THE PERSPECTIVES OF EURO INTEGRATION IN ROMANIA, IN THE UNCERTAINTY CONTEXT AROUND THE FOREIGN MARKETS

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This paper has the object to analyze to what extent Romania fulfils the Maastricht criteria in comparison to some countries which are candidate members from Central Europe, in the today's unfavorable context which has been achieved under the actual global financial and economic crisis and with an important impact on the disfunctionalities which appeared in the emergent economies and also in those from the Euro Zone. Romania's modernization towards the European Monetary Union is a complex and hard process which contains real and coherent economical policies pointed towards the accelerated diminution of the economic development differences and that is why a quick adoption of Euro, at this moment it is not an alternative.

Keywords: nominal convergence, real convergence, global crisi, exchange rate mechanism II, euro area

JEL classification: F33, F36

Introduction

Since it is known, starting from the 1st of January 2007, Romania is a member state of the European Union, with a status of "state with derogation", because at the time of joining it did not comply with all the criteria demanded by the European Monetary Union (EMU), stated by the Maastricht Treaty. However, though the new members bind to join the Euro Zone as soon as they fulfill all the nominal convergence criteria, these cannot choose the way out from the euro zone, a possibility which is approved for any of the actual members of the E.U (Denmark and U.K). Sweden also has not achieved permanent derogation, but it postpones the adoption of the euro currency because it does not fulfill all conditions imposed by the treaty.

The joining of the European Union and also the entrance in the euro zone can be seen as stages in the process of acceleration and diminution of the gaps in the economical development. Also, the adoption of an unique euro currency represents the finality of a complex process of convergence, not the beginning of one, in particular, it does not eliminate the necessity of solving the macro economical unbalances which exist between the countries.

The broach of the participation in the ERM II[436] represents a very important component for the trajectory of the Romanian economy towards the integration in the EMU. That is why, the moment of integration in the ERM II must be chosen so that a two year term for the participation in this exchange currency mechanism must be sufficient for the satisfaction of all nominal convergence criteria, before the adoption of Euro in Romania.

The fulfillment of all nominal criteria for the entrance in the euro zone must not determine a decrease of the importance granted to the real convergence process. However, without the recording of major progress in the real convergence domain, the sustainability of the nominal convergence is being severely affected. Regarding the existence of some relations between the nominal convergence and the real one, also between the community's institutions and national authorities from the E.U. countries, we could say that there is a consensus, meaning that the two

[436] Exchange Rate Mechanism II.

processes must be realized in the same time, as some authors sustain[437] "the nominal convergence and the real convergence are two sides of the same coin, and must be realized simultaneous"
The practice demonstrates that, the national authorities from the E.U member countries have been concerned on the realization of the nominal convergence, for the fulfillment of the conditions imposed for the E.U. joining, being in its essence a practical decision.

The process of nominal convergence

The Maastricht Treaty brings in front of the candidate states a series of criteria, extremely precise and strict economical objectives, whose accomplishment fallows actually the nominal convergence for the introduction of the euro, and these must be totally respected and in a sustainable manner.
The Treaty does not contain a strict calendar for the adoption of the euro currency; this process is left at the latitude of each country in consulting with the European Commission and the Central European Bank.
Table no.1 contains the principal indicators of nominal convergence established by the Treaty and the way in which these criteria will be achieved by Romania in the period before and after the joining of the E.U.
Romania has continued the process of disinflation also after the joining of the E.U., with interruption of this tendency in 2008, where we can see an increase than the year 2007, with 3.01 procentual points, a situation determined at first by the numerous heterogeneous factors and also by those exogenous (the increase of international prices for the manufacture materials and for the fuel).
The dynamic of the inflation rate between 2006-2009, reflects in terms of nominal convergence indicators, a surpass of the nominal criteria with 3.85 procentual points for the year 2009.
Regarding the criteria of interest rates on long term, this was far from the reference criteria in 2008, and also in 2009, on the background of financial turbulences which have marked the increase of aversion towards the risk from the financial investors.
Between 2006-2008, the variation of the exchange rate for the national currency in comparison with the euro has not been excelling the standard band of ± 15 % from the reference level. But, starting from the 4th trimester of 2008, the crisis global effects have been reflected also on the financial market, and the reevaluation in an ascendant level of the associated risk for Romania has conducted to a depreciation tendency for the RON which has been accentuating during 2009, passing 18% percent.
Regarding the importance of the consolidated budget deficit in GDP, this has been situated between 2006-2007 under the level established through the Maastricht Treaty. The increase of the public costs and the powerful decrease of the GDP's dynamic, starting with the 4th trimester from 2008, have influenced in an unfavorable way the balance between the budget deficit and the GDP, in 2008 and also in 2009, overtaking significantly the value of 3% from the reference criteria. As a consequence of these financial inadequate evolutions, from October 2009, Romania has been put under the procedure of excessive deficit. On all the period being analyzed, the public debt of Romania continued to register net levels inferior than the Treaty's[438] concerted stipulated limit.

