ROAD TO EURO

Lecturer Florin UNTARU, Ph. D.
„Dimitrie Cantemir” Christian University, Bucharest
Faculty of Finance, Banking and Accountancy
Email: untaru_fl@yahoo.com

Abstract
The process of adopting the single European current represents an enormous challenge for all countries that joined the EU in 2004 and 2007 respectively, with major implications in terms of monetary policy, but also on the economic or social one. We intend to analyze the way in which our country now fulfills the criteria established by the Treaty of Maastricht and the advantages/disadvantages of the rapid changeover to the euro.

Key Words: monetary strategy, nominal convergence criteria, consumer prices, budget deficit, monetary policy, inflation, disinflation, financial crisis, criteria of real convergence.

JEL Classification: P 11

1. Nominal convergence and real convergence

Under the Maastricht Treaty, the countries joining the European Union Member States become countries with temporary exemption regarding the adoption of the common currency.
This means that at a time, after the accession of new Member States, they will enter the ERM II mechanism (which requires a fluctuation band of up to 15% of the national currency against the euro, at least two years before adopting the single currency) and then, subject to performance criteria for nominal convergence, will adopt the euro, which provides full content integration Economic and Monetary Union. Although the accession to the European Union, the monetary and exchange rate of each state become subject to the common interest, while it is clear that options of exchange and monetary strategy after joining the EU, constitute in particular, a responsibility and prerogative of the state concerned.
Nominal convergence criteria are the test of economic evaluation stage of preparation of an economy to participate in the third stage of Economic and Monetary Union. These criteria were established by the Maastricht Treaty, ratified by all EU Member States in 1993, and covers: price stability: the average inflation rate (calculated by the harmonized index of consumer prices) over last 12 months must not exceed by more than 1.5 percentage points the arithmetic mean of the inflation rates of 3 most powerful states in what concerns price stability, in addition, this development should prove to be sustainable. Finances: the financial position of the Government must be sustainable, maintaining a budgetary position without recording a deficit considered excessive. In particular: (i) the state budget deficit (planned or actual) must not exceed 3 percent of...
GDP, if this value is exceeded, the budget deficit should be reduced substantially and continuously to a value close to the reference or overcome value should be exceptional and temporary (ii) debt should not exceed 60 percent of GDP, and if recorded higher values must be reduced significantly and is approaching the reference value at a satisfactory pace; exchange rate stability: exchange rates must be maintained in the range of fluctuation margins of ERM II for a period of at least two years without severe tensions, especially without a deal on its own initiative to devaluing the national currency to euros. ERM II replaced the ERM in January 1999 and it aims to fix the euro currencies of the Member States which are not part of the euro area by establishing, by common agreement, a central rate, fixed but adjustable against the euro and a standard band fluctuation band of +/-15 percentage points. A narrower bandwidth can be established by agreement, as it is making progress in terms of convergence; rates: the average nominal long term interest in the last 12 months must not exceed by more than 2 % the arithmetic average of the rates of long-term performance of the 3 states in terms of price stability; interest rate which is taken into account is that of long-term titles or other comparable securities.

The Maastricht Treaty does not refer to real convergence criteria, which ensure a high degree of similarity of structures and cohesion to the economies of the candidate countries. In the absence of clear criteria stipulated in the treaties, we can consider that the most important real convergence criteria relate to: the degree of openness of the economy (as measured by the amount of the share of exports and imports of a country has a GDP) share of bilateral trade with countries DE of the total external trade, the economy (expressed by the share that has major sectors GDP creation in agriculture, industry, services) and the synthetic criterion, the GDP per capita (expressed in either the roll or by parity purchasing power standard). A fundamental problem that must be answered is whether joining the euro area can be achieved in the case of less severe restrictions on nominal and real convergence. Here, the answer is formulated theory of optimal monetary Zone (Optimal Currency Area Theory), which is very Transit: Member of a group can gain from each other have a common currency only when their economic structures are similar and when there is no risk of shocks asymmetric cut some of these countries. In this way, the single monetary policy (in this case developed by the European Central Bank) cannot or should not cover the particularities of each economy; it is addressing a group of savings assumed homogeneous. It is obvious that the less advanced countries of Central and East cannot abandon their own monetary policy as long as the risk of asymmetric shocks (generated by the different structure of the economy) is high, whereas the ultimate aim is not only adopting the euro collecting benefits but also the attached options. Therefore the problem of real convergence is at least as stringent as that of nominal convergence.

