Romania on its Way to Euro

Soproni, Luminita

University of Oradea, Romania

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Luminiţa Şoproni
Institute for Euroregional Studies, Jean Monnet Centre of Excellence
University of Oradea, Romania

Introduction

As Romania has become on 1 January 2007 a member state of the European Union, it aims to access the Euro Zone, after it will have fulfilled the economical conditions; thus Romania will be completely integrated in the Economic and Monetary Union. Romania must accomplish more requirements and the preparation for the day when it will be able to adopt the unique currency – euro – is very difficult.

According to the new regulations a country is allowed to access the Euro Zone only after two years from its accession to the European Union. The present situation of the Romanian economy does not allow us to be very optimistic regarding the date on which Romania will adopt euro as Romania's unique currency.

Romania will be allowed to adopt euro as its unique currency only after all conditions under the Treaty establishing the European Community are fulfilled. Unlike Denmark and Great Britain, Romania and Bulgaria are not allowed to use the "opt-out clause" that allows them to remain outside the Euro Zone[2]. The conditions established by the Treaty of Maastricht for the adoption of euro require that the government budget deficit should be less than 3% of GDP, the government debt should be less than 60% of GDP, and the inflation should not be higher than 1.5% of the average inflation of the three EU countries with the lowest inflation.

Romania's accession to the Euro Zone means low inflation, constitution of the internal market for long term capitals and the convergence of the interest rates. A relative market stability of the Romanian currency ("leu") is also required for a complete convertibility.

The accession timetable

According to the analysts' opinion, Romania will access the Euro Zone in 2014 or 2015[3], later than Poland and long time after Slovakia's accession; Poland's Central Bank head sees 2012[4] as earliest possible date for adopting the euro; according to the Slovakian Finance Minister's statement[5], Slovakia is the second East European country which will adopt the European currency in 2009.

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[1] This paper was published in Jaroslaw Kundera (ed.), *Economic integration in the EU enlarged: from free trade towards monetary union*, Wroclaw, Poland, 2009, ISBN 978-83-61370-08-6, pp.229-244

[2] European Central Bank, *Bulgaria and Romania join the European Union*, Press Release, 2 January 2007, http://www.ecb.int/press/pr/date/2007/html/pr070102_1.en.html, 29.02.2008

[3] *Mugur Isarescu: We will adopt Euro in 2014*, Website: GhiseulBancar.ro, http://www.ghiseulbancar.ro/articole/67/5314/Mugur_Isarescu__vom_adopta_moneda_Euro_in_2014.htm, 29.02.2008; "Romania will adopt Euro in 2015, as states the Fitch Rating Agency", in *Gardianul*, no. 1621, 30.09.2007, http://www.gardianul.ro/2007/09/30/economie-c1/rom_nia_va_adopta_euro_n_2015_dup_agen_ia_de_rating_fitch-s102002.html

[4] *Poland's central bank head sees 2012 as earliest possible date for euro*, Website: PR Inside.com, http://www.pr-inside.com/poland-s-central-bank-head-sees-r417064.htm, 2.03.2008

[5] Laurenţiu Gheorghe, "Slovakia, the second East European country which will adopt Euro", Website: BusinessStandard.ro,

The date for the accession to the Exchange Rate Mechanism II is foreseen for the year 2012; this represents the preliminary step in the adoption of the unique currency; it is necessary for the fulfillment of the nominal convergence criteria and for the achievement of some significant progresses in the real convergence process. The participation in the ERM II is conditioned by the implementation of some additional structural reforms which should increase the capacity and flexibility of the Romanian economy to face the asymmetrical shocks[6]; the theory of the optimal monetary zone identifies the asymmetrical shock as the main source of costs in the monetary union. During at least two years of participation in the ERM II the national currency must show a high stability towards the euro; this is mandatory for the adoption of euro. According to the European Commission the stable exchange rate should be in the narrow band (+2,25%) for at least two years. The European Commission and the Central European Bank can tolerate a violation of the narrow band only if this means the appreciation of the currency, and not depreciation. We are talking here about an asymmetrical band, of -2,25% and +15%, which must be defended for at least two years, without any foreign help.