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[437] Bărglăzan Diana, Analiza economiei româneşti prin prisma criteriilor de aderare la Zona Euro, Colecţia "Biblioteca Băncii Naţionale" – Convergenţa reală şi convergenţa nominală în procesul aderării României la Uniunea Europeană, Conferinţa tinerilor economişti (Bucureşti – septembrie 2004), Ed. Enciclopedică, Bucureşti 2005, p.6.

[438] According to estimates made by the IMF, during the evaluation mission from trim. I. of 2010, Romania, in 2010 can afford a level of public debt exceeding 35% of GDP.

Table no. 1 Nominal convergence indicators for Romania in 2006-2009

Nominal Convergence Indicators	**Maastricht Criteria**	**Romania**			
		2006	**2007**	**2008**	**2009**
Inflation rate (HICP) *(percent, annual average)*	*<1.5 pp above the three best performing Member States* **4.0 percent for 2008** **1.6 percent for 2009**	**6,56**	**4,84**	**7,85**	**5,6**
Long- term interest rates *(percent, per annum)*	*<2pp above the three best performing Member States* **6.2 percent for 2008** **5.3 percent for 2009**	**6,51**	**6,7**	**7,7**	**9,7**
Exchange rate (**vs. euro**	*+/- 15 percent*	**+6,4/ -9,1**	**+11,0/ -6,4**	**+9,7/ -14,6**	**+1,6/ -18,2**
General government deficit (*percent of GDP*)	*Below 3 percent*	**-1,9**	**-3,2**	**-5,4**	**-7,9**
Government debt (*percent of GDP*)	*Below 60 percent*	**12,4**	**12,6**	**13,6**	**21,0**

(HICP) – Harmonized index of consumer prices according to Eurostat methodology
Source: revised after ECB, Convergence Report, May 2008, NBR, Monthly bulletin, December 2009 and www.bnr.ro

As well as it have been presented before, neither the inflation rate, nor the level of interest, the exchange rate or the budget's deficit are not at the moment at an European level, only one criteria from all of these five is under the reference level of values, but bringing them in tolerable limits is quite hard.
In comparison with the other Central-European countries, which are candidates for the EMU, Romania's performances registered in the convergence process are weaker than those of the others, as well as it can be observed in the table no.2.
On March 24, 2010, the European Commission assessed the convergence programs for the period 2009 -2012 in the Czech Republic, Poland, Romania and Hungary. Evaluated programs showed a debt to GDP below 60% over the period 2009 -2012, concerning the Czech Republic, Poland and Romania.
Regarding Romania, according to the recommendations of the E.U. Council, it aims at reducing the public deficit from 7.9% of GDP to 3% of GDP in 2012. Planned fiscal adjustment is concentrated in the early period (2010 to 2011).
European Commission underlines that Romania's convergence program details not sufficient consolidation measures to be taken in 2011 and 2012, however, it is expected in the medium term the budgetary framework from 2011 to 2013 to include more information.
Following the fiscal developments in the period 2008 - 2009, in the above table, we see that in most euro area countries, fiscal positions have seen a marked deterioration. Thus, the end of 2009 was the highest since the establishment of EMU budgetary deterioration, when 14 of the 16 Euro Zone countries have seen share of GDP public deficit higher than the 3% level. Finland and Luxembourg were the only countries where the government deficit has remained within the limits set by the Stability and Growth Pact. Most inappropriate developments have been recorded on three countries: Greece (-12.7% of GDP), Ireland (-11.7% of GDP) and Spain (11.4% of GDP).
Table no.2 The way of fulfilling the Maastricht Treaty Criteria, 2008

