union would mean to give up monetary sovereignty. The monetary policies, including the context in which this policy is implemented and the strategies and instruments being used, become European. *Secondly*, the monetary union is realized to persist over time. Moving there is a road that has no turning back. Rejection of such a decision would have incalculable economic and political costs. *Thirdly*, the euro area differs from all other monetary areas, which are defined – at least usually – as the area of a single sovereign state. Although having a common monetary policy, member states pursue decentralized policies concerning fiscal issues, such as budget, taxes and social policies. In particular, fiscal policies should be subject to rules determined in the Maastricht Treaty and the Stability and Growth Pact. This means that the country maintains its independence in the design and implementation of fiscal and budgetary policies, but within a framework of limits, as defined in the Treaty (such as the size of the budget deficit and the overall debt and restrictions on the direct financing of the deficit by the monetary authority).

The unilateral Euroisation of an economy:

Two Polish economists, Bratkowski and Rostowski are leading proponents of the unilateral Euroization in the countries of Central and Eastern Europe. According to them, the transition countries that seek EU membership, their local currency should be replaced with Euro currency within a reasonable time to be realized. This means that the intern cash being in circulation or in the safes of the banks will be

replaced by euro banknotes and coins which are purchased using a country's international reserves. They believe it would be very beneficial for some countries in transition if the unilateral euroisation would be implemented with EU accession. The essence of the arguments of Bratkowski and Rostowski can be summarized like this: the success of the market reforms in the countries of Central and Eastern Europe and the hope for membership in the EU has awakened the hopes of a quick economic growth. This means that the citizens will save less, while foreign investors are willing to find the necessary funds to cover the gap between savings and investment (Bratkowski and Rostowski, 2002).

The result is an improvement of the capital account and a deficit at the current account of these countries, which makes the countries of Central and Eastern Europe more vulnerable to current capital constraints. Rostowski (2002) argues that in such a situation, these countries can not rely even on the monetary policies or on the fiscal policies. As a result, the period before accession to the Economic Monetary Union (EMU), either displays the countries of Central and Eastern in front of a high risk of currency crisis or forces them to develop at slower rates than what is possible. Given that one of the main targets for European Union membership is the economic development, economic integration and the achieving of economic standards of the Western countries, then the path toward the EMU membership encouraged by the European Union and by the new member states and candidate countries would be against this goal. As such, the policy of the EU should be in favor of an earlier adoption of the Euro by these countries.

Rostowski (2002) argues that the unilateral euroisation would be the best opportunity for economic policies for the countries of the Central and Eastern Europe than the way prescribed by the EU because the Exchange Rate Mechanism (ERM-II) and Maastricht criteria on inflation, may cause serious problems, for example, the depreciation of local currencies, as these countries are characterized by high rates of economic growth, huge deficits of the current accounts and a real evaluation of their exchange rate. Before that a Member State adopts the euro,

it must meet certain economic and legal criteria, the so-called convergence criteria. Some countries, which are not a part of the Euro area, participate in ERM-II mechanism which is intended as a system to avoid large fluctuations of the exchange rate between non-participating currencies and the euro. Participation in ERM-II is free to any country, but in itself this mechanism is one of the convergence criteria. Candidate countries for entry into the Euro zone should participate in the mechanism without accentuated economic and financial fluctuations, for at least two years before adopting the Euro currency. In the case of Western Balkan countries, the most recent guidelines of the EU propose that in order for them to speed up their process of integration, the European Union should encourage these countries to participate in EU programs, which are reserved only to member countries.

Actually, officially euroised countries are Montenegro and Kosovo: up to 1999, these two countries used as their currency the German mark. Finally, being driven by the economic crisis, many other non-EU members countries, (including Albania) have expressed the opinion of the unilateral inclusion of the Euro currency in their economies, but the debate still remains opened.

THE BENEFITS THE EUROISATION OF THE ALBANIAN ECONOMY

Like any other process, even euroisation has its benefits and costs. The prevailing opinion is that the advantages of euroisation, at least for a short period, are profoundly evident especially in developing countries where aspirations for EU entry are great. Upon entering the monetary union through the use of the same currency, the hits having as their source the exchange rates and interest norms, are eliminated (Xhepa, 2002).