The Romanian Government and the National Bank have established the schedule for Romania's accession to the Euro Zone, having as target the year 2014. They believed that in seven years it would have been possible to take all fiscal, monetary and restructuring measures to meet the target. But the chief-economist of the National Bank has stated that „*during 2007 we were not really on the right way to meet our target [the accession to euro in 2014]. Consequently, one of the seven years is gone. We might risk letting also the year 2008 pass without taking the necessary actions, and we have fewer years to meet our target to adopt euro in 2014*"[7].

The stage of Romania's nominal and real convergence indicators

According to the Treaty of Maastricht, the states which access to the European Union become members of the Economic and Monetary Union with temporary derogation regarding the adoption of the unique currency. In this regard the economical politics are required; they should help at the fulfillment of the nominal convergence criteria and the ongoing process of real convergence.

The achievement of **nominal convergence** means the fulfillment of the **criteria stipulated in the Treaty of Maastricht**.

- **Price stability**

One year before the examination the inflation average rate must not exceed 1.5% of the average inflation of the three best performing member states.

Starting with the year 2000 the disinflation was always present in Romania; this fact is confirmed by the annual inflation average rate which has decreased each year, from 45,7% in 2000 to 6,56% in 2006 and to 4,84% in 2007. In 2005, the strategy of direct inflation targeting had a special role in this process; consequently, the prognoses of the inflation level had low values. The anticipations for 2008 are not

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http://www.standard.ro/articol_11652/slovacia__a_doua_tara_din_est_care_va_adopta_euro.html, 2.03.2008

[6] Government of Romania, "Euro in Romania from 2014", in *eu-ro newsletter*, no.19/ 06.04.2007, http://www.gov.ro/presa/integrare/afis-doc.php?idpresa=462

[7] *NBR proposes to adopt euro in 2014, even if the last year was not favorable for this target*, Website: frontnews.ro, http://www.frontnews.ro/articole-economic/bnr-isi-propune-adoptarea-euro-in-2014-desi-anul-trecut-nu-a-fost-favorabil-acestei-tinte-6820, 29.02 2008

very optimistic and the National Commission of Prognosis has estimated a level of 8% for the average inflation[8]. In the most recent report of inflation (published in February 2008) the National Bank of Romania has forecasted for the current year an inflation higher with 1.6%, from 4.3% to 5.9% and estimates for December 2009 an annual inflation of 3.9%[9].

The statistic data published by the European Statistic Office EUROSTAT confirm the prognosis, showing that the Romanian annual inflation on January 2008 was of 7.3% (the seventh state in EU as per the inflation rate) and of 8% on February (this time we were the fifth state in EU, after Bulgaria and some Baltic states)[10].

On 26th of March 2008 the increase of the inflation has determined the Central Bank to increase the monetary policy rate from 9% to 9.5%[11]. Thus they are trying to decrease the consumption and the possibility of opening new credits which increase the inflation. This is the fourth consecutive increase of the monetary policy interest performed by the Central Bank; on 31 October 2007 the key interest rate was 7%[12].

NBR explains that the analyses performed confirm the possibility of achieving an annual inflation rate above the highest limit of the variation band due to the continuous and excessive domestic demand and also due to the lasting effects of the shocks caused by the nature of the offer (mainly the international prices for food and fuels).

In the Convergence Programme 2006-2009 elaborated by the Romanian Government they consider that *„the monetary policy rate together with the policy of market liquidity control and the additional measures aimed at slowing down the pace of non-government credit growth are expected to be the main pillars of controlling the aggregate demand.”*[13]

- **The long-term interest rate**

One year before the examination the nominal long-term interest rate must not exceed 2% of the average long-term interest rate of the three best performing member states in what regards the price stability.

In Romania the interest rate on the last issue of Treasury certificates (on 10th of September 2007) was of 6,7%.[14]

- **Stability of the exchange rate**

The exchange rate of the national currency towards euro must be conform to the fluctuation frame of ERM II (+/-15%) without having major changes during two consecutive years before the examination date.