	HICP	**Long-term**	**Exchange**	**General**	**General**	**Nr.**

	(percent annual average	**interest rate** (percent per annum)	**rate vis-à-vis euro**	**government surplus (+) or deficit (-)** (percent of GDP)	**government debt** (percent per annum)	**Fulfilled criteria**
Criterion	4,1	<6,24	+/-15	-3	<60	5
Czech Republic	6,3	4,6	+20,9/ -3,5	2,1	30,0	3
Hungary	6,1	8,2	+11,3/ -10,6	3,8	72,9	1
Poland	4,2	6,1	+18,9/ -8,5	3,6	47,2	2
Romania	7,85	7,7	+9,7/ -14,6	5,4	13,6	2

Source: revised after ECB, Monthly Bulletin, March 2010, NBR, Annual Report, 2008, p. 129, and www.bnr.ro

Table no.3 Financial Evolution in EURO area for 2008-2009

	General government deficit (percent of GDP)					**Government debt** (percent of GDP)				
	2008	**2009**	**2010**	**2011**	**2012**	**2008**	**2009**	**2010**	**2011**	**2012**
Belgium	-1,2	-5,9	-4,8	-4,1	-3,0	89,8	97,9	100,6	101,4	100,6
Germany	0,0	-3,2	-5,5	-4,5	-3,5	65,9	72,5	76,5	79,5	81,0
Ireland	-7,2	-11,7	-11,6	-10,0	-7,2	44,1	64,5	77,9	82,9	83,9
Greece	-7,7	-12,7	-8,7	-5,6	-2,8	99,2	113,4	120,4	120,6	117,7
Spain	-4,1	-11,4	-9,8	-7,5	-5,3	39,7	55,2	65,9	71,9	74,3
France	-3,4	-7,9	-8,2	-6,0	-4,6	67,4	77,4	83,2	86,1	87,1
Italy	-2,7	-5,3	-5,0	-3,9	-2,7	105,8	115,1	116,9	116,5	114,6
Cyprus*	1,0	-0,8	-1,4	-1,9	-2,2	49,3	46,8	45,4	44,2	44,2
Luxembourg	2,5	-1,1	-3,9	-5,0	-4,6	13,5	14,9	18,3	23,9	29,3
Malta	-4,7	-3,8	-3,9	-2,9	-2,8	63,6	66,8	68,6	68,0	67,3
Netherlands	0,7	-4,9	-6,1	-5,0	-4,5	58,2	62,3	67,2	69,6	72,5
Austria	-0,4	-3,5	-4,7	-4,0	-3,3	62,6	66,5	70,2	72,6	73,8
Portugal*	-2,2	-3,9	-2,9	-2,3		65,9	69,7	70,5	70,0	
Slovenia	-1,8	-5,7	-5,7	-4,2	-3,1	22,5	34,4	39,6	42,0	42,7
Slovakia	-2,3	-6,3	-5,5	-4,2	-3,0	27,7	37,1	40,8	42,5	42,2
Finland	4,4	-2,2	-3,6	-3,0	-2,3	34,2	41,8	48,3	52,2	54,4
Euro Area	-2,0	-6,2	-6,6	-5,2	-3,9	69,4	78,7	83,9	86,5	87,3

*for Cyprus and Portugal the dates have been collected in January 2009
Source: ECB, Monthly Bulletin, March 2010, p. 84

Most Euro Area countries are subject to excessive deficit procedures (13 Countries), except Cyprus, Finland and Luxembourg and which will initiate the process of fiscal consolidation starting from 2010 / 2011, according to the recommendations of the excessive deficit procedures. A similar situation is found in the case of the indicator which reflects the share of public debt to GDP, across the Euro Zone, which increased from 69.4% in 2008 to 78.7% in 2009. Looking at the individual level, we find that in 2009, only six Euro Zone countries - Cyprus, Luxembourg, Spain, Slovenia, Slovakia and Finland - have recorded levels of public debt below 60% of GDP.