Reducing transaction costs

The use of a common currency, as a measure of evaluation and exchange means, has lower transaction costs. The use of a single unit of account also makes prices more transparent. Expressed under a common denominator, prices are easily comparable. It is increased the use by citizens of the euro and U.S.

dollar, which, to a certain extent, has led to a partial euroisation of the economy. Even in the case of Albania, the shift to a unilateral euroisation would have benefits in terms of reduced transaction costs, but this benefit should not be overestimated because tourists are able to make a very good comparison of price, despite the fact that they express in different currencies. "In general, earnings in transaction costs are present ... and Albania is no exception in this case". (Nutti, 2002).

Reduce the interest rate

It is thought that the link with a strong international currency brings lower rate of interest thus promoting investment and hence a growth of the economy. Greatest advantages will be felt in countries where the central bank pursues a policy of real interest rates (Rostowski, 2002).

One of the claims by opponents of unilateral euroisation (Wojcik and Backé, 2004) is that the process needs not lead to a decline of the interest rates on medium and long term period, because the removal of the local currency, although it leads to the elimination of currency risk in lending, may increase their risk of non-payment. This can happen because the depreciation is not available as a means of enhancing the domestic producers' competitiveness. Interest rates in Albania are very low, which means that, in the case of Albania, unilateral euroisation would not have major benefits in this regard.

Reduction of exchange rate fluctuations

The application of a single currency would avoid costs presented by the volatility of the exchange rates for the economy of a country. A continuous fluctuation of the exchange rate of a currency brings price instability, uncertainty of investors, high investment costs and a growing of the current account deficit. Wojcik and Backé (2002) worry about the incongruity of the exchange rates as a result of inflationary inertia after conversion of the local currency into the Euro. According to him, this would make inflation more difficult to be controlled.

The exchange rates in Albania are free and sustainable, so that Albania in this direction would not have a very big benefit.

Expansion of trade and increased flows of foreign direct investment

Some economists defend the idea that adopting a common currency expands the trade by about 40 per cent (Persson, 2001). Also, a common currency could affect the overall business climate, thus allowing a higher flow of FDI. At the same time, the lower rates of interest, expected by the market entry of a common currency should increase the flow of financial capital. From this viewpoint, Albania will have major benefits in terms of the expansion of its foreign trade and in terms of increasing inflows of FDI in the country. On balance, the sizeable though not spectacular gain of the order of 40 percent on foreign trade is a significant gain also for Albania (Nutti, 2001).

Disadvantages of applying the common currency euro

When analyzing the euroisation as phenomenon, besides the advantages, we should examine in detail the other side of the coin, its costs in the economy and monetary system of a country.

Loss of sovereignty over monetary policy

The adoption of a currency different from the national one, makes the monetary policy not be in the hands of the central bank of the euroised country, but to pass to the European Central Bank, which is responsible for maintaining the price stability in the euro zone. Through euroisation, the countries accept the loss of independence over the application of the monetary policies by taking off to the Central Bank the instruments of implementing the monetary policies. But, besides losing the right on the domestic monetary policy, which should not be judged as a very high cost for Albania, it may appear the problem of asymmetric companions. Policies pursued by central bank can not comply with the basic principles of the euroised countries. The possibility of

asymmetric fluctuation within the European Monetary Union has been reduced by the implementation of the Maastricht criteria and the so-called pact of "stability and growth", but it can not be eliminated. The euroised countries that are not members of the European Monetary Union will be more likely to suffer asymmetric fluctuations.

Loss of income seniorage

Seniorage means the income derived from the difference between the nominal value of the emitted money and its actual costs of production. In the case of transition in unilateral euroisation, countries lose the right to benefit the seniorage incomes because they do not represent anymore the emitter of the official currency used in the country. Nowadays, with the introduction of the banknotes, the cost of its production is incomparable compared to its nominal value. Consequently, the incomes from seniorage are very high. (Xhepa, 2002).

In this way, renouncing from the national currency brings the loss of the right of profiting from this resource. While in countries with low inflation rate this income is low, again it can not be unconsidered. According to Masson, in countries with low inflation rate, the voice of seniorage occupies 0.5-1 percent of the GDP, while in countries with higher inflation rate this income goes up to 5 percent of the GDP, and as a consequence the loss is great (Masson, *et.al.*, 1997). However, the transition to euroisation means a loss of income from seniorage for the Albanian economy, no matter how low they are.