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[8] Constantin Chirca, „Disinflation – confirmed by the annual average rate”**,** in *Gândul*, 19 March 2007; „CNP has revised the inflation prognosis for this year, up to 5,4%”, Website Mediafax, http://www.mediafax.ro/economic/cnp-a-revizuit-in-crestere-estimarile-privind-inflatia-din-acest-an-la-5-4.html?1686;2439827, 10.03.2008

[9] National Bank of Romania, *Inflation Report*, February 2008, year III, no.11, Website NBR, http://www.bnro.ro/Ro/Pubs/RapInflatie/RAI200802.pdf

[10] EUROSTAT, *February 2008. Euro area annual inflation up to 3.3%*, News Release. Euro Indicators, 14 March 2002, http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2008/PGE_CAT_PREREL_YEAR_2008_MONTH_03/2-14032008-EN-BP.PDF

[11] National Bank of Romania, *Press Release*, 26 March 2008, Website BNR: http://www.bnr.ro/

[12] Gabi Moroianu, “BNR kills the credits in lei”, in *Ziua*, 27 March 2008

[13] Romanian Government, *The Convergence Programme 2006-2009,* Bucharest, January 2007, p.9

[14] Mugur Isărescu, *The role of monetary policy in the macro-economic policies mix,* Timişoara, 8 November 2007, http://www.bnro.ro/Ro/Prez/R20071112Guv.pdf

During 2005-2006 in Romania the maximum daily appreciation/depreciation of the euro/leu exchange rate, compared to the last two years average, was of +10,0/-6,1%, which is compliant with the ERM II fluctuation frame[15]. In 2007 the exchange rate was the most oscillatory in the last four years: between +11%/-6,4%[16]. In the Convergence Program 2007-2010 prepared by the Romanian Government they are forecasting a continuous tendency of moderate appreciation of the exchange rate, which will take part in the reduction of the import prices as well as of those administrated related to euro[17].

- **The sustainability of the government financial position**
  - ***The budgetary deficit*** *must not exceed 3% of GDP in the year preceding the examination date; if this value is exceeded the budgetary deficit must be substantially and continuously reduced as much as it approaches the reference value; the reference value may be exceeded only for temporary and exceptional cases.*

Starting with 2002 the budgetary deficit in Romania was always under the 3% of GDP threshold, and the percent of government debt in the GDP is much less than 60%.[18] In 2007, the budgetary deficit represented 2.4% of GDP according to the Romanian accounting standards and 2.7% according to the European standards; the government forecasts for 2008 a percent of 2.7%[19].

It is believed that the budgetary deficit target is difficult to be met as there are many additional budgetary expenses necessary to co-finance the structural funds, to contribute at the communitarian budget, to modernize the infrastructure, to accommodate to an economy based on knowledge and environment protection. On these terms, the only way to reduce the budgetary deficit is to diminish the quasi-fiscal deficits[20] and to better establish our taxes.

Several times the European Commission has warned Romania about the danger of exceeding the maximum value of the budgetary deficit accepted in the Treaty of Maastricht, forecasting a value of 3.2% in 2008 and of 3.9% in 2009; Romania may also receive penalties. The European Commission said recently that the budget strategy for 2008 does not comply with the prudent budget policy necessary to reduce the foreign deficit and with the inflationary pressures that endanger the convergence process[21].

  - ***Government debt must not exceed*** *60% of GDP in the examination year; if is has greater values it must significantly diminish and quickly approach the reference value.*

In Romania the government debt is under 20 % of GDP, much less than the limit value of 60 % of GDP required by the Treaty of Maastricht. Thus, in 2006, due to the continuous economical growth the governmental debt was of 12,4 % of GDP, according to the EU calculation methods (ESA95): the internal debt represented

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[15] Mugur Isărescu, *Globalization and European integration. Romania's Case,* Bucharest, 15 March 2007, http://www.bnro.ro/Ro/Prez/R20070315Guv.pdf

[16] *In 2007 the exchange rate was the most oscillatory in the last four years*, 28 December 2007, http://www.telegrafonline.ro

[17] Romanian Government, *Convergence Programme 2007-2010*, Bucharest, November 2007, p.30

[18] Ibidem

[19] Mediafax, *Government Says EC Won't Launch Infringement Procedure Vs Romania For Excessive Budget*, 31 March 2008, http://www.mediafax.ro

[20] Marius-Corneliu Marinaş, "The Analysis of the correlation between the nominal and the real convergence. Romania's Case", in *Theoretical and Applied Economy*, no.3/2006 (498), pp.73-78

[21] Mediafax, *Government Says…*

2,7 %, and the external debt was of 9,7 %. They have forecast a percentage of 11,9 % of GDP[22] for the end of 2007.

