

THE PRIORITIES OF ROMANIA'S CONVERGENCE TO THE EUROSISTEM

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Abstract: The international economical integration approached various national economics that produced a strong interdependency. The elimination of the customs and monetary barriers led to the apparition of macrospace, as is the EURO ZONE, for instances. This paper presents the advantages of monetary integration and the path that Romania must employ in order to achieve economic monetary integration. In regard to economic efficiency, it is estimated that the simple elimination of uncertainty over the evolution of foreign currency exchange rates and respectively of the costs of converting one currency into another will insure yearly savings of 15 million euro. A country within the European Economic and Monetary Union that is confronted with sudden changes or other specific problems, bound to decrease the expanding of its activities and consequently its income, will no longer take action by resorting to known strategies, such as interest or exchange rates.

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JEL Classification: F15, F33

Introduction

The Law no. 157/2005, for the ratification of the Treaty between the Member States of the European Union and the Republic of Bulgaria and Romania regarding the accession of Romania and Bulgaria to the European Union, published in the Romanian Official Journal, Part I no. 465 on 1st June 2005, from a legislative point of view, prepared the access of our country to the European Union on 1st January 2007.

The principles of accession of Romania and Bulgaria to the European Union, from the point of view of the European Committee, have been the following:

The continuity: the pre-accession procedures will be applied until the accession date. A passing from the pre-accession procedures to the European Union procedures must be performed quickly and without difficulties.

The rule of the law: the current community legislation is applied entirely to the new member states starting with the accession date.

The inexistence of some new procedures: the current community structures and procedures are necessary and sufficient to answer even the economic problems and the economic policy problems specific to the new member states.

The equal treatments: the European Union procedures will be applied through the granting of the equal treatment to all the member states starting with the accession moment. The gathered experience following the prior series of accessions can be used for guidance, but this is not compulsory.

The information and the consultancy: the future member states will be fully informed and consulted, if it is the case, regarding all the aspects related to their integration in the supervision procedure of the EU.

The role of the National Bank of Romania in the preparation of the participation of Romania in the Economic and Monetary Union during the pre-accession stage

According to the assumed engagements of Romania (implicitly of the NBR) in the negotiation process from Chapter 11 – the Economic and Monetary Union related to the takeover, transposition and the

implementation in the national legislation of the *acquis* due to the banking field, the Status of the National Bank of Romania has been harmonized with the dispositions of the Treaty regarding the foundation of the European Community, of the Protocol regarding the Status of the European System of the Central Bank and of the European Central Bank, as well as of the other community regulations regarding the activity of the central bank from the member states of the European Union. The law project regarding the Status of the NBR was adopted by the Senate (on 8th June 2004) and by the Deputy Chamber (on 24th June 2004) and was promulgated through the Decree no. 532/26.06.2004, becoming the Law no. 312/28.06.2004 regarding the Status of the National Bank of Romania. The new law was published in the Romanian Official Journal no. 582/30.06.2004 and it entered into force on 31st July 2004 (30 days after the publishing date), except some articles which entered into force on 1st January 2005. On the entrance into force date of the Law no. 312/2004, Law no. 101/1998 regarding the Status of the National Bank of Romania, with the later amendments and completions, was annulled.

From the perspective of the European integration, the signing of the Adhesion Treaty on 26th April 2005 represented the main event of the year 2005 which marked the deepening of the preparation process of adhesion of Romania to the European Union. The conferring of the status of active observer for the participation in the European forums structures and infrastructures determined the start of a big national process of institutional preparation to which NBR circumscribed starting with May 2005, for the multi-institutional participations, in the case of the reunions of the policies and financial services enrolled under the supervision of the European Committee, as well as directly, through the participations in the structures and the sub-structures of the European System of the Central Banks (ESCB).

