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ROMANIA: THE WAY TO EURO

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Abstract:
This article provides an overview of the Romanian process to join the euro, under the terms of the current economic-financial crisis. The purpose of this study is to analyze the degree of achieving real and nominal convergence criteria, along with offering perspectives regarding European monetary integration. The adoption of the unique currency represents an important challenge and opportunity for Romania during the post-adherence period, which forces the political and administrative environment to conceive and implement coherent and responsible politics meant to ensure a simultaneous fulfillment of nominal and real convergence criteria of the Romanian economy. The results of this analysis illustrate that, despite the fact that the Romanian economy recorded significant progresses on the fulfillment of the Maastricht criteria, the current economic context has introduced an additional uncertainty factor and significantly made the adoption of a single currency harder, and the enforcement of real convergence criteria has become much more difficult. Under these circumstances, the National Bank of Romania gave up the target that 2015 represented, and also the one of establishing a new target-date to enter the eurozone, the perspective of joining a single currency exceeding the horizon of this decade. In order to achieve a real, profound and sustainable reorganization of the Romanian economy and to successfully recover the discrepancies between Romania and the EU standards, the road to the euro must be paved with much caution and wisdom.

Key words: eurozone, nominal convergence criteria, real convergence process, economic and financial crisis, perspectives

JEL classification: E00

INTRODUCTION

Fifteen years have already passed since eleven member-states, pioneers of the European Union, took a historical step and adopted the euro currency. After a process of economic and monetary integration exceeding three decades, the euro became the official currency of over 330 million people. Through the establishment of the economic and monetary union, the euro has gained the status of a pillar that supported the achievement of the single market, it has deepened economic and financial cooperation, the economic increase and competitiveness within the Union.

The idea of joining a single currency is quite appealing, but is a stronger economic integration really beneficial for the new member states? The main issue that the monetary union faces is if its members can meet the strict requirements representative for a successful union. Also, the current economical-financial crisis requires, apart from reviewing some economic paradigms, to reconsider some aspects of joining the eurozone.

Public and private reports dedicated to the single currency have referred to a possible collapse of the eurozone since its appearance and references such as the "fear of the euro" have increased in the current economic context (Marin, 2013). However, there is no doubt about the fact that under the terms of the current crisis, some countries, such as the ones in the PIIGS group (Portugal, Ireland, Italy, Greece and Spain) would have had problems even if they were not members of the eurozone. The single currency has protected its members from the exchange rate volatility, simultaneously allowing the countries with unstable financial situation to seek cheaper loans on the international markets.

Similar to the single market, the eurozone is not an end in itself, but a tool meant to help achieve the Union's objectives - mainly focused on a balanced and sustainable economic increase and a high employment rate. Since its creation, the operation and the Economical and Monetary Union's institutions were designed with the purpose to support these goals through a rigorous management of the economic and monetary aspects of the eurozone. The European Union got some of its own medicine in respect of the current financial and economic crisis as a result of the emerged deficiencies, thus strengthening the eurozone by means of tougher rules and of an additional mechanism for surveillance and prevention of macroeconomic imbalances.

This paper argues that the European monetary integration represents a major challenge and opportunity for Romania, which is materialized in an essential starting point for a balanced economic environment favourable to a permanent growth within the Economical and Monetary Union and also on the single market. The way in which the road to the euro is formed, and the cautious and wise choice of the moment in which the single currency will be joined by Romania, will influence the evolution of the economic growth, the number of working places, the entrepreneurial environment - through a greater availability of the investment capital, as well as the welfare system's sustainability degree.

ROMANIA - AN OVERVIEW OF THE TEST OF CONVERGENCE

Except for the United Kingdom and Denmark, which chose the non-participation clause into the eurozone, all EU member states are forced to fulfill the desire of the real and nominal test of convergence in order to join the single European coin.

The nominal convergence process consists in reporting the following five stipulated criteria in the Maastricht Treaty (Isărescu, 2014): the price stability, the convergence of long-term interest rates, the exchange rate stability and the sustainability of the fiscal position - composed of the consolidated budget deficit and the public debt. Table no. 1 shows the degree of achieving the nominal test of convergence in Romania from the moment of joining the Union until the present day.