Table 1. Maastricht Criteria. Nominal Convergence Indicators

Nominal Convergence Indicators	Maastricht Criteria	Romania	
		2006	**2007**
Inflation rate (percent, annual average)	<1.5 pp above the three best performing Member States 3.0%[*]	6.56	4.84
Long-term interest rates (percent per annum)	<2 pp above the three best performing Member States 6.4%[*]	7.49[**]	6.7[***]
Exchange rate (vs. Euro) (maximum percentage change vs. 2-year average)	+/- 15%	+6.4/-9.1	+11.0/-6.4
General government deficit (percent of GDP)	below 3%	1.9	3.2
Government debt (percent of GDP)	below 60%	12.4	12.6

[*] *ECB Convergence Report, May 2007*
[**] *August 2005 issue of Treasury certificates*
[***] *10 September 2007 issue of Treasury certificates*

Source: National Bank of Romania; ECB Convergence Report – May 2007

The real convergence

The Treaty of Maastricht does not mention clear criteria for the real convergence, which should assure a high level of cohesion between the economical structures of the countries aspiring to become members of the EMU by reducing the difference between the countries in what regards the productivity and prices level; the incomes in the growing countries should be increased as much as they reach the level of the incomes in the well-developed countries. Mugur Isărescu, the Governor of the National Bank of Romania, believes that this is due to the fact that EU has initially included the well-developed countries which had similar economies. Lately, when they have acknowledged the importance of the real convergence for the successful integration of the new Central and East European members, the European Commission and the Central European Bank have sounded some warnings about the risks that a country which has not a real convergence with the West-European countries may adopt the euro currency too fast. Lorenzo Bini Smaghi, member of the Executive Board of the ECB, has stated in a conference of the Central European Bank regarding the problems in the Central and Eastern Europe that "*substantial progress has been made, but gaps in terms of income per capita relative to the euro area remain large. This suggests that the challenges of real convergence […] will remain relevant for several years.*"[23]

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[22] Romanian Government, *Convergence Programme 2006-2009…*, p.49
[23] Speech by Lorenzo Bini Smaghi, Member of the Executive Board of the ECB at the ECB Conference on central, eastern and south-eastern Europe, Frankfurt, 1 October 2007, http://www.ecb.int/press/key/date/2007/html/sp071001_2.en.html

According to the Governor of the National Bank of Romania the most important criteria for achieving the real convergence are:

- the opening level of the economy, that is represented by the percentage of imports and exports in the GDP
- the amount of the bilateral trade of the EU members in the total foreign trade
- the economy structure represented by the amount of different fields (industry, agriculture, services) in the GDP production.
- the GDP per capita [24]

The level of real convergence in Romania

According to the schedule for middle-term development during 2007-2013 the real annual increase of the GDP will be about 5,9 %; the **negative contribution of the net export** will be gradually diminished, as shown by the National Commission of Prognosis in the table below.

Table 2. The contribution of the net export in the GDP

%	2007	2008	2009	2010	2011	2012	2013
GDP	**6.0**	**6.5**	**6.1**	**5.8**	**5.8**	**5.7**	**5.7**
Net export	**- 8.7**	**- 4.3**	**- 3.4**	**- 2.8**	**- 2.3**	**- 1.9**	**-1.6**
Export of goods and services	2.8	3.5	3.3	3.2	3.2	3.1	3.0
Import of goods and services	11.5	7.8	6.7	6.0	5.5	5.0	4.6

Source: The National Commission of Prognosis, *Spring Prognosis 2008, Preliminary Form*, 27 March 2008,
http://www.cnp.ro/user/repository/prognoza_de_primavara_2008_2013.pdf

The evolution of the **Romanian foreign trade with the EU members** is shown the table below.

Table 3. The Romanian foreign trade within the European Community

	2006	2007	2008	2009	2010	2011	2012	2013
Export (FOB) (millions euro)	25850	29401.8	34500	40400	47000	54400	62800	72200
Intra-EU (%)	70.5	71.9	72.3	72.9	73.2	73.6	74.1	74.7
Import (CIF) (millions euro)	40746	50992.6	58800	66280	74400	82700	91500	100800
Intra-EU (%)	63.7	71.1	71.0	70.8	70.6	70.3	70.1	69.7

Source: The National Commission of Prognosis, *Spring Prognosis 2008, Preliminary Form*, 27 March 2008,
http://www.cnp.ro/user/repository/prognoza_de_primavara_2008_2013.pdf

One of the main causes that contributed at the strengthening of the export of Romanian products on the foreign markets was the fact that it aimed to use the markets from the EU well-developed countries which represent 70% of the total value