For the NBR, starting this process means a series of stages, like:

the deepening of the collaboration with the ECB;

the gradual and permanent familiarization with the institutional mechanisms of the European Committee and of the European Central Bank;

the study and observance of all the working procedures of the European Central Bank;

the assuming of new responsibilities which derive from the conferring of the status of active observer and, furthermore, the status of member with full rights;

the preparation of the participation in all the structures and sub-structures of the ESCB, initially, until the adhesion date, with a status of active observer, and post-adhesion, with a status of a member with full rights,

the implementation and the transposition of these working procedures into NBR own system of regulations. Thus, NBR issued two internal regulations, Regulation no. 5/13.10.2005 regarding the security of the documents and the confidentiality of the received information and directed to the foreign partner institutions, as well as Regulation no. 4/22.02.2007 regarding the coordination of the participation of the National Bank of Romania representatives in the ESCB structures.

Presently, within the NBR, the participation process in the ESCB structures is enrolling as follows:

From an institutional point of view, the European Integration Agency and the Foreign Relations represent the unique institutional structure responsible for the coordination of the participation activity in the reunions of the General Council as well as of the ESCB structures and sub-structures. Concretely, from this point of view, DIERE assures:

The preparation of the participation of the NBR governor in the reunions of the General Council.

The management of all the documents due to the General Council.

The preparation of briefing and debriefing activities, respectively the assurance of a trade of information fluidly horizontal and vertical between all the NBR representatives in the reunions of the ESCB structures according to the specific schedule of each General Council.

The preparation of regular reunions for coordination between all the 12+1 representatives in the ESCB committees, subsequently, each representative in the sub-structures should internally coordinate the activity referring to all the due sub-structures.

From the responsibilities point of view, NBR is ready to assume new engagements and tasks, in order to ensure the more productive participations of the NBR representatives in the ESCB structures and sub-structures.

From the organizational point of view, at the highest level, the NBR governor, takes part quarterly, as a member with full rights, starting with 1st January 2007, in the works of the General Council of the ESCB together with the other 26 governors of central banks from member states. Then, the NBR representatives have received successive invitations to participate in the 12+1 committees of the ESCB, mandatory structures, clearly defined in the most important fields of activity. Thus, regularly, NBR takes part in:

through the appointed representatives, two of them at the level of prime vice-governor, respectively vice-governor, in the reunions of all 12+1 committees of the ESCB, and

according to the individual nominations at the level of each committee, through different categories of experts at the reunions of working group and of task forces.

From the point of view of informational services, NBR is still at the stage of making endeavours for the fluidization and the ensuring a more productive management of documents from ECB, with the necessary confidentiality, according to the internal regulations of the ECB as well.

This stage, the National Bank of Romania will be involved in the preparation for the adhesion to the European System of Central Banks, respectively to the Euro-system, through the appropriation of the legislative recommendations of the European Central Bank (ECB) and the European Committee (EC) for the observance of the criteria of legal convergence which are found in the reports, respectively in the convergence programs.

The engagements survey

The priority measures plan for the European integration has been a comprehensive document, as a synthesis, issued by the Ministry of European Integration to be forwarded to the Government of Romania for a regular analysis. This material followed the stage of completion of the engagements taken upon by the Romanian authorities and, implicitly by NBR, through:

the negotiation documents,

the programmatic documents related to the preparation process of adhesion to the European Union, as well as

the regular evaluations of the European Committee. The European Integration Agency and of Foreign Relations have had the task of monitoring the engagements taken upon by the NBR during the process of negotiation for the chapters related to the Romanian banking system, for the observance of these obligations as well as for the ensuring of consistency with the other programmatic documents and normative documents realized after the negotiations closure in December 2004.

Progress Editor: the data base of the EC (TAIEX Office) – is one of the main electronic instruments of evaluations of the transposition and implementation in the Romanian legislation of the community acquis, ensuring a quick and safe trade of information between the competitive states and the EC. The European Integration Agency and of Foreign Relations have the task of actualizing, every two months, the stage of the harmonizing process of the legislation for the banking system.

The pre-notification process

Romania is obligated to pre-notify national acts of transposition which can be found in the article 53.1 of the Adhesion Treaty of Bulgaria and Romania to the European Union. At its turn, the European Committee, as a “guardian of the treaties”, has the obligation to control the member states whether they have implemented the norms of the EU on time or not.

