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George Georgescu

Abstract. The paper aims to investigate the changes in Romania's net international investment position (NIIP) and to evaluate the prospects of this position, having in view the country's road towards joining the Eurozone. Among the 11 key indicators of nominal and real convergence monitored by the European Commission (*MIP Scoreboard*) under the macroeconomic imbalances procedure, NIIP is the only one to which Romania stands above the indicative threshold (-57% of GDP in 2014 compared to the threshold of -35%). The study highlights the main driving factors that have led to the deterioration of NIIP during the last decade in Romania and the related risks to the financial stability. The comparative analysis of Romania's NIIP with other EU Member Countries is shaping a picture of external assets and liabilities at the European level that may represent valuable benchmark points for their possible developments. The study found that, considering the strengthening of recent trends, which witnessed a decrease in external indebtedness and in the current account deficits, the net international investment position of Romania may return within the MIP prudential standard. Under the circumstances of a favorable internal and international environment and significant progresses in structural reforms, Romania could make significant steps in order to meet all the required convergence indicators and criteria for Eurozone accession during the next decade.
Key words: net international investment position; nominal and real convergence; financial stability; MIP Scoreboard; Eurozone accession.
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Prospects of Romania's international investment position and financial stability risks

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1. Introduction

Romania's accession to the Eurozone is a key objective of the country and also a commitment assumed in the framework of the EU membership. Even if currently Romania meets the nominal convergence criteria required by the accession in the Eurozone, as regards the real convergence many adjustments remain to be done, mainly by continuing structural reforms aimed to hastening development gaps catching up, in terms of getting closer to the EU average GDP-PPS per capita.

Among the scoreboard indicators monitored under the Macroeconomic Imbalance Procedure introduced by the EU in 2011, the Net International Investment Position (NIIP) is the only one that Romania does not comply with (see Annex 3). The NIIP ratio-to-GDP recorded in 2015 (-57%) stand above the EU threshold (-35%).

Based on the idea that the dynamics of this indicator and its determinants have been less investigated, at least in the case of Romania, the study tries eventually to evaluate whether the country's economic perspectives in the medium and long term allow the improvement of its external financial position so that it should not be an obstacle to the Eurozone accession.

Further, the changes in Romania’s NIIP during pre- and post-accession will be analyzed, also comparing with other EU Member Countries. The study is intended to highlight the main driving factors that have led to the deterioration of NIIP in the case of Romania, the related risks to the financial stability and the prospects of the country’s NIIP improvement, in line with the Eurozone accession commitment.

The indicator is based on the Eurostat data from the Balance of Payments statistics compiled according to the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) supplemented with data from National sources (Romanian Government, National Bank of Romania, Ministry of Public Finance and National Commission for Prognosis).

2. Literature review

Regarding the concept and the definition, the NIIP, calculated as external assets minus external liabilities, provides an aggregate view on the net financial position of a country in relation to the rest of the world at a certain point in time (Eurostat 2012, p. 7). It is worth mentioning that the assets and liabilities are recorded in value terms using the exchange rates and market prices at the end of the reporting period, usually the end of the year.

As one of the most relevant macroeconomic indicator, the net IIP is expressed in percent of GDP. A net negative IIP indicates that domestic sectors of a country are indebted toward non-residents and, *vice versa*, a net positive IIP reveals an external creditor position of the country toward the rest of the world.

In other terms, the IIP represents the stock counterpart to the BoP financial flows accounts (broken down on current, capital and financial account) allowing an analysis of external financial position of a country and its determinants. Under the circumstances of the global financial crisis and the Euroarea financial crisis, the IIP has become of greater importance as indicator for economic policies,

showing the cross-countries financial dependencies and potential contagion channels [Shipper 2015].

Examining the existence of feedback effects from an economy's NIIP to its trade balance Herzberg [2015, p. 283] has pointed out there is some evidence that the scoreboard indicators, notably the net foreign liabilities, if they had been monitorized earlier, they could have predicted the European sovereign debt crisis in the cases of Greece, Ireland, Portugal, Spain, Cyprus.

Basically, the NIIP can change for two reasons: first, due to deficits or surpluses in the current account, which implies net international acquisitions or sales of financial assets and second, due to changes in value of the financial instruments composing the external assets and liabilities, because of movements in their prices and/or in currency exchange rates.