[24] Mugur Isărescu, *Romania: The Way to Euro*, 2007, p.6, http://www.ugir1903.ro/download/BNR_Drumul_catre_euro.pdf, 28.02.2008

of exports. In the first eleven months of 2007 the main markets where Romania has exported were: Italy (17,2% of the total export of Romania); Germany (17,1%); France (7,7%); Turkey (7,0%); Hungary (5,6%); Great Britain (4,2%); Bulgaria (3,1%); Austria (2,6%); Spain (2,3%) and Poland (2,2%). In what regards the import, from the geographical orientation point of view, the first ten member states have a percentage of 70.1%: Germany (17,2%); Italy (12,8%); Hungary (7,0%); France (6,3%); Russia (6,2%); Turkey (5,5%); Austria (4,8%); Holland (3,6%); Poland (3,4%) and China (3,3%)[25].

In 2007 the external Romanian trade had several specific characteristics. The main influential factors were[26]:

– the National Customs Authority helped at the completion of the customs conditions for the goods which are temporarily staying in customs warehouses or inside free areas (vehicles, devices and electrical devices);

– the new system of general trade in the case of exchanges within the European Union, according to which all goods are registered in the very moment they cross the national border, and not in the moment when they can move freely, as they did before, and as the Extrastat (special trade system) trade is working also nowadays;

– the customs duties, the EU taxes for the extra-communitary imports and the high volume of the economical activity have been abolished ;

– the appreciation of the national currency (in the first half of 2007) and the high decrease of the external demand for light industry products**;** it is the result of the outsourcing of the processing phenomenon; the effects of these phenomena can be seen in the first months of 2007 as they have discouraged the exports of goods;

– the continuous improvement and modernization of the productive device of the economy was very necessary; the internal production was not enough for the high level of consumption demand; consequently, the import of capital (37,3%) and goods (30,5%) has increased;

– the drought has caused additional imports, leading to a deficit of the agricultural field of about 2 billions euro in the first 11 months of 2007;

– the depreciation of the national currency in the second half of 2007.

The structure of Romanian economy, represented by the contribution of different fields to the GDP, can be seen in the below table.

Table 4. The structure of Romanian economy

%	2007	2008	2009	2010	2011	2012	2013
GDP	**6.0**	**6.5**	**6.1**	**5.8**	**5.8**	**5.7**	**5.7**
Industry	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Agriculture	- 1.3	0.3	0.2	0.2	0.2	0.1	0.1
Constructions	2.5	2.0	1.5	1.3	1.1	1.1	1.0
Services	3.5	2.8	3.0	2.9	3.2	3.1	3.2

Source: The National Commission of Prognosis, *Spring Prognosis 2008, Preliminary Form,* 27 March 2008,
http://www.cnp.ro/user/repository/prognoza_de_primavara_2008_2013.pdf

[25] National Commission of Prognosis, *External Trade in 2007*, pp. 9-12,
http://www.cnp.ro/user/repository/comertul_exterior_2007.pdf
[26] Ibidem, pp. 3-4

Romania's GDP has increased with 6% in 2007 as a result of the development of constructions and services fields that counterbalanced the agricultural decline (-1.3%). The agricultural output was diminished because of the drought, of the low efficiency, of the small number of crop areas (more than one million acres). The constructions field represents one of the most dynamic economy branches: in 2007 it has increased with 37.5%, the highest level in Europe. Services have also increased, representing more than 50% of GDP; the industry has the same value in the last years, which is about 27-28% of GDP.

The National Commission of Prognosis estimates for 2008 an economical growth of 6.5%, higher with 0.5% than last year; this is due to the flourishing agriculture in 2008, and consequently the agricultural production will exceed with 5.7% the last year level of production. In the same time, this is anticipating a lower efficiency of the other fields which are contributing to the GDP. The constructions will grow with 13.2%, the services with 6.1% and the industry with 5.6%.

According to the researchers, these evolutions are suggesting that Romania becomes a modern state where agriculture has less contribution for the GDP[27]. The best economical growth in 2007 *„proves that Romanian economy has been regarded to with an exaggerated pessimism by the rating agencies and other international economic institutions. I believe that an important increase of 5-6% each year is possible in Romania during the next 5-6 years so that the GDP per capita will reach the average value from Central and Eastern Europe"* has stated the chief-economist of the Commercial Bank of Romania[28].

