

Is Romania Integrating in a Monetary Heaven?

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Abstract: *Obviously, the monetary integration aims at some competitive advantages being obtained. Highlighting them, in opposition with the inherent disadvantages, consisted in the subject of our research. Our belief is that, at least until now, no scenarios have been imagined to present us how the economy would have evolved, if Romania had adopted the unique currency before the global crisis started in the last decade's final years.*

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1. Introduction

Romania's accession to the Euro involves a series of important advantages, some political and social, other financial and economic. The economic ones have to represent the main focus of both the architects of the common market and of those of the Euro zone.

First of all, in order to have a common, European market, a unique currency is indispensable. The financial transactions have to be performed as easily and quickly as possible and this is highly facilitated by a unique currency. No matter how many tariff and commercial barriers are removed between the markets, the simultaneous circulation on a market intended as unique of as many national currencies as possible, each changing its value independently of the unique market's evolution, but rather as a result of the characteristics of each national economy and of government policies of the different nations participating to the unique market, increases both the difficulties and the costs of transactions and considerably reduces the equality of opportunities on the same market. It is approximately the same thing with simultaneously having more measure units for weight, length and capacity, situation experienced by the European countries for centuries throughout the Middle Ages. As we already mentioned, the medieval society could handle these local diversities for centuries, but one the trade and market did not play in the medieval society the exceptionally important role they have today within the modern economies. And, for the EU, maintaining the national currencies, even by removing the tariff and commercial barriers between the member economies – Romania's current situation in relation with the EU member states – would not have pushed the European integration further than the level it had reached before introducing the Euro currency.

The use of a single currency in commercial transactions does not radically change the situation. After all, most of the period subsequent to the Second World War, a large percentage of transactions of goods, services and money between nations (around 80%) was made by means of the American Dollar, but by no means did this lead to the creation of a unique market similar to the one within the United States, where 50 states integrated in the American Federation use the same currency. The difference consists in that fact that these states use the unique American currency

not only in the transactions between them, but also as “national currencies”, which allows for a simultaneous integration of both the states’ markets, and of each state’s market within the United States. Using a unique currency just for transactions between states is totally different from using it for each economy within the groups of states which gave up any commercial or political barrier between them. This is the exact type of integration the leaders of the European Union aimed at.

They also benefitted from a successful experiment. France had succeeded in doing so in its former colonial empire, as it had managed to build not just common markets, but also to convince each of two groups of states, one from West Africa, the other from Central Africa, to use a common currency – the Central African Franc and the West-African Franc. We don’t know whether the specialists who assisted the political deciding factors studied the African experiments, but they must have studied, on the one hand, their own historical experience – as there was a time when in each of the current states belonging to the Euro zone several local currencies circulated simultaneously – and, probably, the American experience. They also had close at hand other experiences, some having taken place without problems, such as the Euro being unilaterally being adopted as national currency by a series of small European states, but also others with negative results, such as Argentina’s spectacular story. Towards the end of the 1980s, Argentina, which suffered from hyperinflation (5000% annually), high unemployment rate and economic recession, linked its national currency to the Dollar in 1991, adopting a fixed exchange rate, a measure similar to using the American Dollar as national currency. This rendered to Argentina a stable currency, a low inflation, trust from international investors and massive loans from the IMF. This only drawback was that, in 1999, when Argentina experienced difficulties again, the Argentinian governments’ efforts to maintain the parity with the Dollar significantly deepened the crisis and led to a near dismembering of the country as result of the economic crash, the state’s default and the social revolts. A drastic economic recession ensued and only after reintroducing a fluctuating exchange rate for the national currency and after huge economic and social costs, did Argentina managed to recover and, just over a few years, to successfully survive the world financial crisis and the economic recession which the most developed countries of the world passed – and are still passing – through.

2. Positive consequences

All these experiments and histories of using a unique currency by more national economies proved, among others, not just that adopting it involves both beneficial and damaging effects, depending on the national and international economic context, but also, that, in the end, the advantages or disadvantages of adopting it predominate, according to each country’s economic characteristics, on the one hand, and its evolution in relation to other economies using the same currency, on the other. During the first period, when the Euro was adopted by a relatively high number of states, also very diverse from economic and political points of view, the advantages predominated. The first advantage which manifested itself immediately was the sudden cheapening of the government expenditures’ international financing, an aspect which we analyzed even since the forth chapter of this paper. While the international financing costs of the Euro zone’s member states varied quite a lot during the period when they were only EU member states, after introducing the Euro they unified at the lowest level, that means at the level of the country with the strongest, most stable and most reliable economy from the Euro zone, which has been, ever since, Germany. This mostly favored the countries which, up to that moment, were at the periphery of the

European Union (such as Greece, Portugal etc.) and which, after adopting the Euro, found themselves in the position of being in the developed center of the EU region and, at the same time, in the developed center of the entire world and, consequently, of the world.

