ASSESSMENTS OF THE DEGREE OF ADOPTION OF THE EURO IN ROMANIA

Manuela NIȚĂ[*]

Abstract

The changeover to euro is an older objective of Romania, but whose implementation has suffered numerous delays depending on the degree of economic integration with the euro area and the fulfilment of nominal convergence criteria. Romania has started preparations for euro adoption since 2010, but the completion of the process is uncertain. In this study we will analyse the stage of adopting the euro, the steps taken and what criteria must be met in this regard. Research is completed with an analysis of the European Union member states that have not yet adopted the euro or adopted recently.

Thus, we will highlight the measures taken by governments and central banks of these countries, the results obtained the reaction of public opinion and the ways in which they managed to overcome the economic crisis opinion and the ways in which they managed to overcome the economic crisis.

Keywords: *Euro, convergence criteria, economic crisis, economic competitiveness, monetary union.*

1. Introduction

The adoption of Euro was an objective assumed by Romania when it adhered to the EU. Economic and financial progress gives us the necessary grounds to hope for the fulfilment of this obligation. The initial target deadline for this objective was the year 2015. Taking into account the international context, the study herein analyses the sustainability of this deadline and Romania's degree of preparation to cope with this new challenge.

The subject brought up for debate is not new, but a topical issue, which has initially led to the crystallization in the specialized literature of two tides of opinion: the sceptics and the enthusiasts; but later on, the ideas of prudence and expectancy were outlined.

At international level, the European Economic Community is preoccupied with and worried about the political stability and evolution of some of the EU Member States. The direct connection between the political and economic factors is unquestionable. Any instability of either of them can lead to economic and financial crisis with direct or indirect impact over the whole EU zone.

It is not the first time the European Union faces such a phenomenon, but, considering the situation in Ukraine, never before had it reach such widths.

The European Union has started to face a first acute economic crisis when Greece signalled the financial difficulties it encountered. Confronted with such a situation, the leaders of Eurozone decided, in agreement with the IMF, to offer Greece financial support in case this country asks for it[1]. Leaders' concerns led to the idea of consolidation and supplementation of the existing legislative framework so that fiscal sustainability in the Eurozone is thus ensured. Such preoccupations emerged even since 2009, when the Ministers of Finance of the European Union set an objective to create new European Authorities for the control of

[*] Lecturer, PhD, Faculty of Law and Administrative Science, Valahia University of Târgoviște (e-mail: manuela_nita74@yahoo.com).

[1] See the Declaration of the Eurozone leaders given on March 25th, 2010.

banking sector, insurances and securities market, i.e.: European Banking Authority; European Insurance and Occupational Pensions Authority; European Securities and Markets Authority.

Shortly after, only one month later, on April 23rd, 2010 Greece requested financial support. After this event, which can be considered the first phase of the Eurozone Member States depression, new economic and financial crises, which have strongly shook the European Union, started to develop.

In this context, we will hereinafter make an analysis of Romania's situation, by taking into account the specialized literature, the position of the National Bank of Romania, the position of the European Central Bank, of the other States and of the economic analysts and jurists in order to express a documented point of view regarding Romania's position.

2. Euro adoption process

At worldwide level, the creation of a State union is not unique. We take for example the Andean Pact[2] -which unites states from the Central America - the Association of Southeast Asian Nations (ASEAN), The Economic Community of West African States (ECOWAS), The Commonwealth of Independent States (CSI) - which regroups ex-soviet republics, all having the purpose of creating economic union.

The European Union has managed to create besides the economic unity, a monetary unity too. The creation and adoption of the single European Currency, i.e. Euro, which enables free trade and economic development of the Member States is unprecedented.