Loss of the role of the last lender

In a 'normal' economy, the lacks of liquidity are provided by the central bank of that country, according to the principle of lending without limit with penalized interest rates against well-collateralized guarantees. In a unilateral euroisation, the role of the last lender would require large reserves in euro for the central bank to cope with possible financial crises the country may meet. The loss of function of the last lender would be serious for Albania, in case of the appearance of a financial crisis. Also, it should be noted that, despite the fact that the country's financial system has made a significant progress, it is still fragile. Critics emphasize that

the role of the country's monetary authority as the lender of the last degree can be hit if the country would not have access to credit facilities from the European Central Bank intended to help banks with liquidity difficulties. (Xhepa, 2002).

However there are alternative ways to provide the banks with the necessary liquidity.

According to Calvo (1999), there can be created stabilization funds or contingency credit lines that can be used to help banks which are in that position. Moreover, the contingency credit lines, in terms of euroisation, would be cheaper because there would be no danger of monetary depreciation related to bankruptcy. In the event of unilateral euroisation, the Central Bank may exercise the lending within the country's currency reserves and, in case of inadequacy (insufficiency), it may be supplemented by loans from foreign banks.

EURO AND THE ALBANIAN ECONOMY

The Albanian economy has experienced the financial euroisation since 1992. Measured in the form of the ration between the foreign currency deposits and the total deposits, the financial euroisation is mainly fluctuated in the range 25-35 per cent. However, in recent years, this indicator has shown an increasing trend, indicating about 39 per cent at the end of 2006 and 56% in 2010. In this index, the important items are the high percentage of commercial transactions with EU countries (about 90 per cent), the credit growth in foreign currency from local banks (about 85 percent of total loans) or remittances from our immigrants[§].

Since the euro was physically introduced in markets in 2002, Albanian consumers, businesses and institutions have considered it as a trusted and strong currency to keep the savings, to perform transactions and investments as well. Slowly, the affection for the dollar, being the same popular, was moved toward the euro. In Albania, the euroisation can be found in all its forms. The housing price index and consequently, the performance of transactions in foreign currency, and availability

[§] These data were available at the website of the Bank of Albania: <http://www.bankofalbania.org>

of bank deposits and loans in foreign currency, are evidences of euroisation in these forms. Maritime and air transport services are provided in Euro and the biggest part of the local tourist services are offered in the European currency. This remarkable use of the euro has become just as popular as the Lek and the dollar, but the institutions still do not have a clear view on the official use of this currency, as the substitution of the local currency with the euro is a necessity, due to the integration obligations of the country in the UE.

The economic and political integration in the European Union, as an aspiration expressed nationwide, dictates the issue when will occur the substitution of the Lek with the euro and in what timeframe. Although the formulation of precise deadlines for the formal entry in the euro zone would seem unrealistic, the designation of a deadline for achieving a monetary convergence would be necessary for the orientation of the monetary policy in the long run.

Considering the actual conditions, for Albania, an alternative to be considered would be the unilateral euroisation. As we saw them above, the benefits and costs of euroisation, for Albania it would be useful a unilateral euroisation. Euro has become de facto the main currency for the transactions within and outside the country. Albania's trade volume is mainly with the countries where the euro is the main currency of exchange, and it is surrounded by neighboring countries where almost everyone has the euro as official currency.

However, the official unilateral euroisation is strictly defined by the European Union (2000): "... any unilateral adoption of the single currency by means of "euroisation" would run counter to the underlying economic reasoning of EMU in the Treaty, which foresees the eventual adoption of the euro as the endpoint of a structured convergence process within a multilateral framework. Therefore, unilateral "euroisation" would not be a way to circumvent the stages foreseen by the Treaty for the adoption of the euro". However, the EU treaties do not provide any kind of sanction for those countries that prefer to undergo the unilateral euroisation. The only thing that states must bear in mind is the

fact that through unilateral euroisation they will not be able to overcome the stages provided by the EU.

If the economic parameters lead to a faster approach to the euro, there is a lack of the political consensus in this regard. The European currency remains a destination without return for the Albanian economy.

However, the removal from circulation of our currency and the introduction of the euro is considered premature.

While according to the Bank of Albania Governor, Fullani (2009) "To Albania, the Lek has been, is and will remain a successful currency. ...all the economic agents to consider the benefits, that our national currency provides, impassively, as the best long-term instrument for protecting their savings and as the greatest buffer to wealth volatility. The Lek is the icon of the Albanian economy that will guide us through the European gates".