From the point of view of the economical development Romania is still far from many European states. In 2005 the GDP per capita in purchasing power standards (PPS) was only 1/3 of the EU 25 average (34% according to Ecofin) and only 50% of the new member states' average. According to the European Commission, in 2006 we had a better situation as the GDP per capita was 38% of the EU average (still low). As a continuous improvement in the first quarters of 2007 the GDP has increased due to the domestic demand, as a result of a good dynamics of the gross fixed capital formation. Thus the gross fixed capital formation has increased with 17,2% in the first quarter and with 19,4% in the second quarter. In the first eight months of 2007 the deficit of the account current has increased with 86,4% as compared to the same period of 2006; this increase is due to the growth of the commercial deficit with 69% and of the incomes balance with 46.7%. They are expecting the GDP per capita (in PPS) to meet in 2009 the level of 40% of the EU27.[29]

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[27] Corina Fraştelni, "Last year the agriculture has pulled the economy down", in *Bursa on line*, 13.03.2008, http://www.bursa.ro/on-line/s=macroeconomie&articol=24296&editie_precedenta=2008-03-13.html

[28] Raluca Dobre, "The constructions have saved the GDP", in *Curierul naţional*, Year 13, no. 5117, 5 March 2008

[29] Romanian Government, *Convergence Programme 2006-2009*, p.27; *Convergence Programme 2007-2010, p.*23; European Commission, *The Commission's Assessments of National Reform Programmes for Growth and Jobs. Romania,* http://ec.europa.eu/growthandjobs/pdf/european-dimension-200712-annual-progress-report/200712-annual-progress-report-RO_en.pdf

Official Journal of the European Union, *Council Opinion of 27 March 2007 on the convergence programme of Romania, 2006-2009*, 2007/C 89/06, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:089:0019:0022:EN:PDF

The Convergence Programme of Romania

The European Commission believes that the coordination of the states' economic and budgetary control policies is necessary in order to help the interdependence caused by the creation of the Common Market and Economic and Monetary Union. The Convergence Program is one of the analysis and budget control instruments; each state that has not yet adopted the Euro must have one.

For Romania the closing of the seven-year preparation period for the accession to the European Union (2000-2006) and the beginning of another seven-year period (2007-2014/2015) for being prepared to adopt the Euro represent a special opportunity to continue the reforms and to diminish the regional economic differences. Romania has an open economy that is strongly integrated in the EU's economy; consequently, it is sensitive enough to the changes of the external economic surrounding and especially to the economical evolution of the main trading partner states from the EU. Therefore the macroeconomical scenario always takes into account the European Commission's directions, when speaking of the external sector.

The Convergence Programme 2006-2009 issued by the Romanian Government evaluates for the first time the possibilities of sustainable economic development in order to promote the policies which help to meet the convergence and sustainability of the public finances. They are specifying in this program that „the timetable for adopting the euro is essentially a problem of temporal optimization, where the speed is dictated by a cost - benefit analysis, subject to the following constraints: fulfill on a sustainable basis the nominal convergence criteria; attain a satisfactory level of the real convergence criteria; reduce ERM2 participation to the mandatory minimum of two years.[30].

The main long-term objective for Romania, as stated in the economic governmental policy, is to converge with the living standards from the EU. This objective implies a sustainable economic growth which implies macroeconomic stability and continuous structural reforms. Thus the convergence programme shows the main directions that Romania will follow (the reforms and measures to be taken) so that the real convergence between Romania's development and EU development be perfectly achieved.

The Convergence Programme 2007-2010

The second edition of Romania's Convergence Programme takes into account the „Opinion of the European Council" regarding the first edition of the Convergence Programme, according to the Article 9 of the Council's Regulations No 1466, July 1997[31], which underlines that the budgetary and macroeconomical scenarios belonging to the Convergence Programme are plausible; still, there are some risks regarding the possibility of meeting the budgetary targets after 2008. Consequently, the European Council has recommended that Romania should establish some more restrictive targets for the next years and also revise the public expenses. The Programme has been updated with the last evolutions of the internal and international economic environment and the legal framework in force, as well as with the aspects of the project for the budget for 2008, which is still in Parliament's discussion.

The Convergence Programme 2007-2010 shows the ability of Romania to diminish the structural deficit up to 1% until 2011; consequently, there is small possibility that the budgetary deficit breaches the 3% of GDP threshold.