Table no. 1 The degree of achieving the nominal test of convergence

Nominal convergence indicators	Maastricht criteria	*Romania*						
		2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013****
Inflation rate (IAPC) (%, annual average)	<1.5 pp above the average of the three best performing EU members *	*4,9 (1,3%*)*	*7,9 (4,1%*)*	*5,6 (1,6%*)*	*6,1 (2,2%*)*	*5,8 (1,5%*)*	*3,4 (1,2%*)*	*3,2 (0,3%*)*
Long-term interest rates (%, annual average)	<2 pp above the average of the three best performing EU members *	*7,1 (5,2%*)*	*7,7 (6,2%*)*	*9,7 (5,3%*)*	*7,3 (6,3%*)*	*7,3 (6,1%*)*	*6,7 (5,2%*)*	*5,4 (3,4%*)*
Exchange rate over the euro (appreciation / depreciation maximum percentage **)	+/- 15%	*+10,8 / -9,6*	*+9,7 / -14,6*	*+1,6 / -18,2*	*+1,71 / -14,3*	*+3,24 / -3,49*	*+1,94 / -8,82*	*+0,8 / -6,6*
Consolidated budget deficit (% of GDP)	under 3%	*2,9*	*5,7*	*9,0*	*6,8*	*5,6*	*3,0*	*3,0*
Public debt (% of GDP)	under 60%	*12,8*	*13,4*	*23,6*	*30,5*	*34,7*	*37,9*	*38,0*

*) level of reference
**) calculated as the maximum deviation, the euro exchange rate in the current year compared to the average registered the previous year, based on the daily dates
***) assessed data
Source: processed after the data from Eurostat, National Institute of Statistics, National Bank of Romania

According to the data in the table above, the criterion for price stability was not met in any of the years in the analyzed period, 2007-2013, the annual average inflation rate continuously exceeding 1.5 percentage points over the three best performing EU member states. The highest values were recorded in the period after the current economic-financial crisis, namely 2008-2011. Currently, the inflation rate exceeds with 2.9% the average of the best results in the Union area. In accordance with the current projections of the National Bank of Romania, the level of this indicator will be reached in May 2014, when all five nominal tests of convergence are expected to be met by Romanian country (Isărescu, 2014).

Regarding the second criterion, that of the long-term interest rates convergence, its failure of achievement was only registered in 2009 when interest rates levels exceeded 2 percentage points above the 5.3% average afferent to the three best performing EU members in the Union.

The exchange rate stability has also undergone greater fluctuations than the limit imposed by +/-15% in 2009 only. The next period, 2010-2013, shows a favorable exchange rate evolution, its maximum deviation against the euro being, at the end of the analyzed period, between 0.8% and 6.6%.

The last nominal test of convergence, the sustainability of the fiscal position, implies the registration of a budget deficit not more than 3%, and of a public debt not exceeding 60% of the GDP. The consolidated budget deficit criterion was only met in 2007, 2012 and 2013. During 2008-2010, the effects of the crisis have also reflected the budget deficit in the Romanian economy. In regard of Romania's public debt, this represents the only criterion for convergence that has not exceeded in any of the analyzed years the imposed limit, but unlike the 12.8% value in 2007, in 2013 the level increased at an alarming rate, reaching the threshold of 38%.

The second convergence process that conditions the adoption of the euro is represented by the real convergence, and includes a number of indicators such as the GDP per capita, the degree of openness of the economy, the economy structure, the degree of financial intermediation, financing of the current account deficit, employment cost, etc.

Among the real convergence criteria, the most relevant indicator is considered to be the GDP per capita. This criterion's evolution, expressed in PPS (purchasing power standards), in Romania and Latvia, is traced in Figure no. 1. I chose a comparative analysis with Latvia, which is the latest member state of the eurozone since January 1st 2014, after a two-year period of participation in the ERM II exchange rate mechanism. If, in Latvia's case, the value of this real convergence indicator reached in 2012, the level of 62% of the EU average in Romania, the GDP per capita has failed to exceed the 50% threshold.

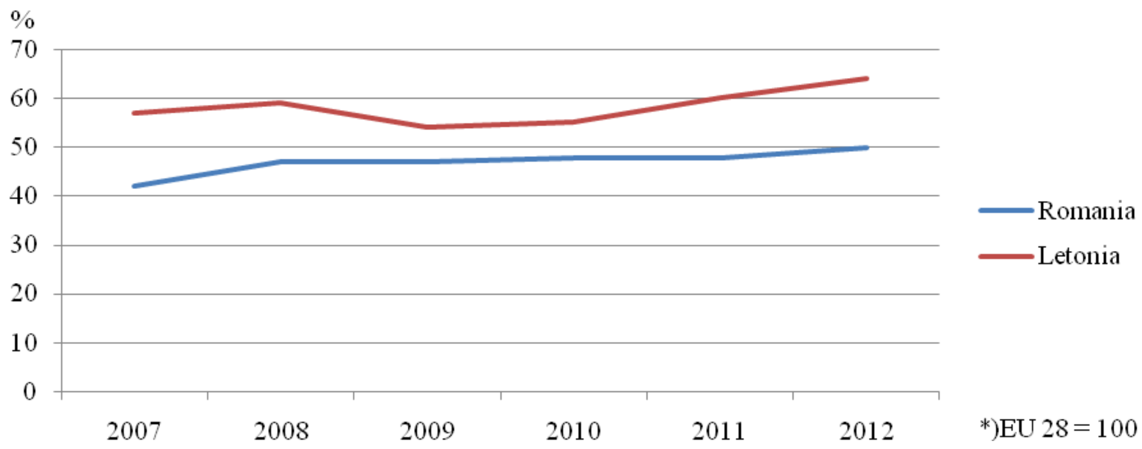

Figure no. 1 GDP evolution/inhabitant in Romania compared to the EU and the eurozone average