Perhaps, for the Bank of Albania it will always be a taboo argument seeing endangered its very existence. The business community, on the other side, has not yet expressed a clear position on the unilateral euroisation of the Albanian economy. Although the government has ever mentioned this option, it seems to be no clear and detailed study in this regard. Maybe it's time and the conditions are ripe for Albania to have a single currency with the EU member countries. But to make the decision to unilaterally euroise the country, it is necessary to have a clear strategy; to have experts for the euroisation; well calculated steps and above all the courage to break any fear or uncertainty considering this initiative.

EURO AND THE EUROZONE CRISIS

Currently, the eurozone framework, but in the deepest way, the project that lies in the EU basis in general, is facing a crucial challenge. It was clear from the beginning that facing the crisis of the euro area can not be done by the states individually. Greek debt problem (and Portuguese, Irish, Spanish, Italian etc) was not simply a product of financial mismanagement of the individual states. The problem was the designing way of the common currency which created a European monetary union without

also building a European fiscal union. But more than that, the project of European unity could not be articulated beyond the economic and trade project. It is this limit of the European project being challenged today by the Eurozone crisis.

Euro crisis has become so heavy, so intimidating and so unstoppable that even debates about saving the euro increase only the panic. The whole world's attention has turned toward Europe. Many people are skeptical that Europe and its project have no future. This is because until now, because it has shown herself powerless to give a fast solution of the Greek crisis, ineffective in managing the debt crisis and the stability of the euro.

Until the politicians will not act quickly to convince the world that their desire to maintain the euro is greater than the ability of markets to be against it, the European single currency faces destruction. But it is not only the euro to be at risk, it is also the future of the European Union and the health of global economy. All (USA, China, India, Brazil, England, Japan, Russia, IMF, World Bank etc.) require for European governments to quickly find a solution concerning the debt crisis and to provide a precise and reliable answer for the euro and its future.

It seems that Europe has begun to project its greatest change right under the "international pressure" and the serious effects of sovereign debt crisis not only of the "very severe Greek case", but also the concerning issues in Italy, Spain, Portugal, Ireland etc., the weakening of financial markets and many banks in Europe, the economic growth even lower than the anticipations for the euro area, etc. The first element that indicates radical changes in the functioning of the EU is the new role being taken by the European Central Bank. In the Treaties or the European fundamental institutional agreements, the central objective of the ECB has been defined "the maintenance of the price stability", or strict control of inflation. But, the sovereign debt crisis in the eurozone prompted the ECB to take a new role, wider and more effective in fighting the debt crisis and the economic and financial stability of the eurozone. The ECB, in order to reduce interest rates of Treasury bill bonds, bought on secondary

markets Spanish and Italian bonds, accepted the high risk Greek bonds, guaranteed considerable credits for the Greek banks, etc. In this way, the ECB shows that it is entering into a new dimension, giving the euro an effective "instrument" in absorbing the debt crisis, while simultaneously promoting economic growth, employment levels and stimulating a better economic and financial convergence among EU countries.

The second essential element is the creation of the European Financial Stability Facility (EFSF). EFSF can now directly purchase government bonds or bonds of member states in budgetary difficulties, and may issue guaranteed bonds from the member states of the eurozone. EFSF proves the eurozone huge step toward the "financial solidarity between member states", an element that did not exist in any of the principles on which the EU was set up. The devaluation of the EFSF by Standard & Poor's (and that of Fitch) does not overshadow the importance of this mechanism, but it serves to remind Europe that there is no time to lose. In response to the challenges of the current financial crisis and the transformation framework of the EU itself, the EFSF is expected, by the year 2013, to be transformed into "a European mechanism of stability" by further Europeanizing the European finances and by positively impacting on the real creation of the monetary Europe.

The third element is the approval of the fiscal pact by 25 countries (excluding GB). Many members deviated from the Maastricht's criteria and the European Stability Pact concerning the amount of public debt, the budget deficit etc., giving way to the breaking of the current crisis, which is best reflected by the Greek case, the Italian, Spanish, Irish etc. EU found that there was no mechanism or instrument for the prevention or punishment of these deviations with very serious consequences for the entire euro area. Here, it originates the third major change that is being implemented by the EU. Now, it is consolidating the mechanism and policy of the "budgetary discipline of the member countries", thus adding the control and punitive measures for violators of macroeconomic criteria. Budgets of member countries need to be approved by the European

Commission before being implemented by the member countries, while the “undisciplined” countries will be punished to the extent of 0.2% of GDP for any deviation from the common criteria, where the most important are: the budget deficit on the level of 3% and the public debt to 60% of GDP.