2. How does Romania meet the criteria for convergence?

2.1. Rated Criteria

The analysis on the extent to which our country meets the Maastricht criteria should consider that in recent months, triggered by financial crisis and global economic; the main economic variables began to record spectacular changes. From the perspective of the criterion related to the budget deficit, even if in 2012 there was set a target of 1.9%, there will be major difficulties in achieving this objective.

Romania is the most distinguished candidate in that it has no problems with the total debt, where the current level totally respects without falling into the Maastricht criterion of 60 percent of GDP. Furthermore, Romania's performance in this area is higher than in most candidate countries.

Another criterion that raised high nominal outstanding issues is inflation. It has constantly been in recent years at over 3-4% per year, even if retrospectively in the past 20 years significant progress of disinflation has been recorded. The main causes of this situation are the late completion of the liberalization of prices, and adopting a strategy of gradual reduction of inflation, with costs and benefits attached to this option. In Romania, the last big "wave" of liberalization of prices and exchange rates took place only in 1997, while in other countries, more advanced in transition, this process took place in 1992-1994. Also, the strategy of gradual reduction of inflation by about one quarter of the previous year, started in 1999, was preferred to a radical
solution (such as monetary board) for the following reasons: the still high importance that Romania's foreign creditors continued to attach to a current account deficit, the need to align prices, fees and revenues from European levels lower than other countries in transition; the concern that a rapid reduction in inflation, due to the phenomena of adverse selection and moral hazard, the sustainable economy will not suffer more than the unviable one. Of course, choosing this strategy has costs, particularly as regards the lower confidence of foreign investors in a sufficiently stable macroeconomic environment.

It should be noted that in the near future to fund a massive restriction of aggregate demand and despite the devaluation of the national currency, it is expected that the booming price growth will slow down.

Closely linked to the inflation criterion is the criterion of interest in the long-term titles in local currency. Of course, as the process of disinflation will strengthen, and economic operators will be convinced of its sustainability, this criterion can be fulfilled.

Also, the fifth criterion of nominal convergence, the stability of the exchange rate critically depends on the performance criterion on inflation. Since inflation has been brought at a single digit, the exchange rate began to show a degree of stability consistent with the fulfillment of this criterion. Of course, the last period, by major outflows of foreign currency brought by the financial crisis, the devaluing rate was accelerated, and the future is full of uncertainties about the evolution of the exchange rate.

2.2. Criteria of real convergence

Romania has an average degree of openness of the economy, which slightly exceeds 75%. From this point of view, the Romanian economy is much less open than the economies of the Czech Republic, Slovakia or Hungary, where foreign trade plays a more important role, similar to that of the Benelux countries. However, Romania has a degree of openness of the economy higher than Poland, which was expected, given the inverse correlation that exists between economic openness and domestic market size. One can appreciate that in the coming years weights exports and imports in GDP will continue to grow and it will become a very open economy similar to the middle-sized and small EU countries.

As regards trade with the share in total EU external trade, Romania is well placed, like the countries that joined in 2004, with the last 3 years a share of almost 70 percent. Under this flag, our country is placed in close proximity to the Czech Republic, Poland or Hungary. However, these aggregate figures are not significant in terms of the structure of trade with VE countries. While the foreign trade of Hungary relies heavily on motor vehicles, electrical goods and technical computing (inter-industrial trade), that of Romania is based more on products with low degree of processing (clothes, furniture, steel products). This structure of disability cannot be overcome only through a sustained process of re-attracting foreign investment in areas with high added value.

If in the opening of the economy, Romania meets the real convergence criteria to a certain extent, this cannot be said about the other criteria. For example, the sector structure of GDP, agriculture continues to play a much too high (around 12-14 percent), like Bulgaria, but three to four times higher than in Central European countries. Moreover, the share of population employed in agriculture in Romania is 25 percent, several times higher than in other Central European countries. Also, there is a relative underdevelopment of services, which contributes with at least 50 percent to the GDP in Romania, below the net result of all other countries in the area.

Finally, the last real convergence criterion (and the most synthetic one) is the GDP per capita, currently located at about 5000 euro. An indicator is more relevant but GDP per capita expressed in the purchasing power parity standard.

Of course there is a question of over passing this disability within a reasonable time. It can be calculated that, assuming a differential of about 4 percentage points of GDP growth in the long and very long term (for example, a GDP growth of Romania's 5.5 percent per annum compared to an average annual growth of European GDP by 1.5 percent per year), the gap could be recovered in about 60 years, without taking into account the real appreciation of the RON against the euro.

In conclusion, our country remains behind concerning both a series of nominal convergence criteria and the criteria of real convergence, and the current economic situation can only increase these difficulties.
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