With a debt of 113.4% of GDP and a budget deficit of 12.7% of GDP, Greece is in the worst situation, with great difficulty to meet deadlines. It is not the only country causing concern in the Euro Zone, there are also some others (Ireland, Spain, Italy).

Adverse fiscal developments were caused, in general by many factors: (i) the financial crisis and economic downturn have led both to decreased tax revenues and increased social spending and structural costs, (ii) the adoption by the central government from Euro Zone of consistent packages of tax incentives, (iii) many countries have adopted comprehensive measures to stabilize the financial sectors, which influenced the public debt ratio in 2009. According to the stability programs 2010-2012 submitted by Euro Zone countries, the European Commission shows that most countries are now subject to excessive deficit procedures which were designed to reduce the public deficit ratio to GDP below 3%, by 2012, while the share of public debt to GDP euro area is projected to rise further to 87.3% in 2012.

Those described above, show that public budgets of big countries in Europe have deteriorated and remain without prospects for the next period, and funding imbalances in the future Member States would be very difficult.

Real convergence process

The Maastricht Treaty does not explicitly mention the real convergence criteria, but are equally important for the euro currency.

The assessment of the opportunities into the Euro Zone is considering and analyzing indicators such as: GDP per inhabitant, the structure of the national economy branches (% of GDP), the openness of the economy, foreign trade and its degree of integration into EU and the costs of labor.

GDP per inhabitant expressed in purchasing power standard, rose in a sustained process of catching up to the euro area externally, reaching in 2008 to a level about 40 % of GDP per person for the Euro Zone. All these developments occurred as a result of sectorial structure of economic convergence. The openness of the Romanian economy has continued during 2002 - 2008 around 75%, while the EU is the main trading partner, but in the year 2009, the indicator fell to 68% mitigation fund export controls. Also, in terms of Romanian financial system development, it is highly integrated into the European Union, however, there are indirect financial intermediations to levels lower than the Euro Zone.

Projections for euro adoption

The euro currency adoption requires participation for at least 2 years in ERM II mechanism (Exchange Rate Mechanism II).

This mechanism performs a dual role, representing the same exchange rate arrangement for the currency of the candidate countries integration into the EMU and a nominal criterion for accepting the Euro Zone. The first situation involves keeping an ERM II standard fluctuation band against the euro of ± 15%. Nominal convergence criteria for euro area entry were presented in Table 1. To establish a coherent timetable for adopting the single currency, there have been made two fundamental decisions related to the entry into the ERM II mechanism and duration of participation in this mechanism.

The European Central Bank recommended that the entry into the ERM II mechanism should be made after that country's EU accession and participation in ERM II period would not be exceeding the mandatory period of 2 years. This implies that the countries have enhanced macroeconomic stability at the time of entry into the mechanism. It is also an important achievement of a sustainable manner of nominal convergence criteria.

For Romania, the euro involves three steps:

- the period before entry into the Exchange Rate Mechanism II, which requires consolidation of disinflation, financial market development and convergence of long-term domestic interest

rates, the relative stability of the RON exchange rate around the long-term equilibrium level and deepening structural reforms;
- the second step towards the entry into ERM II is planned for 2012. Time was chosen taking into account the need for meeting the nominal convergence criteria while achieving significant progress in the process of real convergence;
- entry into the Euro Zone was expected by the year 2015.

Since that time, Romania will participate in the mechanisms of coordination of economic policies of the euro area, and should comply with the Stability and Growth Pact, which is related mainly to finance public health. Also, Romania will adopt the common monetary policy of the European Central Bank and will need to have mechanisms for automatically balancing the economy and increase the speed of reaction of fiscal policy to symmetric/asymmetric shocks which will be confronted with the domestic economy.

Conclusions

The euro in 2015 should be one of strategic targets for Romania. In these circumstances the provisions Convergence Programme for Romania's accession to the Euro Zone would be a possible correlation between the achievement of nominal convergence and real convergence. But without consolidating disinflation, increasing the competitiveness of Romanian exports, and increase predictability and performance of medium-term fiscal policy, also increased absorption of EU funds and strengthen structural reforms, the euro will become a target of increasingly distance.

In this context, National Bank of Romania (NBR) also insists for the 2014-2015 calendar, when Romania should be very well prepared for the adoption of Euro, otherwise we are assuming major risks.

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