In this regard, in the way of financial solidarity, it seems that soon the eurozone will pass another important phase such as the issue of Eurobonds. The creation of the “Eurobond” as European bonds or consoles will be guaranteed collectively by all euro zone countries, it will create opportunities to the countries in difficulty to meet their deficits with lower costs, being more protected against the budget and fiscal risk and also by having greater opportunities to support their economic growth. Reclining on these arguments, we can say that despite the difficulties that eurozone is experiencing, the United Europe and the euro will survive.

EUROZONE CRISIS AND ALBANIA

The Euro crisis and the world economy crisis have begun to be felt in the Balkans, as there emerged a series of reports and statements from the International Monetary Fund (IMF), World Bank and the European Bank for Reconstruction and Development (EBRD), who warned about the risks for the economies of the Balkan countries as a result of the eurozone crisis. In the CEE economies, growth will slow from 4¼ percent in 2011 to about 2¾ percent in 2012, as both domestic and external demand moderate (IMF, 2011).

However, the effects of the eurozone crisis in the Balkan countries will not be uniform, because the ties of the Balkan states with the eurozone countries are different. Albania, as an economy closely linked to that of Italy and Greece, is in the risk to suffer worse. This is because the main economic partners of Albania are Italy and Greece – both countries that are suffering from economic crisis.

The economic ties between Albania and Italy exist at several levels. Firstly, an increase of unemployment in Italy may adversely affect the level of remittances in Albania, given that Italy is Albania's main source of incomes of this

kind. Secondly, an economic contraction of Italy affects the Italian investments in Albania and particularly hits hard the Albanian textile and clothing industries (especially that of shoes), which produces exclusively for Italian manufacturers. Albania is a major producer of leather and the 6th exporter of the shoes in the world, 99% of which are produced for Italian firms. Shoes and leather make up a large Albanian exports to Italy, which in 2009 reached the total sum of 683 million dollars**.

The decline of exports in this industry will hurt the trade balance of Albania that, even this way, is negative, but will also increase the ranks of unemployed people. Economic contraction in Greece similarly damages Albania's economy, because Greece is the second largest source of investments and remittances in Albania, and the second largest trade partner of Albania after Italy.

But besides these negative effects, the eurozone crisis affects Albania in the depreciation of the euro against the dollar or the Albanian Lek.

The crisis in the eurozone and the strengthening of the U.S. dollar in the currency markets has returned to investors the dilemma of selecting between two strong currencies. What will be the dominant and most reliable currency to keep the savings?

But in the midst of the rapid and unpredictable developments in the foreign exchange markets, experts advise avoiding speculations. According to them, the savings should be kept in that currency the individual makes the expenses, which means that for most of us the most reasonable choice is the lek. However, for those who wish to play to win with the changes in the foreign exchange market, the banking system offers several solutions that limit the risks. It seems that Albanian society has temporarily removed the idea of “unilateral euroisation” because of the crisis that has involved the eurozone. However, with few exceptions, individuals who have their savings in euro, continue to hold them in this currency and there were no problematic situations in the foreign exchange market or mass exchange of the euro

** These data were available at the website of the INSTAT: <http://www.instat.gov.al>

with the dollar. Perhaps, in the current conditions, the Albanian public has no strong reason to select foreign currencies. The inflation rate for our currency in the recent years has maintained an admirable consistency, which minimizes the risk of devaluation over time. On the other hand, the interest rates of deposits in domestic currency are higher than those in foreign currency. This means that the benefits are higher if the savings are held in the local currency.

But this situation is likely to be temporary. The measures taken by the European countries for overcoming the crisis brought a spirit of optimism in the world markets but also in the Albanian market. Since our future is the integration in the EU, the euroisation of the Albanian economy is a reality and quite an irreversible road.

CONCLUSIONS

Costs and benefits of unilateral euroisation are related to each-other, but in the case of Albania, they tend to benefit especially from a considerable expansion of trade

The Albanian economy after 1990-s has had a high degree of dollarisation, but with the introduction of European currency, the dollar lost ground and the euro took its place. The euroisation rate has been steadily growing.