As of January 1st, 1999, Euro was adopted by 11 Member States which have agreed to replace the national currency with the new European currency. This transition was not at all a smooth one, due to the fact that it was contested by some people and supported by others. Even now, when the advantages of the Euro adoption are well-known, there are some voices which criticise it and find arguments against it. In order to ease the integration of the new currency on the market, a two-phase plan was agreed for the replacement. For starters, it was a virtual currency used for payment operations which did not involve banknotes and coins and for accounting purposes. In 2002 Euro was released in the form of banknotes and coins. In order for the population to accommodate with the European currency, cash payments were allowed in the old currencies, considered Euro subunits.

Progressively, new Member States of the EU adopted the single currency. For others the process is still in progress. Until now, 18 of the 28 Member States of the European Union can brag about this achievement. Latvia is the country which has most recently joined the "Euro Club", starting with January 1st, 2014.

Romania is part of the 8 States[3]which are not part of the Eurosystem. These States make considerable efforts and have undertaken to adopt Euro later on, after they will have complied with the convergence criteria settled in the Maastricht Treaty.

Denmark and the United Kingdom have a peculiar situation, due to the fact that they have chosen to use the "exception clause" from the adoption of the single currency.

State	Year of the Member State / EU Founder	Year Euro was adopted
Belgium	1957	1999/circulation since 2002
France	1957	1999/circulation since 2002
Germany	1957	1999/circulation since 2002

[2] Regional Government organization, with its registered office in Lima, created by the Cartagena Agreement in 1969, for the purpose of creating an economic, commercial and political union of the member states.

[3] Bulgaria, Czech Republic, Croatia, Lithuania, Poland, Romania, Hungary, Sweden, United Kingdom and Denmark which have adopted the exception clause.

Italy	1957	1999/circulation since 2002
Luxembourg	1957	1999/circulation since 2002
Netherlands	1957	1999/circulation since 2002
Ireland	1973	1999/circulation since 2002
Greece	1981	1999/circulation since 2002
Spain	1986	1999/circulation since 2002
Portugal	1986	1999/circulation since 2002
Austria	1995	1999/circulation since 2002
Finland	1995	1999/circulation since 2002
Slovenia	2004	2007
Cyprus	2004	2008
Malta	2004	2008
Slovakia	2004	2009
Estonia	2004	2011
Latvia	2004	2014

Source: European Central Bank[4]

3. Evolution of the Eurozone in the context of depression

As shown above, Greece was the first state which has triggered the alarm signal regarding the stability of the Eurozone. It was followed by Ireland, which, in the same year 2010, requested financial help from the Member States.

Faced with these new challenges, EU is forced to take measures in order to prevent and consolidate the Eurozone. Thus, the “Euro-Plus Pact” is created. This pact stipulates a better coordination of the existing economic policies, but also plays the role of a political commitment undertaken by the European Heads of Government. The purpose of the Pact is to increase economic competitiveness and convergence.

The main measures proposed refer to[5]the improvement of the sustainability of public finances, the consolidation of the economic stability, the promotion of employment and of competitiveness. Thus, the target is set for the fields which depend on the national competence, which are essential for the medium and long term economic growth and can lead to the avoidance of market unbalances. Taking into account the fact that not all the Member States have adopted Euro, but target to comply with the convergence criteria, and due to the fact that this Pact sets measures which impact every Member State, they were all invited to participate in the meeting of the Eurozone leaders. Thus, the final act of the Pact was also agreed to and accepted by Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania.

In the following year (2011), Portugal requested financial assistance.

In this context, the European leaders signed the Treaty on Stability, Coordination and Governance, also named the Fiscal Pact through which they settled a better surveillance of the Eurozone by creating a new banking surveillance agent subordinated to the European Central Bank.[6]

The year 2012 is shook by two other requests for financial assistance from Cyprus and Spain, accepted by the Ministers of Finance of the Eurogroup.

---

[4] http://www.ecb.europa.eu/euro/html/index.ro.html

[5]http://ec.europa.eu/europe2020/pdf/euro_plus_pact_presentation_december_2011_ro.pdf, Situation of the Euro- Plus Pact, Presentation of Mr..J.M. Barroso, President of the European Commission and of the European Council of December 9th, 2011.