Starting with the adhesion date, Romania has the obligation to apply the community acquis, except the norms to which there have been obtained some transition periods within the adhesion negotiations. In these conditions, according to the community legislation, Romania will have the obligation of notification, to the European Committee, of the measures decided for the transposition of the stipulation of all the norms in force, because, because of practical reasons, the notification as a whole of the National Execution Measures (NEM), for all the norms in force, is not possible at the moment of the adhesion, in the interval from the signing of the Treaty and the adhesion date, the states pending for the adhesion must pre-notify the European Committee of the transposition of norms measures, respectively to forward officially to the European Committee the relevant national legislation and the tables which show the afferent concordances. From a technical point of view, the instrument of official notification of the national measures of transposition (norm documents and concordance tables) towards the General Secretary of the European Committee is represented by the common interface of the electronic system of notification. The National Bank of Romania takes part in the pre-notification process together with the other institutions, by transmitting the national measures for the transposition of the norms due to its field of activity to the Ministry of European Integration.

The Convergence criteria for the participation in the Economic and Monetary Union

The convergence criteria represent the economic test of evaluation of the preparation stage of the economy in order to take part in the third stage of the Economic and Monetary Union. These criteria have been established by the Treaty of Maastricht, ratified by all the member states of the UE in 1993, and refer to:

The stability of the prices: the average rate of inflation (calculated by the harmonized index of the consume prices) for the last 12 months must not exceed with more than 1,5 percentage points the rate of (respectively, the arithmetic average of the inflation rates) the most effective member states regarding the stability of the prices, furthermore, this evolution must be sustainable.

NBR adopted even in 1995 a strategy to aim at the inflation, starting from the reality that once reaching a single number (under 10% starting with 2004), inflation can reduce speed of fall, in comparison with the prior periods, furthermore, in some circumstances, it can be re-launched, as it was the case at the end of 2007 and the beginning of 2008.

After analyzing the inflation rate during 2008-2009 in Romania in comparison with the EU – 27, we will notice that establishing prices is the convergence criterion which will hold us away from the aimed target, that is 0.3 average of the first three countries + 1.5 percentage points, the admitted deviation, results into an inflation of 1.8%, Table no.1.

The Inflation Rates measured by HICPs (comparison between Romania – EU-25)

(The average rate of the modification of the Harmonized Index of Prices of Consume Goods)

Table no. 1

Countries	Years	12month average rates (nov 09-08)/(nov 08-07)	Monthly rates Nov 09/Oct 09
Bulgaria		2.9	0.2
Czech Republic		0.8	0.1
Poland		3.9	0.3
Romania		5.7	0.7
Hungary		3.9	0.5
Greece		1.3	0.6
Spain		- 0.2	0.5
Portugal		- 0.8	0.1
Italy		0.9	0.1
EU-16/EU-27		0.3	0.1

Source: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

The public finances: the financial position of the government must be sustainable, this being achieved by maintaining a budget position without reaching a deficit considered excessive. The budget deficit of the state (planned or real) must not exceed 3% of the gross internal product; if this value is exceeded, the budget deficit must be reduced substantially and continuously towards a close value to the reference one, and exceeding the reference value must be exceptional and temporary:

Romania fits this criterion, but accentuating the deficit at the end of 2007, by spending at the level of local budgets of some significant levels in a short period of time, made the failure of reaching the inflation target possible.

The public debt must not exceed 60% of the gross internal product, and if higher values are recorded, these must be lowered significantly and must reach as much as possible the reference value in a satisfactory rhythm. Romania has a reduced share of the public debt in the gross internal product, but the problem of the sustainability of this debt appears and to what extent this raise of the degree of indebtedness will change into motive forces of a sustainable economic growth – Table no.2.

The public debt as a share of the GDP

(Comparison between Romania – EU-27)

Table no. 2

Years	2007
Countries	(%)
Bulgaria	16,7

Czech Republic	36,1
Poland	54,8
Romania	14,1
Hungary	71,8
Greece	100,8
Spain	44,2
Portugal	70,9
Italy	113,0
EU-16/EU-27	75,8

The source: Data base of EUROSTAT, 2006

The interest rates: the nominal average rate of the interest on a long term for the last 12 months must not exceed more than 2 percentage points the rate of the most effective member states (the arithmetic average of the interest rates on a long term) regarding the stability of prices; the interest rate can be measured based on the state assets on a long term or based on other comparable transferable securities. The year 2005 was the first year for which we had data concerning this criterion, the first shares with due date of 10 years being launched with an interest of 6.75%, until then the maximum due date of the state shares was of 5 years because of the persistent inflation. It is obvious that a reduction of inflation would get us closer to this criterion.