Source: processed after the data from Eurostat

Another important element in the study of real convergence is represented by the national economy structure based on fields of activity. The following figure illustrates the structure of the Romanian economy compared to the eurozone as a percentage of GVA - gross value added in 2012.

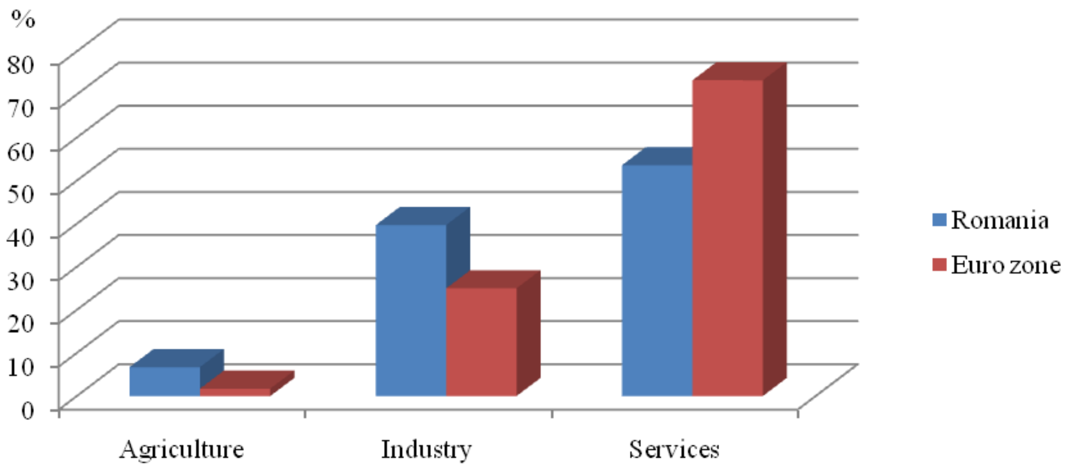

Figure no. 2 The economic structure in Romanian and the eurozone, in 2012
Source: processed after the data from Eurostat

Services represent the main branch that must to be drawn closer to EU standards. According to the data afferent to 2012, the Romanian economy has made an important step in increasing the percentage of services in the economic structure, compared to the previous years. Despite the differences from the eurozone countries, which have an average of over 70% services percentage, the trend followed by the evolution of the Romanian economy is an ascending one. Concerning the industrial sector, it remained relatively strong compared to the average of the EMU member states, despite the strong deindustrialization process undergone by the Romanian economy over the last 25 years.

EURO ADOPTION BEYOND THE CRISIS

Currently, 18 of the 28 member states of the European Union have adopted the European currency. Except for countries with derogation to join the euro, Denmark and the UK, there only remained eight countries to join the eurozone. The following table illustrates the countries' national targets that are in process of acceding to the Economic and Monetary Union.

Table no. 2 Economic target of the Member States acceding to the eurozone

Country	Initial target	Initial target establishment date	Actual position
1. Bulgaria	2010	2004 – Economic pre-adherence program	Without target date
2. Croatia	*Without target date*	2013 – Adherence year	Without target date
3. Lithuania	2006	2002 – Economic pre-adherence program	*2015*
4. Poland	2008/2008	2003 – Economic pre-adherence program	Without target date
5. Czech republic	2009/2010	2003 – The strategy to join the euro	Without target date
6. Romania	2015	2007 – Convergence program	Without target date
7. Sweden	*Without target date*	1995 – Adherence year	Without target date
8. Hungary	2008	2003 – Economic pre-adherence program	Without target date

Source: processed after the data from European Commission

As it can be seen, Lithuania is the only state that continues to maintain in the future, a target date to join the euro. Romania, along with the other six acceding countries, preferred to choose a "waiting position" (Isărescu, 2014).

In Lithuania's case, the main obstacle that prevented it to join the eurozone in 2006 wasn't the 0.1% excess of the price stability criterion, but the lack of sustainability of low inflation level. For Croatia, the lack of initial target is motivated by the fact that this state is the latest member of the union, its joining took place during 2013. Regarding Sweden's situation, one of the oldest member states, the main obstacle that stood in the way of joining the euro wasn't the failure of the convergence criteria, but the people's refusal expressed by vote in a referendum held in 2003.