[6] See the Declaration of the Eurozone summit of June 29th, 2012.

The European Commission, the European Central Bank and the International Monetary Fund permanently carry on missions for the assessment of the States that have requested financial support, in order to verify the degree to which the conditions imposed and obligations undertaken are observed. They also assess the measures which need to be taken in the future, both with respect to these States and with respect to the whole monetary policy.

3.1 The position of Germany and of the United Kingdom

Germany is the State that knew best how to manage the financial difficulties it faced. As founder of the EU, its concern regarding the future of this entity is permanent, even if on many occasions, its firm position was not seen in agreement by a part of the States which face the economic crisis.

The depression did not by-passed Germany. Considering its economic force and due to the fact that it is a strong and developed State, the political forces of Germany knew how to manage the moments of depression which could have destabilize this State. Other developed European countries have faced the depression, but they did not managed to overcome this obstacle yet. It wasn't an easy thing to do for Germany, which imposed severe austerity measures, but the depression did not reach the dimension and widths known by the other states. Germany has gone through fluctuating periods of decline, followed by a slight recovery and then by economic decrease, but in the end it found the solutions necessary to make a strong recovery from the depression. It is like it went through the storm by ambitiously keeping its sails up. The measures taken for the labour market, which led to a low unemployment rate, were appreciated. It also managed to become one of the largest worldwide exporters, concurrently obtaining a decrease of the budgetary deficit, which led to economic growth.

The German model is very often discussed in the specialized literature. Economic analysts consider Germany the treasury of Europe and the most stable country from an economic point of view.

Given this status, Germany's representative, the Chancellor Angela Merkel plays a central role in the anti-crisis politics set up at European level, by having a firm position within the EU. She is a supporter of these though austerity measures which lead to profound reforms within the economies of the States which find themselves in crises situations. The position adopted is not an easy one, given the fact that she has to convince European leaders. She had sometimes attracted an anti-German feeling from the citizens of the States affected by depression. Angela Merkel has shown several times that the Euro currency is not allowed to collapse, due to the fact that this will also lead to the collapse of Europe.

In 1990 the two Germanies, The Federal Republic of Germany and the German Democratic Republic were reunited. But there was a development gap between the two countries. By their joint effort, they managed to overcome that gap and to support each other to form a strongly developed country. Thus, Germany's attitude towards the EU is not arbitrary. On one hand, the German Chancellor is a strong supporter of the EU, Germany being one of its founders, but on the other hand, she also protects the interests of the German state.

The year 2013 was marked by the position of the United Kingdom[7], which stated its potential intent to exist from the European Union if the austerity conditions adopted were preserved. A current was formed among British political leaders, who requested a national referendum at population level in order to show what British people want. The reaction of the European officials came with no delay, reminding the British Premier the benefits of such extreme solutions.

[7] The United Kingdom is made up of Great Britain, Whales, Scotland (making up Great Britain) and Northern Ireland.

The position of the United Kingdom is a peculiar one within the EU, due to the fact that it has chosen to invoke the "exception clause" from the adoption of the single currency. And this is not due to the fact that it was not able to comply with the convergence criteria, considering the fact that it is a developed country, but due to the fact that it prefers to have a reserved attitude towards the future of the European Union, in the context of the enlargement through the adhesion of new states.

Next to Germany, the economy of the United Kingdom is one of the most "envied" economies. Its engine is based on services and on a strong industrial capacity, especially in the sector of high-end technologies. London is also one of the international centres for financial services.

4. The role of the European Central Bank

Together with the decision to create a single currency at EU level, the decision to set-up a body which will be responsible for the monetary policy was also taken. This role was given to the European Central Bank (ECB) and to the national banks of the Member States which have adopted Euro. Together, they form the Eurosystem.

The European System of Central Banks (ESCB) is composed of the European Central Bank (ECB) and of the National Central Banks (NCB) of all EU Member States, no matter if they have adopted Euro or not. The Eurosystem and the European System of Central Banks coexist as long as there are States which did not adopt Euro.