This evolution also continued for the countries that adopted the Euro later, at set terms for fulfilling the accession's technical requirements. The international context was, in that moment of growth for the entire world economy thanks to the financial "bubbles", favorable to investments, either direct, or speculative, in the world's emerging economies, while the Euro zone's less developed countries appeared as the most attractive for foreign investors, owing to the investors' expectations of solidarity between the strong economies and the weak ones and to the latter's potential to save the former from a default, should any such default have occurred.

Besides, in the years that followed to 2002 – the year when the unique currency became a reality – and until the outbreak, in 2008, of the world financial crisis, the attitude which dominated both the political environment and the international community of economy specialists was that any sort of financial crisis, followed by a deep economic recession, such had been the case of that between the wars, had already become impossible. Only the marginalized academics and virtually none of the world's important political groups were considering such an option, with no other arguments than the long series of national financial crises that more or less developed countries from Asia, Latin America and Europe had gone through in the previous two decades. Anyway, any of these crises could have been considered not just isolated and limited – actually none of them was isolated, as they all had negative international influences, as result of the globalization expansion and of the growth in inter-dependency between the world economies – but could have very well been explained almost exclusively through unique characteristics of the economy, society or national policy, so that the idea of a global crisis remained a theoretical eccentricity, with such a low probability of occurrence, that it could be neglected. And neglected it was.

For Romania, joining the Euro zone during the initial period, when it was successful and recorded an accentuated economic growth, would have been extremely beneficial. It would have allowed Romanian politicians access to cheap financing of some economic and social development projects, which Romania badly needed in order to reduce the gaps between its own economy – one of the least developed in the entire EU – and the European average.

But the international financing of governmental development projects – along with funds specifically provided by the EU, ample and, in the same time, hard to access – was just one of the economic and financial advantages Romania could have theoretically benefitted from as result of adopting the Euro. We should also add the exceptional facilitation of all economic flows between our country and the more developed ones from the Euro zone. From the goods, services and capitals circulation to the circulation of people, information and technologies. Besides, a large part of the "mist" covering Romania's situation in the EU would have been lifted, as the raw materials, energy, salaries and any other expenses would have been paid in the unique European currency, while the sales would have been recorded on a market on which the internal and export prices, even if they had not been identical, would have been at least expressed in the same currency and would have allowed a redirecting of more strategies, some national, other just at a company level.

These economic advantages, in their own turn, would have triggered, at least theoretically, a series of advantages at a social level. Undoubtedly, many prices would have increased, not very much, but, anyway, the European Union leads a policy of unifying the prices, for the basic products, at least. Beyond doubt is also that the

salaries would have increased and, based on this growth, the pensions as well, and the Romanian citizens' standard of living would have gradually got close to the European average. The political effects of joining the Euro zone would have been multiple and advantageous. Thus, as result of adopting the Euro, Romania would have benefitted from a higher level of integration than the one obtained as result of the 2005 treaty. Under these conditions, its political position in the EU would have substantially improved. The mechanism of cooperation and verification of the Romanian justice system would have stopped more easily, the accession to the Schengen space would have encountered less problems and even the issues related to the Romanian emigrant from the EU space would have taken place and been resolved in another context. The Romanian politicians would have been more credible and more influential in the EU's leading political institutions, while Romania's image in the European and international space would have considerably improved. So, it is understandable the Romanian politicians' interest for Romania joining the Euro zone, after joining the EU space. All of these would have happened if, and it's worth underlining this condition, the evolutions of the first years after adopting the Euro had continued, as it was hoped to, for a longer period of time. This time was absolutely necessary so that, according to the hopes of the EU constructors and leaders, the gradual economic integration the unique currency would have pressed for, would have gradually led to a higher and more centralized political and administrative leadership of the EU. These hopes were justified, considering the determining role bestowed, in practice, on the economy in relation with political construction by the EU leaders, but also by the capital representatives, by the population and by the EU member nations. And the political option of Romania's political elite and government in the period subsequent to joining the EU – the option to prepare the accession to the Euro – would have probably been, even now, the political objective which would have unified the efforts of the Romanian political class, as joining the NATO and the EU had unified them in the decades accompanying the transition, if – and only if – the financial and economic crisis of the entire EU had not brought to attention the disadvantages and costs of a country adopting the unique European currency. The crisis did more than that. It modified the realities of the Euro zone and the realities of the EU so that, in this moment, Romania joining the Euro zone has not just become an objective not only unattainable, but also undesirable for everybody, meaning for both the Romanian government and elites, and for the political leaders of the Euro zone and, implicitly, the EU.

