CONCERNS REGARDING TO SUCCESSFUL ADOPTION OF THE EURO IN ROMANIA

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Abstract: The purpose of this paper is to survey the actual arrangements for adopting the euro currency in Romania. We analyzed the events and conditions that may influence and cause significant challenges, vulnerabilities and doubts about the euro changeover. We explore the issues related to Romania's nominal convergence in order to adopt euro in 2015. We based our approach on the Maastricht Treaty criteria, a requirement for the euro currency adoption. We comparatively study Romania's situation face to European Union Member States that did not adhere until now to ERM Exchange Rate Mechanism II and that do not benefit of special opt-outs stipulations - Czech Republic, Hungary, Poland and Bulgaria.

JEL classification: F36, F42, F33, E58

Key words: Euro adoption in Romania; Convergence; Economic and Monetary Union; advantages and disadvantages; alternatives

1. INTRODUCTION

We chose the theme of euro adoption in Romania based our approach on the importance of this subject in the contemporary economic field. The future euro adoption is a subject of great significance to Romanian, both for institutions - the National Bank of Romania, banks, companies and other types of organizations and to individuals, a large number of people.

Romania joined to European Union in 2007 and declared its intention to adopt euro currency a few years after its European Union admittance. An initial optimistic strategy to adopt euro early was replaced with an extended timeline. The starting point of our research is the provisions mentioned in the Convergence Programme 2011-2014 issued in April 2011 by the Government of Romania. According to the mentioned document, Romania maintains its commitment of adopting the euro currency in 2015, which is an important anchor in promoting the budget and structural reforms in order to boost economic flexibility. In 2011, in order to sustain the future euro adoption, was created an Interministerial Committee under the Prime Minister's coordination. This Committee consists of officials of the National Bank of Romania, the Ministry of Public Finance and of other responsible entities e.g. the National Commission of Prognosis and the National Institute of Statistics (Prime Minister's Decision no. 58/2011).

More than ten years have passed since the euro currency was adopted at the level of Economic and Monetary Union. Slowly, the initial exuberance and confidence in euro's virtues were replaced to the wavering and hesitation to believe in euro zone and its merits. A short briefly description of the euro phenomena cannot ignore the foundation of the European Monetary System EMS in 1979, accompanied by Exchange Rate Mechanism ERM, which established exchange rates among the currencies. Through its principles, European Monetary System was a precursor for the Economic and Monetary Union, developed in three stages. The first stage, 1990-1993, was marked through the free movement of capital between the Member States. The second, 1994-1998, implied the creating of the framework for the single currency creation. The third stage begun in 1 January 1999 assumed introduction of the euro as a single currency and creating the European Central Bank, in order to implement the monetary policy of the countries participating in the euro area.

In 2002 euro banknotes and coins were put into circulation in so-called Eurozone, initially consists of twelve Member States of the European Union – Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Spain and Portugal. Subsequent, on 1 January 2007 Slovenia joined to the euro area, on 1 January 2008 Cyprus and Malta, on 1 January 2009 Slovakia and on 1 January 2011 Estonia. Consequently, seventeen European Member States have adopted euro currency.

2. OBJECTIVES

We intend to analyze the condition to further monetary integration of Romania within the Economic Monetary Union, based on nominal convergence assessment. We comparatively examined the progress made in nominal convergence at the level of the European Union Member States that did not adhere until now to ERM Exchange Rate Mechanism II and that do not benefit of special opt-outs stipulations - Czech Republic, Hungary, Poland and Bulgaria, during 2007-2011. These countries benefit of a derogation to accede to Eurozone and have to accomplish the criteria of nominal convergence, called Maastricht criteria and comprised in the Treaty of European Union.

This comparative approach of nominal convergence criteria intend to establish the Romania’s situation, face to the reference value of criteria according to Maastricht Treaty and face to others countries that have to adopt euro in the future.

3. METHODOLOGY

The used research methodology belongs to interpretive and critical paradigm, through literature analysis, quantitative and qualitative techniques and to constructivist approach, based on the interpreting research. The problem is presented from the general and technical features of euro towards the specific situation of Romania. The major challenge of this paper was to select the representative studies in the area, because there are innumerable, consistent and various researches on euro prevail in the entire world. Additionally, a provocative step was to distinguish among many institutions that provide quantitative data regarding the economic indicators linked to the nominal convergence, in the Eurozone context.

4. ANALYSES

Examination of the nominal convergence implies studying of the provisions contained by the Treaty on the Functioning of the European Union, which specifies at article no. 140 the requirements for achievement of a high degree of sustainable convergence by reference to the fulfillment by each Member State. The criteria of nominal convergence, called Maastricht Criteria are presented bellow, based on the provisions of the Treaty on the Functioning of the European Union and its Protocol.

