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Home Currency Pegged into Euro – Possible Solution for Romanian's Economy

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Abstract

The stable exchange rate is very important in international trade. This paper aims to show how exchange rate facilitate the economic growth and all economic conditions of a country, within the time 2008 – 2016. This paper is aimed to be unique because will study the effect of exchange rate on sustainable development, giving a special attention to those countries which have their home currencies pegged into Euro. Conducting the research on foreign exchange regime, it appears that are may papers related to pegging the currency into US dollar, but none to focus on pegging the exchange rate into Euro. The research developed revealed that there are three cases: countries which have their currency pegged into Euro and they are member of European Union (Bulgaria and Denmark); countries which have their currency pegged into Euro but they are still not member of European Union (Bosnia and Herzegovina); and, countries which are member of European Union but they don't have their currency pegged into Euro or any other international currency (Czech Republic, Hungary, Romania). The analysis was conducted based on official data and find that there is a very strong connection between exchange rate and annual growth, inflation, balance of payment, foreign investments, and unemployment.

Keywords: currency pegged; exchange rate regime; economic growth; inflation; unemployment.

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