The decision for the unilateral euroisation of the Albanian economy, to give the desired results, should be based on a clear strategy, studies by experts and a comprehensive consensus.

Despite the skepticism that accompanied the introduction of the common currency, the Monetary Union showed euro was one of the major economic and political successes until the beginning of the crisis comprising the eurozone.

The new role being taken by the European Central Bank, the creation of the European Financial Stability Fund (EFSF) and finally the adoption of the fiscal pact, are arguments that show that despite that eurozone is experiencing difficulty, the United Europe and the euro will survive.

Despite the difficulties Euro is having, it seems the Albanian market still has faith in the common currency. There were no major exchanges of the euro to the dollar or lek. Although in this situation it is not often

talked about euroisation of the economy, we all understand that the road towards European integration will pass through the euroisation of the economy. The question that arises is not if will be the Albanian economy euroised but when this will happen.

REFERENCES

- Backé, P., & Wójcik, C., (2002). Alternative Options for the Monetary Integration of Central And Eastern European EU Accession Countries, *Occasional Paper* No. 3, Institute for Economic Research. Retrieved from http://pdc.ceu.hu/archive/00001122/01/Occasional_paper_03.pdf
- Bratkowski, A., & Rostowski, J., (2002). "Unilateral Adoption of the Euro by EU Applicant Countries: the Macroeconomic Aspects", in L. Orłowski, eds., *Transition and Growth in Post-Communist Countries: The Ten Year Experience*, (Edward Elgar).
- Calvo, G. A., (1999a). On dollarisation, Research paper, University of Maryland. Retrieved from <http://www.econ.yale.edu/alumni/reunion99/calvo1.htm>
- Council of the European Union, (2000). 2301st Council meeting ECOFIN Brussels. Retrieved from <http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/00/417>
- European Communities, (1992). Treaty on the European Union, *Official Journal C 191*, Retrieved from <http://eurlex.europa.eu/en/treaties/dat/11992M/htm/11992M.html#0001000001>
- Fullani, A., (2009) Effects of the exchange rate regime, *BIS Review* 119/2009, Bank for International Settlements. Retrieved from <http://www.bis.org>
- Glavan, B. (2004). Failure of the OCA Analysis, *The Quarterly Journal Of Austrian Economics*, 7 (2), 29-46. Retrieved from http://www.recep.ru/phase4/en/rp/nut_ie.pdf
- International Monetary Fund (IMF), (2011). World Economic outlook. Slowing Growth, Rising Risks, Retrieved from <http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf>

- Kenen, P. B., (1969). The Theory of Optimum Currency Areas: An Eclectic View, in Mundell and Swoboda, eds., *Monetary*
- Masson, P., Savastano, & M., Sharma, S., (1997) The Scope for Inflation Targeting in Developing Countries, *IMF Working Paper* 97/130, IMF.
- McKinnon, R. I., (1963). Optimum Currency Areas, *American Economic Review*, 53, 717-725.
- Mundell, R.A., (1961). A Theory of Optimum Currency Areas, *American Economic Review*, 51 (4), 657-665.
- Nuti, M., (2001). Albania and Euro: Economic implications of unilateral euroisation, *Conference Paper*, Central Bank of Albania, Tirana, Retrieved from http://www.bankofalbania.org/web/pub/domeniko_ang_129_1.pdf
- Nuti, M., (2002). Costs and Benefits of Unilateral Euroisation in Central Eastern Europe. *Working paper series: Russian-Problems of the International Economy*, (Chicago: University of Chicago Press).
- Europe Centre for Economic Policy. Retrieved from
- Persson, T., (2001). Currency unions and trade: How large is the treatment effect?, *Economic Policy*, 33, 433-448.
- Rostowski, J., (2002). The Eastern Enlargement of the EU and the Case for Unilateral Euroisation, in Blejer and Skreb, eds., *Financial Policies in Emerging Markets*, (MIT Press, Cambridge Mass).
- Wójcik, C. & Backé, P. (2004). The Unilateral Euroisation Debate in Central and Eastern European EU Accession Countries, *Acta Oeconomica*, 54 (2), 123-157.
- Xhepa S., (2002). Euroisation of the Albanian Economy, an alternative to be considered, *Discussion Paper*, 1 (7/02), Bank of Albania, Tirane. Retrieved from www.bankofalbania.org