On the international market, in terms of importance, Euro is considered the second international currency after the dollar. Thus, the role of the Central Bank is not an easy one, especially taking into account the fact that the single currency is a basic segment, a pillar of the single market. Any weakness, unbalance, depression of Euro directly affects the single market and even the existence of the Union. As long as the European single market is not strongly influenced by external influences generated by the increase of oil price or by the offsets of the exchange market, we can state and acknowledge the force and widths of the Euro currency and of the Eurozone in general.

The European Central Bank supervises the purchasing power of Euro and the insurance of prices stability in the Eurozone. Thus, its main assignments are: to define the policies of the Eurosystem; to make decisions regarding the monetary policy operations, their coordination and monitoring; to adopt legal acts to a certain extent - mandatory legal force within the Eurosystem; to authorize the issuance of banknotes; to interfere with the exchange market; to operate payment systems and supervise the payment infrastructure and other infrastructures of the financial market[8].

The European parliament supports ECB's effort, by approving the set-up of a single control mechanism, through which as of September 2014, approximately 150 of the biggest banks within the EU will make the object of direct control. This control system will function by observing two fundamental criteria: transparency and responsibility.

The Members of the European Parliament have agreed that knowledge transfer regarding banking control from national level to EU level is necessary. Based on the above-mentioned principles, the European Parliament has wide access to the information held by the Control Council, either through the control of the Minutes of meetings registers, or by inviting its representative to hearings in order to clarify certain issues, or by starting some investigations when suspicions regarding control errors exist or by formulating written requests.

---

[8] http://www.ecb.europa.eu/ecb/html/index.ro.html

These measures are aimed to consolidate the relationship between the European Banking Authority and the European Central Bank and to increase authority's capacity to make stress tests and to gather information. Another aim is to create a uniform culture for banking control, considering the diversity of the EU banking sector[9].

5. Romania and the Eurozone

In order to become part of the Eurozone, Romania must comply with the convergence criteria, condition which was also fulfilled by the States which currently use Euro. The convergence criteria refer to the pre-adhesion legal and economic conditions that the candidate countries must comply with in order to successfully participate in the Monetary Economic Union.

From an institutional and organizational point of view, as of 2010, the Committee for the preparation of the transition to Euro was created within the National Bank of Romania[10] (NBR). As of 2011 the Inter-ministerial committee for the transition to Euro started to function. This Committee is led by the Prime Minister and is also composed of the NBR Governor, the Minister of Public Finance, ministers and heads of other Governmental institutions and representatives of employers' and associations syndicates.

The Maastricht Treaty stipulates the achievement of a "high degree of durable convergence", convergence achieved when the following criteria are met[11]:

- Prices stability: inflation must not exceed with more than 1,5% the medium rate of inflation calculated for the three Member States of the EU which have registered the best results in the prices stability field;
- Sustainability of fiscal position: budgetary deficit of maximum 3% of GDP and maximum public debt of 60% of GDP;
- Stability of the exchange rate: compliance with the normal limits of fluctuation stipulated by ERM II for at least two years, without depreciation of the national currency;
- Convergence of long term interest rate: its average must not exceed with more than 2% the medium rate of the interest calculated for the three Member States which have registered the best results in the prices stability field.

The NBR Governor Mugur Isărescu considers that[12] there are still two of the nominal convergence indicators which need to be met: the inflation rate and the long term interest rate, indicators which can be achieved during 2014.

Looking at the statistic data and at the economic analyses, we can reach the conclusion that we are only one step away from Euro adoption. We still need to see how big this step really is, especially considering the fact that several deadlines were prefigured for the compliance with this objective. Furthermore, we need to take into account the fact that, subsequent to the Maastricht Treaty, the concept of durable convergence has gained new meanings, evolving into the concept of sustainable convergence.