The stability of the exchange rate: the exchange rate must maintain in the interval of the margins of fluctuation within the exchange rate mechanism (ERM II), in a period of at least two years, without severe tension, especially without proceeding at one's own initiative to devalue the national currency against the euro. The new mechanism of the exchange rate (ERM II) replaced ERM in January 1999 and has as purpose the fixation of the currencies of the member states which do not form part of the euro to euro area by establishing, through mutual agreement, a central rate, fix but adjustable, against the euro and a standard line of fluctuation of +/-15 percentage points. A narrower line of fluctuation can be established, through mutual agreement, as progress is recorded regarding the convergence.

We suppose that a pivot rate would be established of 4.2 lei for one euro, and then the margin of $\pm 15\%$ would lead us to a minimum level of 3.57 and to a maximum one of 4.83 lei for one euro, without the intervention of the NBR on the market.

The main threat to the stability of the exchange rate is the more accentuated growth of imports, in comparison with the exports, the deficit of the balance of payments, compensated by the foreign currencies entrance from the Romanian workers from abroad and from the non-residents placements, both sources having an uncertain degree of predictability. A healthy economic growth, a re-launching of the exports, a restrictive fiscal policy are as many solutions for the establishment of prices and of the exchange rate.

Criteria for the entrance in the ERM II

The agreement that defines the specific conditions for the participation in the mechanism of the exchange rate (ERM II) will be signed by the president of the ECB and by the governor of the NBR. Prior to this, the ministries of finances of the member states from the euro region and of the countries which take part in the ERM II must agree to this first – Table no.3.

Calendar regarding the integration in the euro region of new member states of the EU

Table no. 3

Country	The date of adhesion to the EU	The date of adhesion to the ERM II (objective)	The target date for the adhesion to the euro region
Cyprus	2004	May 2005	2008
Malta	2004	May 2005	2008
Poland	2004	To be decided	2014*
Czech Republic	2004	November 2005	2012*
Slovakia	2004	2007	2009
Hungary	2004	To be decided	2012*
Romania	2007	2012	2014*

* Not before this date.

The source: central banks, ECB, European Committee.

Conclusions

Looking back over a longer period, consumer price inflation in Romania has followed a clear downward trend, albeit from an initially extremely high level. The disinflation process took place against a background of strong real GDP growth, which was above 5.0% almost every year from 2001 onwards. The decrease in inflation took place against the backdrop of every strong growth in compensation per employee, which was above 20% in a number of years.

Romania is not subject to an EU Council decision on the existence of an excessive deficit. The general government debt ratio amounted to 13.0% of GDP in 2007 and is forecast to increase to 28% of GDP in 2009, far below the 60% reference value.

Between EU accession on 1 January 2007 and 31 December 2009, the Romanian leu did not participate in ERM II, but traded under a flexible exchange rate regime.

However, a process of real economic convergence complicates any historical assessment of real exchange rate developments. As regards other external developments, since 2002 Romania has reported a progressive increase in the deficit in its combined current and capital account of the balance of payments.

Long-term interest rates averaged 7.1% over the reference period from April 2007 to March 2008 and thus were above the reference value for the interest rate criterion.

Achieving an environment conducive to sustainable convergence in Romania requires, inter alia, the implementation of a sustainable and credible fiscal consolidation path.

Moreover, wage increases should reflect labour productivity growth, labour market conditions and developments in competitor countries. Public sector wage restraint is important for moderate overall wage developments. Such measures, together with a stability-oriented monetary policy, will help to achieve an environment conducive to sustainable price stability, as well as promote competitiveness and employment growth.

Romanian law does not comply with all the requirements for central bank independence and legal integration into the Eurosystem and must therefore comply with all adaptation requirements under Article 109 of The Maastricht Treaty.

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