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[30] Romanian Government, *Convergence Programme 2006-2009...*, p.7

[31] Romanian Government, *Convergence Programme 2007-2010...*, p.6

Romanian Government believes that *„the most important prerequisite for meeting the fundamental objective is the implementation of the right mix of macroeconomic policies to ensure the continuation of the disinflation process and to preserve the external sustainability"*[32].

European Commission's point of view

According to the European Commission the budgetary strategy shown in the Convergence Programme 2007 – 2010 is not compliant with the prudent budgetary policy which is necessary in order to reduce the increasing current account deficit and the inflationist pressures which endanger the convergence process. Moreover, the European Commissary for Monetary Affairs, Joaquin Almunia, stated in January 2008 that The Economic and Financial Affairs Council (Ecofin) will take several measures according to the conditions established by the Stability and Growth Pact if the Romanian authorities do not action to have a better control of the expenses and of the budgetary deficit. Leonard Orban, European Commissary, confirms that the European Authorities may proceed with excessive deficit procedure against Romania, at the end of April or in the beginning of May[33].

According to the communitary reforms Brussels may proceed with the excessive deficit procedure against a member state if the budgetary deficit is breaching the 3% of GDP threshold of the Treaty.

The Romanian Ministry of Economy and Finance has stated that the Government will be presented with a set of measures mainly intended to diminish the budgetary deficit by reducing the expenses up to one and a half billion euro[34].

The European Commission has issued several recommendations to Romania in order to be compliant with the convergence criteria; we mention here the recommendation to revise the budgetary targets for 2008, to reduce the public spending and to adopt specific policies in order to stop the inflationist pressures. Thus, in the first recommendation the Commission is asking Romania to "significantly strengthen the pace of adjustment towards the MTO by aiming for substantially more demanding budgetary targets in 2008 and subsequent years in order to contain the risk of an excessive deficit, foster macroeconomic stability and rein in widening external imbalances and address the risks to the long-term sustainability of public finances". The second recommendation is asking the Government to "restrain the envisaged high increase in public spending, improve its expenditure composition so as to enhance the economy's growth potential and improve the planning and execution of expenditure within a binding medium-term framework". The third recommendation is asking Romania to "pursue policies to contain inflationary pressures, complementing the recommended tighter fiscal stance, with appropriate public wage policy and further structural reforms".[35]

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[32] Ibidem, p.8

[33] *Ecofin will discuss the opinions regarding Romania's convergence for the Euro Zone,* The Money Channel, 12 February 2008,
http://www.tmctv.ro/articol_31247/reuniune_ecofin_la_bruxelles___opinii_privind_convergenta_romaniei.html

[34] Ibidem

[35] Official Journal of the European Union, *Council Opinion of 12 February 2008 on the updated convergence programme of Romania, 2007-2010*, 2008/C49/10,
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:049:0039:0043:EN:PDF

Conclusions

Nowadays we are considering the accession of Romania and Bulgaria to the European Union on 1 January 2007 similar with the accession of Spain and Portugal, twenty years ago. Romania's delay regarded as GDP per capita in PPS is much longer than Spain's and Portugal's (about 36% in 2006); still, the accelerated growth of GDP – which is the "privilege" of low-income countries, as a condition for realizing the convergence – helps Romania to become the European country which has diminished in the fastest way the level of disparities compared to the average of the European Union. In the first stage, the nominal GDP value may become double until 2013, compared to the value in 2006; thus the GDP value per capita in PPS will be about 50% compared to the average of the European Union. Consequently, Romania will improve its convergence with 14 percentages in 7 years, while Portugal has obtained the same performance in 20 years[36].

There are also some threats of the evolution of the international environment over the Romanian economy: they are represented by the increase of the fuel price (which reflects all political tensions and production crises), by the endangering results of the mortgage loans crisis from USA and their influence on the world economy; by the development of the Asian emerging economies (of China and India) which have exceeded all expectations[37].

For Romania, the accession to the Euro Zone represents the chance and the means to improve the living standards of Romanian citizens, as much as they meet the European living standards. Due to the fact that Romania is a member state with the GDP value per capita much lower than the European average it is really necessary to act more efficiently in order to use the domestic and also the communitary funds, to actively encourage the foreign and domestic investments. Therefore, Romania needs to keep the sustainable, well-balanced and fast growing economy as long as possible; it also needs to have powerful and efficient institutions as well as a coherent legislation and a proper fiscal system.

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