In the context of European integration, a widening of external financial imbalances has been observed [European Central Bank 2015, p. 10]. Analyzing the origin of these imbalances, Carrasco and Peinado [2014, p. 11] have identified three leading causes: the impact of the process of global economic and financial integration, even more significant in the case of EMU, the diverging trends in price and non-price competitiveness and the twin deficits increase, mainly the net negative current accounts. As pointed out by Collignon [2012, p. 6] a negative NIIP caused by current account deficits reflects insufficient national savings and leads to an increase in the foreign debt, shifting wealth to non-residents.

In acordance with the „Feldstein-Horioka paradox", under the asumption of perfect capital mobility and the absence of regulations in international financial markets, a low correlation between domestic investment and savings is observed, because of the flow of any country savings to countries with most productive investment opportunities. Examining trends overtime in foreign holdings of debt securities, Horioka and al. [2015, p. 12] found that since the global financial crisis, these holdings have declined in all countries and regions except developing Asia, which, if a debt crisis occurs in

Euroarea, it is supposed to become even more attractive for foreign investors.

As concerns the disequilibrium between creditor and debtor economies within the Eurozone i.e. between the core and peripheral countries, due also to the asymmetrical impact of the ECB post-crisis monetary policy, based on low benchmark interest rates even in negative territory and, more recently, on QE stimulus program, Daniel Gros [2015] has made an opportune analogy with the "Minsky Conundrum", arguing that this policy is a serious mistake as long as it had a limited impact on growth recovery. Thus, he cautions that if low interest rates facilitate debtor countries to spend more and to contract new borrowings, along with the normalization of interest rates and under the circumstances of SGPs ineffectiveness increases the risk of financial instability.

As emphasized by Darvas [2012, p.3] the composition of foreign assets and liabilities and their maturities does matter, FDI being considered a more stable and less risky founding source while debt, and in particular short-term debt, it is appreciated as much riskier. He found also that in Ireland, Greece, Portugal and Spain the NIIP was close to -100 percent of GDP in 2011, but while the deterioration of net IIP in Ireland was mostly due to valuation changes, in the other three countries this was the result of increasing current accounts deficits, mainly because of the growing balance of goods deficits [European Commission 2012, 2015].

According to a report on the global recovery focusing on the CESEE countries, including Romania [IMF 2014, p. 20] the majority of these countries have NIIP positions below -50 percent of GDP and also large financing needs, the gross external debt exceeding usually 50 percent of GDP. Some authors [Kocerka 2015; Duczynski 2012] pointed out that the high negative level of NIIP was driven by considerable capital inflows which, despite the contribution to the financing of current account deficits, has led to a large share of FDI in the foreign liabilities of these countries, with a special mention for Poland which has also recorded, at the same time, a significant growth of its direct investments abroad.

The global financial crisis triggered in 2008 revealed a number of severe vulnerabilities in the EU financial system, harming the European economy and impeding the post-crisis sustainable recovery.

As the latest IMF report on global financial stability [IMF - GFSR 2015; see also Vinals 2015] warns, the global economy is currently under a triad of threats stemming from unsolved problems that still affects the financial system of the developed countries, particularly the Euroarea, vulnerabilities in emerging countries and systemic risks associated to financial markets liquidity - plus the high volatility of capital flows and geopolitical tensions - whose materialization could trigger a new global crisis, the highly indebted countries and having also a low quality of bank assets, being the most exposed.

3. Changes in Romania's NIIP during pre- and post-accession

In Romania, the growth rate of external assets has been much lesser than the one of external liabilities during the whole period between 2001 and 2012, with a slight decrease of the latter in 2013 and 2014 (Table 1).

The analysis of the related data breakdown on main components shows that, in the case of external assets, the largest share (almost two thirds in 2013 and 2014) is held by reserve assets, that were, at the same time, the main driver of external assets increase. It is worth mentioning that a part of these assets belongs actually to credit institutions (deriving from the minimum reserve requirements ratio imposed by the central bank) and most of them have a low degree of immediate liquidity, being invested in foreign currency assets, mainly debt instruments issued by government agencies and supranational institutions up to one year [NBR 2015, p. 121].