Table no. 1 Nominal Convergence Criteria – Economic Monetary Union

Criterion	Measurement	Explanations
Achievement of a high degree of price stability	Rate of Inflation	Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1,5 percentage points that of, at most, the three best performing Member States in terms of price stability.
Sustainability of the government financial position	Government Deficit to Gross Domestic Product GDP	Member State is not a subject of an European Council decision regarding to excessive deficit (government deficit to gross domestic product GDP do not exceed 3%).
	Government Debt to Gross Domestic Product	Member State is not a subject of an European Council decision regarding to excessive deficit (government debt to gross domestic product GDP do not exceed 60%).
Convergence of interest rates	Nominal Long-term Interest Rate	Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability.
Participation in the Exchange Rate mechanism of the European Monetary System	Observance of the normal fluctuation margins of the national currency	Member State has respected the normal fluctuation margins (+/-15%) provided for by the exchange-rate mechanism on the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period.

Source: Treaty on the Functioning of the European Union, Protocol no. 13 on Convergence Criteria

The mentioned criteria represent a guide for the European Union in order to establish if a state with derogation to adopt euro fulfils criteria and if its derogation have to be ended. According to article no. 140 of the Treaty on the Functioning of the European Union, at least once every two years, or at the request of a Member State with a derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union. Last Convergence Report of Central European Bank was issued in May 2010 and concludes that compared with the situation described in the 2008 Convergence Report in many countries important challenges have come to the fore related to previously accumulated imbalances and vulnerabilities, which have led to a deep adjustment process over recent years.

Studies on the euro adoption and its functioning and principles are numerous and widespread, the specialized literature offers multiple general well-documented descriptive or much practical approaches of this subject.

Recent researches on Eurozone present the difficulties of this area in the context of the actual financial crisis. Some authors have doubts regarding to the viability of euro and express their concerns about the challenges to the Eurozone. Late study considers that uncertainty about the future of Eurozone began in early 2010 as a result of the onset of a sovereign debt crisis in Greece and subsequently, concerns spread that Ireland, Portugal, Spain and Italy also lack sustainable fiscal positions. The authors formulate tree possible scenario for the future of the Eurozone: the Eurozone breaks apart, the Eurozone survives or the Eurozone becomes more integrated (Ahearn et. all, 2012). Greece is considered the center of the crisis, that sets precedents for responding to crisis in other Eurozone countries and reveals tensions among European Union Member States about the desirability of closer integration (Nelson R.M. et all, 2011).

Studies on costs, benefits and timing of euro adoption issued by the central banks of new EU Member States show that this is a subject of great significance to banking field and to national supervision authorities. At the beginning of 2000, studies were optimistic, for example, in Hungary (Magyar Nemzeti Bank, 2002), the findings of a central bank's analysis suggested that the introduction of the euro will bring about significant net gains in growth. The mentioned analysis quantified three key benefits arising from euro area membership, in the form of gains from reduced transaction costs, expansion of foreign trade and a drop in real interest rates.

In 2006, the Governor of Central Bank of Malta (Central Bank of Malta, 2006) recognized that the New Member States have come a long way in honoring their commitments to achieve the established macroeconomic targets and implement significant structural reforms, often against heavy odds. He mentioned the difficulty of the task itself, and the economic and social costs involved, but also against the background of an unfavorable global environment.

In Romania, the Governor of the National Bank of Romania (Isărescu, 2008) declared that the Romanian authorities set as a strategic economic policy objective the fulfillment of all the requirements that would allow the adoption of the euro as the national currency in 2014. Later on this target was changed with 2015, established year to changeover. The Governor underlined it is adequate to focus not only on nominal convergence, but also on several issues pertaining to real economic convergence. That's equivalent to put in place the conditions necessary for a rapid, sound and sustainable economic growth. The authors considered that the large disparities between the performance of the Romanian economy and that of European Union countries compel us to do that.

The case of Slovak Republic was studied based on the impact on euro adoption on inflation and interest rates (Hüfner and Koske, 2008). The authors considered there will be significant the medium- to longer term effects of euro adoption, like Balassa-Samuelson and other effects related to catch-up countries, that may raise the Slovak inflation rate above the euro area level for a longer period of time, although the size of the effect is difficult to quantify.