3. Negative consequences

All these costs and risk involved by a high number of countries adopting a common currency which, still, had so many different economic, financial, social, cultural and political characteristics and which, actually, followed their own way of development, while making great efforts to support each other, were minimized in the EU's period of economic boom and relative prosperity, but they were brutally revealed by the crisis. Moreover, they led to a recession which, in its own turn, produced so many divergences and political controversies that they ended up questioning not just the maintaining of the Euro zone, but also the maintaining of the unique European currency and even the survival of the European Union as political edifice. Next, they have to be highlighted in order to understand the decisions taken by the Romanian and European political factors regarding Romania's accession to the Euro, as well as Romania's current situation and its future within the EU.

When a country adopts a common currency, it loses two vital controls over the systems that balance its growth and recession, inflation and deflation, stability and

instability. The first consists in the exchange rate of the national currency in relation with the currency of other countries it has commercial relations with and this control becomes increasingly important and efficient as the country is more integrated in the international economy and more dependent on its international trade with other countries. The second consists in the national reference interest, meaning the reference price of the money in the national economy. These two represent some of the most important instruments a government has in order to influence the country's financial and economic evolutions and to manage their political and social effects. For this very reason the national currencies and banks have been created and this is why these two controls are a major attribute associated with a state's sovereignty over a society.

In the special situation of economic and social prosperity, mostly when it is generated by the participation to international financial and commercial flows, the state authorities exerting these attributions can go unnoticed, while in some cases it can even become damaging for the immediate interests of some major social groups from the society. The latter case is well-known by the Romanians who lived in the last decade of totalitarian regime, when the Romanian state abused these levers – along with others – in order to isolate as much as possible the Romanian economy from the world economy which, where they accepted or not, it was integrated into.

Vice versa, in case of an expanding economic crisis, especially when they are originated in the global economy the country takes part in, the inexistence of these two control instruments, namely the impossibility to modify the exchange rate on the international market and the impossibility to increase or decrease the money's costs in the economy – exactly what any Euro zone member states accepts to do – can become extremely damaging for one's own economy and can have extremely grave effects on the population, as it was the case of the Argentinean crisis, mentioned above. And the big difference between the Euro zone member states and Argentina in the years 1999-2002 is that, while linking the Argentinean national currency with the American dollar was Argentina's act of unilateral political will, which she gave up in order to exit the crisis and avoid social and state dissolution which became imminent, the Euro zone member states find themselves in the impossibility of exiting the Euro zone and of returning to a national currency, without paying financial, economic and social costs which are, at this moment, unknown – there has not yet been the case – and, on the other hand, which are considered to be very high.

The problem and, equally significant, the disaster that ensues and which has copiously been illustrated by countries like Ireland, Greece, Cyprus, Portugal etc. derives from the Euro zone member states' interests in national economies in relation to the international market, on the one hand, and the "general" interest of the entire Euro zone, expressed and transformed in monetary policy – exchange rate and reference interest for re-financing the member states' banking systems – by the Central European Bank. As there is no way to define or calculate the "general interest" of the Euro zone member states by the simple addition of the zone's member states interests, then the "general interest, as well as the CEB policies regarding the exchange rate and the reference interest rate fall into its responsibility. Through the legislation which consecrates its statute and attributions, CEB is independent in its relations with both any of EU and Euro zone member states government, and in its relations with the political institutions that lead the EU and, implicitly, the Euro zone. Under these conditions, the general interest of the Euro zone – and of the EU – is considered, according to the neo-liberal ideology and economic theory, as an exclusively technical issue and independent of political decisions and interests. It would be established by the technicians-functionaries of the CEB. However, this firm

conviction based on neoliberal ideology does not change the political aspect of the decisions the CEB takes in the two aforementioned fields. Consequently, as these decisions cannot be taken in full independence of any political interest, the CEB functions in accordance with the economic, social and even political interests of the most influential and economically powerful EU and Euro zone states. And in the concrete case of the Euro zone subsequent to the start of the world economic and financial crisis, it functions in accordance with the financial, economic and political, even circumstantial, interests of Germany, the country that is currently dominating both the Euro zone and the EU and, which, in the end, is paying for most of the costs necessary for the entire Euro zone to function and, possibly, exit the crisis. This happens after it was the most important beneficiary of the zone's economic success during the boom and prosperity period.