The National Bank of Romania considers that the above-mentioned criteria are not enough to report ourselves to. Any of the States which has not yet introduced Euro and which intends to do so, must achieve the compliance with these criteria on long term, i.e. political, economic and financial stability must be permanent and not only for a certain time period

---

[9] According to the Press release of the European Parliament of September 12th, 2013.

[10] http://www.bnro.ro/Trecerea-la-euro-1251.aspx

[11] acad. Mugur Isărescu, Romania and the Eurozone, ESPERA 2013 International Conference, Bucharest, December 11th, 2013 .

[12] Idem, p.29, indicating source: Eurostat, National Institute for Statistics, National Bank of Romania, Ministry of Public Finance.

from the request to its granting. We all have to aim at the achievement of these criteria based on real convergence, considering the GDP on inhabitant, the degree of economy openness, the structure of the economy, the financing of the current account deficit, the cost of the work force, the degree of financial intermediation etc.

NBR position is not unique within the group made up of the 8states which have not yet introduced the single European currency. Bulgaria, Czech Republic, Hungary and Poland are reserved in forecasting a reference year for Euro adoption.

For Romania, the year 2015 was once the target, but at this point, it is no longer actual. Even if at declarative level the year 2018 was brought up, the National Bank of Romania, by its Governor, prefers to adopt a prudent position regarding the target date considering the real and legal[13] achievement of the convergence criteria and the evolution of the depression and of the monetary policy of the EU.

This uncertainty concerning the deadline does not affect the obligation undertaken by Romania in the moment of its adhesion to the European Union, i.e. to adopt Euro, due to the fact that there is no deadline settled for meeting this objective. Besides, the European Union is not interested in time limitation. It aims for stability, economic development, development of international trade and a strong single currency. This would not be possible if Euro is adopted by States which are not sustainably prepared, especially in the context of the European depression.

The European Commission and the European Central Bank are responsible for the analysis of the progresses made by the Member States in the creation of the Economic and Monetary Union. They draw up convergence reports which are submitted to the Council, which contain the previously mentioned progresses.

6. Conclusions

The adhesion to the European Union is an incontestable success for Romania. The adoption of Euro, as a distinct phase, is a very delicate issue. The EU currently faces great economic and, more recently, political issues, being marked by the instability in Ukraine. For the countries which did not adopt Euro, the example of the countries which did introduce Euro as single currency and which currently face a severe economic and financial crises, represented an alarm signal which determined them to analyse their own states.

The Economic and Monetary Union has many advantages, but in the same time many costs which the States must be able to undertake and support at the level of their economy and population.

I consider that the position taken by NBR, that of expectancy, is currently the best option for Romania, even if the results obtained at financial and economic level are hopeful. We must prove the persistence of these results, marked over time by economic growth. Romania has had over time small progresses obtained with considerable efforts. Even if we meet the criteria in 2014, our economy does not have the ability to cope with the new status and thus we have to consolidate, to observe the evolution of the other states, the mistakes they have made, in order to avoid them, and only then to be able to decide whether or not we are prepared.

References

- Declaration of the Eurozone leaders of March 25th, 2010.
- http://www.ecb.europa.eu/euro/html/index.ro.html

[13] By legal convergence we understand the continuation of the process of transferring community regulations in the national legislation.

- http://ec.europa.eu/europe2020/pdf/euro_plus_pact_presentation_december_2011_ro.pdf, Situation of the Euro- Plus Pact, Presentation of Mr. .J.M. Barroso, President of the European Commission and of the European Council of December 9th, 2011.
- Declaration of the Eurozone summit of June 29th, 2012.
- http://www.ecb.europa.eu/ecb/html/index.ro.html
- Press release of the European Parliament of September 12th, 2013.
- http://www.bnro.ro/Trecerea-la-euro-1251.aspx
- acad. Mugur Isărescu, Romania and the Eurozone, ESPERA 2013 International Conference, Bucharest, December 11th, 2013.
- http://ec.europa.eu/europe2020/pdf/nd/cp2013_romania_ro.pdf, Programul de convergenta al Romaniei 2013-2016.