In the same manner as our paper, previous research study described the competitive advantages among member countries and factors that stay behind the accumulated imbalances and cross-country differences (Pal, 2011). The author presented three alternative scenarios of euro zone's future (according to Annunziata and Thorsten (2010)). The first scenario is called the "Quantum Leap" and has a 20% probability of its occurrence. This scenario implies significant structural reforms this should be in the direction of guaranteeing much greater and credible coordination of fiscal policies. Given the more restrictive criteria, a delay in EURO adoption of Romania became highly probable under this scenario. The second scenario is the most pessimistic one and implies the "Disintegration" with 15% probability of occurrence. In this scenario, clearly there is no place to join for Romania. In this scenario, the euro zone might break apart and this might happen in different ways. One possibility is that one of the countries with the weakest fiscal position and poorest competitiveness might decide to leave the euro zone in order to gain some more flexibility by reacquiring its own currency. The third Scenario implies mainly “Cosmetic Surgery “and it has the highest probability to happen (65% probability). In this most plausible scenario Romania might join and be an active partner of undergoing structural changes and continuous improvement (Pal, 2011).

Another study based on the same objectives like our paper (Mărginean and Orăștean, 2010) presented an overview of the situation and analyzed the economic performance of the twelve New Member States of European Union based on the Maastricht Treaty criteria. The authors launched an important question regarding the necessity to reshape the Euro area entry rules. Their findings suggested that the Maastricht Treaty criteria are too far for many countries outside the Eurozone.

Some authors (Drăgan and Pascariu, 2008) studied Romania’s real convergence between 1999-2008 and the regional disparities in the context of European convergence, inclusively between Beta and Sigma. They put forward two logical questions: the first, if the integration in the Economic and Monetary Union is a real and sustainable convergence or only desirable and the second, whether is enough the observance of nominal criteria in the previous period, before euro changeover or especially after the euro adoption. The real convergence was a subject also to another author (Stoica, 2008), that underline that Romania should think at real convergence, not at the nominal one, to conscience the dangers of entering the euro area without the real convergence. Stănculescu (Stănculescu, 2010) considered that in Romania, the changeover will be a complex phenomenon that depends not only on macroeconomic indicators, but also on the social reaction, the environment office, consumers unions, and general population. The implications of euro adoption over the monetary policy were studied in the terms of the supplementary constraints at the level of the monetary policy in Romania, in the context of imminent euro adoption (Tănasie, 2010). The author presented her doubts about soon euro accession, based on the necessity to first ensure convergence and its sustainability.

Another author (Sandu, 2009) considered that the success of euro adoption depends on the mobilization of political and social forces towards continuing the reforms necessary both to achieve nominal convergence criteria and increase the competitiveness of the Romanian economy. She invoked international financial crisis that should not be neglected, since it makes the task of adopting the euro by Romania more difficult.

A consistent literature in the field from latest years points to the technical conditions to adopt euro. Besides these approaches, it is important to study the citizens’ attitude toward the euro.

Some conclusions show that most individuals nonetheless have an opinion on the introduction of the euro (Allam and Goerres, 2008). This might be explained by the fact that the currency, the money, the cash belong to our everyday life. It is familiar to us, and changing the currency needs practical adaptation from everyone. The authors analyzed why citizens in the new EU member states in Central and Eastern Europe hold different attitudes toward the euro. They tested three main perspectives in a quantitative survey analysis of Eurobarometer data: (a) the economic perspective where the individual forms an opinion based on economic evaluations; (b) the political perspective where the individual reacts to political dynamics in order to arrive at an attitude; (c) the historical-ideational perspective where individuals perceive the currency to be part of their identity. Conclusions of their study suggest that public opinion on the euro is in large part a function of four factors: the success of the economic transition; support for the euro draws on historical idiosyncrasies because the relative number of casualties in World War II has one of the strongest impacts on the formation of public opinion on the euro; support for the euro is influenced by political circumstances, especially the individual's satisfaction with democracy.

4.1 CRITICAL

THE PURPOSE OF THIS SECTION IS TO EXAMINE THE STATE OF NOMINAL CONVERGENCE BETWEEN ROMANIA AND THE OTHERS EUROPEAN UNION MEMBER STATES THAT DID NOT ADHERE UNTIL NOW TO ERM EXCHANGE RATE MECHANISM II AND THAT DO NOT BENEFIT OF SPECIAL OPT-OUTS STIPULATIONS - CZECH REPUBLIC, HUNGARY, POLAND AND BULGARIA. THESE COUNTRIES ESTABLISHED INITIAL APPOINTED TERM TO ADOPT EURO AROUND 2012, THEN 2015, BUT WITHOUT ASSUME OBVIOUS OBLIGATIONS.