Figure no. 3 shows the results of a European Commission Eurobarometer, conducted during 2013, related to the period of introducing the euro in the new member states.

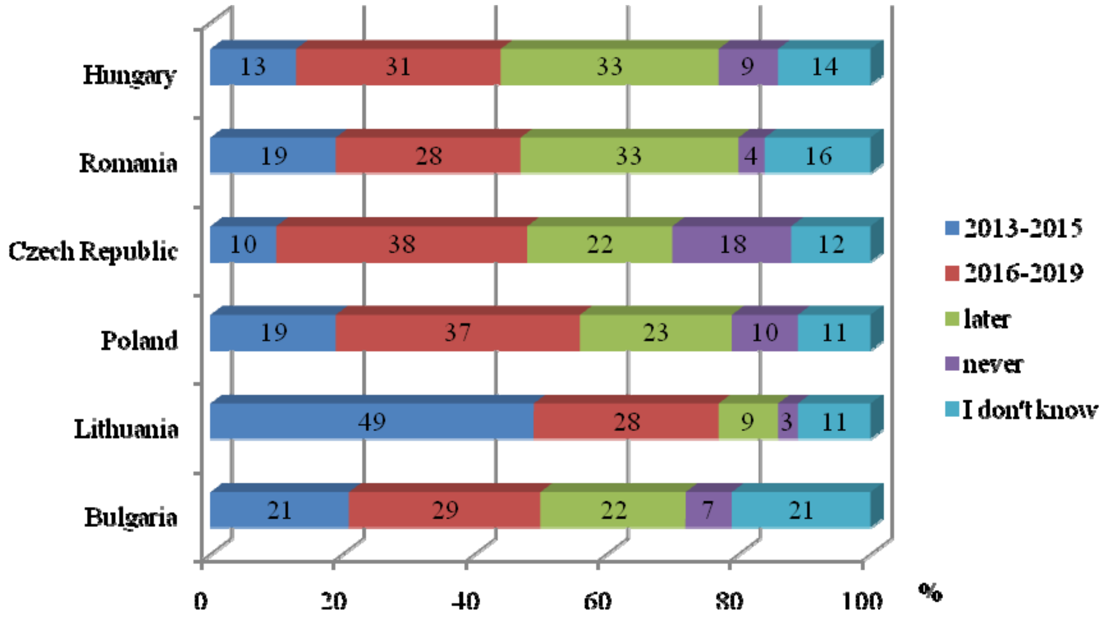

Figure no. 3-2013 Eurobarometer - euro introduction in the new UE member states
Source: European Commission

According to the study made by the European Commission, with the exception of Lithuania, among the population, the prospect of joining the euro is not significantly different from one country to another. Thus, if in the case of the Czech Republic, Poland and Bulgaria, most of the population chose the 2016-2019 period, in terms of Romania and Bulgaria, 33% of those questioned advocate the adherence to the eurozone in a period of time exceeding the threshold of this decade.

The nominal convergence reports show that currently the member states that are acceding to the eurozone are situated closer than ever to achieving the degree of convergence of the Maastricht criteria, but an approach based exclusively on their performance is not enough. Solidarity within the EMU thoroughly tested by the recent economic-financial crisis is under the risk to become fragile in case new members that are insufficiently prepared give their consent.

Thus, the recent eurozone crisis has prompted the member states acceding EMU to withdraw at the same time, the target dates for the euro adoption, the monetary integration prospects exceeding, with the exception of Lithuania, the year of 2019.

CONCLUSIONS

Economic and Monetary Union faced the most difficult financial and economic crisis since its creation; the current economic downfall is the first one to test the euro and thus outlined a number of possible scenarios for future evolution of the euro area and the euro unique.

As the National Bank representatives' opinions signal it, Romania, along with the other new EU member states, must not accelerate the transition to the eurozone in a useless manner, and adopting the euro currency should not be understood as an end in itself. The decision to postpone the target date should be seen and addressed as an additional opportunity for the real convergence of the Romanian economy and it is not to be seen as a respite that would allow a premature relaxation of macroeconomic policies.

We conclude that, undoubtedly, the nominal and real convergence process for the Romanian country has become more difficult, structural and nuanced, and joining the euro currency is announced to be harder until the crisis shocks will be completely resolved and the economical growth becomes balanced and sustainable. Meeting the Maastricht criteria is a necessary condition, but it is not sufficient, and reaching a high level of real convergence has become essential in the current economic situation. Also, the imposition of a forced euro joining may become dangerous for Romania, given the appearance of some additional reforms, being preferable for them to be fulfilled before acceding to the EMU.

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