This reality has not remained unnoticed either by economic analysts, or by the world's politicians and, obviously, by the international capital managers. This is why a large number of suggestions made by them to fight the effects of the world crisis on the European economies, in general, and on the Euro zone, in particular, aimed not at the CEB monetary policies, but at Germany's economic policies. Beyond the concrete content and the details of these proposals, they all had a common denominator: an increase in Germany's population and government consumption, which would have involved a possible economic growth for the Euro zone economies – and also for those outside it – based on their exports towards Germany going up. To a large extent, such policies from Germany would have had a similar effect with that of decreasing the exchange rate of the national currency in the countries from the Euro zone which were experiencing problems, as this increase in their capacity to export on the German market would have allowed them, over time, to balance the banking systems and the macro-economic situations from the Euro zone's problematic countries. It would have been another way of stimulating these countries' competitiveness in their relation with Germany and, in the same time, would have allowed for these countries to by some time to take measures – and they would have also had resources for this – to solve at least a part of the vulnerabilities and structural weaknesses of their own economies and societies.

It is true that, this way, a significant percentage of the costs of economically recovering the Euro zone countries which were experiencing problems would have involved, on the one hand, a transfer of these costs towards the most competitive and efficient European economies. But these expenditures would have been quickly recovered along with the long awaited economic revival of the entire Euro zone and, in consequence, of the entire EU (and beyond) and would have resumed the dominant flow of resources from the EU periphery and the Euro zone towards the region's developed center, in which Germany is the main beneficiary. Instead, as we have seen in the fifth chapter, Germany – supported by a group of Northern countries, less affected by the American financial crisis and the recession that ensued, inclusively, as it is the case of Sweden and Denmark, because they retained their own currencies – opted for the most isolationist policy possible in the context of belonging to the Euro zone: the austerity policies, applied both "at home", meaning in Germany, and imposed, in tough forms, in the countries that were making use of the bail-out, especially after the crisis combined with that of sovereign debts and with the recession generated by these austerity policies throughout the EU space. And one of the reasons all these countries ended up in such difficult situations was exactly that they belonged to the Euro zone.

The Euro zone crisis offered the Romanian authorities and specialists the opportunity to directly observe the implications of giving up the two instruments of

controlling the monetary policy: the exchange rate and the reference interest rate. Both the Euro exchange rate and the CEB reference interest rate are established in accordance with the immediate economic interests of the most powerful countries in the Euro zone and not with those experiencing problems. On the contrary, still holding this control over the Leu, BNR could take measures to mitigate the crisis effects on the Romanian economy and society. Considering Romania's economic and social vulnerabilities, if the financial crisis had hit Romania after it had adopted the unique European currency, it would have been highly probable that the effects on our country would have been deeper than those on Greece or Portugal.

Still benefitting from a national currency, Romania managed to take, at least by means of monetary policies, a series of measures absolutely necessary for the economy to be stabilized, even if this happened at a lower level than the maximum reached in the period 2007-2008. Firstly, it allowed strong depreciation of the Leu in relation with Euro and, consequently, in relation to all other international currencies. And the process of gradually reducing the Leu value in relation with the Euro started early, even since 2008, before the series of bankruptcies from the banking system from the autumn of the same year. In the period 31 December 2007 – 01 April 2013, the Leu depreciated in relation to the Euro from 3.3 Lei/Euro to 4.4 Lei/Euro, which means 33 BNR(2013). Chart no. 1 is illustrating in this respect.

This exchange rate depreciation had powerful macro-stabilizing effects. First of all, it generated a strong re-equilibration of the country's trade balance and current account. Decreasing the Leu value by a third led to a decrease of also a third in the Romanian population and company purchasing value – whose income is mainly in Lei – on the international market, thus massively reducing goods and services imports, but without affecting their purchasing power on the indigenous markets, whose markets went up – due to their import components, but this growth was limited.