TABLE NO. 2 INDICATOR OF NOMINAL CONVERGENCE OF NON-EMU COUNTRIES, 2007-2011

Criterion	Indicator	Year	Reference Value	Romania	Czech Republic	Hungary	Poland	Bulgaria
Price stability	HICP Inflation Rate	2007	*2,83*	4,90	3,00	7,90	2,60	7,60
		2008	*4,06*	7,90	6,30	6,00	4,20	12,00
		2009	*0,57*	5,60	0,60	4,00	4,00	2,50
		2010	*0,80*	6,10	1,20	4,70	2,70	3,00
		2011	*3,76*	5,80	2,10	3,90	3,90	3,40
Government Budgetary Position – Government deficit	Ratio of Government Deficit to GDP	2007	*-3%*	-2,90%	-0,70%	-5,20%	-1,90%	1,20%
		2008	*-3%*	-5,70%	-2,20%	-3,70%	-3,70%	1,70%
		2009	*-3%*	-9,00%	-5,80%	-4,60%	-7,30%	-4,30%
		2010	*-3%*	-6,90%	-4,80%	-4,20%	-7,80%	-3,10%
Government Budgetary Position – Government debt	Ratio of Government Debt to GDP	2007	*60%*	12,80%	27,90%	67,00%	45,00%	17,20%
		2008	*60%*	13,40%	28,70%	72,90%	47,10%	13,70%
		2009	*60%*	23,60%	34,40%	79,70%	50,90%	14,60%
		2010	*60%*	31,00%	37,60%	81,30%	54,90%	16,30%
Interest Rates	Long term interest-rates	2007	*6,38*	7,13	4,53	6,74	5,40	4,53
		2008	*6,23*	7,69	4,63	8,23	6,07	5,37
		2009	*6,46*	9,69	4,83	9,12	6,12	7,21
		2010	*8,64*	7,33	3,88	7,28	5,78	6,00
		2011	*5,83*	7,24	3,70	7,63	5,95	5,35
Assuming Exchange Rate Mechanism II	ERM II	2011	-	No	No	No	No	No

Source: Author's Calculus based on primary data issued by European Commission EUROSTAT, European Central Bank 2007-2012

Regarding the price stability criterion, only three examined countries fulfill the requirements – Poland in 2007 and Czech Republic and Bulgaria in 2011. The others country exceed the limit of the HICP Inflation Rate established in the Maastricht Treaty and reasons for this situation depend in last years on substantial worsening of the macroeconomic conditions and economic slowdown. Referring to the government budgetary position, we observe that the situation of the majority of the countries drastic deteriorated since 2009. All analyzed countries record government deficit above the limit for excessive deficit and are the subjects of excessive deficit procedures against them in 2010 and have to apply recommendations for the deficit adjustment. Such behavior could be explained through the erosion of the countries' stability and the need to apply the fiscal consolidation measures in terms of both revenues and expenditures. Regarding the government debt, only Hungary does not fulfill the reference value of the indicator, but the remains countries deteriorated their situation compared with previous years. Relating to interest rates, only two states achieved in 2011 the criterion – Czech Republic and Bulgaria, state based on the financial crisis manifestations and worsening of the perception on the risk. The last analyzed criteria regarding to the participation in the Exchange Rate Mechanism II, show the national options to still not participate in the Exchange Rate Mechanism II, an anteroom of Eurozone. Current period, described by the increased volatility of the currencies could generate extensive tensions about the limit of margins (+/-15%) of the interval of the national currency's fluctuation.

5. CONCLUSIONS

From the reviewer of the nominal convergence of mentioned states, we conclude that no one do not fulfill the nominal convergence criteria during 2007-2011. We remark countries that lonely achieve some criteria in few years, but looking back over entire period, the analyzed countries do not fulfill the complete series of the convergence criteria. Treaty on the Functioning of the European Union mentions the requirements for achievement of a high degree of sustainable convergence. And the sustainable convergence does not mean the convergence criteria touched at one given moment. To reach a satisfactory level of sustainable convergence, the criteria have to be fulfilled on a long term, not accidental. Realistically (or not) and enforced aim to adopt euro still remains an intricate target for the mentioned Central and Eastern European Countries. They continue to be an unattractive area for foreign investors, with uncompetitive economies, benefited to national currencies depreciated significantly against euro.

Presume that a Member State that benefit of derogation to adopt euro fulfils the criteria of convergence and expressed its option to adopt euro in a specified term, achieves the criteria, then European Council abrogates the derogation and irrevocable fixes the exchange rate between euro and currency of that state. From this moment, euro becomes the legal tender in mentioned state. Since today, adoption of euro was an irrevocable process.

The further research in the field will focus on examining of real convergence of the studied countries, in terms of extensive optimal currency area - GDP per capita, trade integration, labor market flexibility, financial sector integration and why not, on revocability process of euro adoption, based on recommendations to accomplish Maastricht criteria by the Member State whose currency is the euro.

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