Chart no. 1 The evolution of the Leu/Euro exchange rate in the period 2007-2011
Source: BNR

In exchange, the Leu depreciation massively reduced in Romania the production costs for products destined for exports and stimulated, until the second part of 2012, the increase of exports for a series of products, while stopping the import increase. Romania's exports grew exactly during the recession period, this means in the period 2008-2012, from 33 billion Euro in 2008 to 45 billion Euro in 2011 and 2012, by 36%, while the imports remained relatively constant, at around 52 billion Euro. As a consequence, the trade balance deficit reduced in 2012 to just 7 billion Euro, compared to 19 Euro in 2008, while the current account deficit dropped from 16 billion Euro in 2008, to only 5 billion Euro in the period 2010-2012. The evolution of exports is synthetically presented in Chart no. 2.

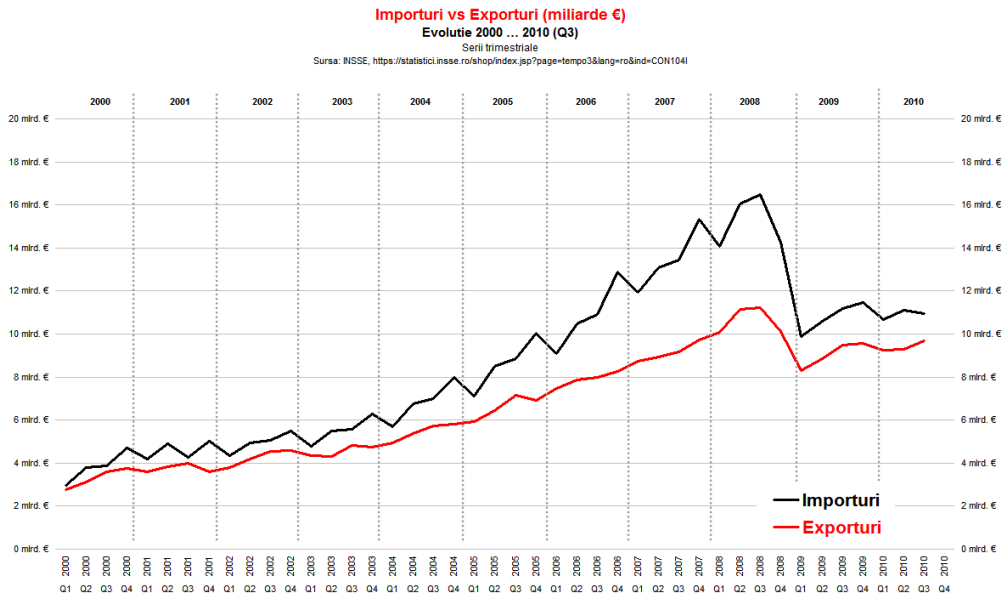


Chart no. 2 Evolution of exports and imports in the period 2000-2010

Source: <http://turambarr.blogspot.ro/2011/01/evolutia-importurilor-si-exporturilor.html>

It is not less true that this powerful macro-economic equilibration of the Romanian economy would have cost the population and society much, both directly, due to the austerity policies, and indirectly, by due to the massive growth of the public external debt. And, in the end, this debt is paid, by the population, by means of taxes collected by the state. The other important cost that burdened the population and, also, the companies, consisted in the population and companies' decreasing capacity to pay off the credits accessed in the affluence period of the cheap capital, approved in less demanding conditions, meaning the period 2003-2008. The result negatively influenced both the population welfare and the companies, sometimes directly, by forcing a large number of companies into insolvency or bankruptcy, or sometimes, indirectly, by reducing their markets. Siderurgy, metallurgy, construction material industry, transportation and constructions were the most affected by these measures. And, of course, the retail industry, both the goods industry and that of services provided to the population.

4. Conclusions

There is, or at least it has not been made public, no credible enough scenario that could tell us how the Romanian economy would have evolved under crisis condition, if Romania had already adopted the Euro before the crisis and the recession started. Namely, what would have happened, if Romania had lacked those leverages of monetary policy necessary to adjust the economy to the new international conditions? What is certain, however, is this growth in exports which stimulated and helped the growth in industrial production during the crisis, was the main constraining factor of the drastic reduction of the internal market in the same period. If Romania had not been able to depreciate its national currency enough to allow exports to grow at the maxim level the Romanian economy can currently reach, then its economic situation would have been much more difficult, and the recession it had passed through in 2009-2011 would have been deeper. One must also add another of Romania's important particularities. That is, due to political circumstances, current social situation, tense relations between the foreign and domestic capital, marginal position in the EU and in the European and international economy, and last, but not least, a long series of structural vulnerabilities, the only instruments for efficient influence – but of low efficiency – from the governing elites on the Romanian economic evolutions remain those related to monetary policy. Which is exactly what Romania should give up to, if it adopts the European currency.

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