Under these circumstances, the sensitivity of Romania's main pillar of external assets to macroeconomic and/or foreign exchange rate shocks has become obvious [for other considerations on financialization and the related risks, see Iancu 2013, p.19].

Table 1

Breakdown of external assets and liabilities of Romania between 2001 and 2014

- EUR bn. -

External assets and liabilities	2001	2005	2007	2009	2012	2013	2014
External assets out of which:	12.9	25.7	36.9	43.7	51.9	52.2	55.5
- direct investment	0.1	0.2	0.8	1.0	1.7	1.7	2.6
- portfolio investment	0.0	0.6	1.2	1.2	2.1	2.3	2.4
- other investment	7.3	6.7	7.7	10.7	12.7	12.7	14.9
- reserve assets	5.5	18.3	27.2	30.9	35.4	35.4	35.5
External liabilities out of which:	23.7	48.9	91.1	117.5	142.5	141.2	140.9
- direct investment	8.7	21.9	42.8	50.0	58.1	61.0	62.5
- portfolio investment	2.5	4.4	4.9	4.9	12.1	16.8	21.1
- other investment	12.5	22.6	43.4	62.6	72.3	63.4	57.3

Source: NBR data (interactive database).

In the case of external liabilities, which registered an increase from EUR 23.7 billion in 2001 to more than EUR 140 billion during the analyzed period (by around six times) some structural changes in their composition have occurred.

The most notable has been related to the increase in direct investment stock from EUR 8.7 billion in 2001 to EUR 62.5 billion in 2014, in this last year holding a share of 45 percent in the total of external liabilities.

In these conditions, the NIIP has sharply deteriorated, from minus EUR 10.8 billion in 2001 (representing 24% in GDP) reaching a peak of minus EUR 90.6 billion in 2012 (70.4% in GDP), after which a quite significant decrease has been recorded, to minus EUR 89 billion in 2013 (62.4% in GDP) and to minus EUR 85.4 billion in 2014 (57.2% in GDP), helped also by the outstanding increase of Romania's GDP in the last years.

Summarizing, the main causes of Romania's NIIP deterioration consisted in:

▪ increasing trade deficits: from below EUR 5 billion annually in 2001-2004 to EUR 12 billion in 2006, reaching a peak of about EUR 18 billion in 2007 and 2008, while during the post-crisis period has remained below EUR 8 billion, primarily due to the economic contraction and financial constraints of banks, companies and households;

▪ substantial current account deficits (mainly because of trade deficits): from below 6% of GDP in 2001-2003, to around 8% in 2005, over 10% in 2006 and 2007, reaching a peak of 12.3% in 2008; in the post-crisis period the severe adjustment of the current account balance has lead the deficit down below 5% of GDP;

▪ massive inflows of FDI : around EUR 40 billion cumulated during 2003-2009 (the FDI stock increased from EUR 9.6 billion to EUR 50 billion). In the post-crisis period, the FDI dropped to between EUR 1-2 billion per year, consisting in equity by reinvested earnings of existing investors, the new inflows being hindered by the changes in risk perception and market sentiment concerning the attractiveness of the business environment in Romania.

▪ increasing loans, mainly on long-term, both of private (for investment financing) and public sector (for fiscal deficit financing, at which a multilateral financial assistance package for avoiding a BoP crisis and amounting to EUR 20 billion has been added in 2009): the medium and long-term external debt of Romania increased by about EUR 60 billion during the period 2004-2014, reaching a peak of EUR 78.7 billion in 2012, then decreasing up to EUR 76 billion in December 2014.

Several analysis of threats to Romania's external debt sustainability [Zaman and Georgescu 2011, 2014; Georgescu 2014] and implicitly to its investment international position, highlighted risks arising from the concentration of private debt in vulnerable sectors, increased presence of non-resident investors purchasing financial instruments issued by the Romanian government and the large exposure of banks to the public sector [see NBR 2015b].

4. Where Romania's NIIP stands compared to other EU Member Countries

Comparing the NIIP at the level of European Union it can be observed that, while some advanced countries, as Germany, have improved their external financial position, anyway a positive one, the CESEE countries have negative positions, ranging in 2014 between around 70% in GDP (Bulgaria, Poland, Hungary, Slovakia) and 35% in GDP (Czech Republic), most of them being situated on a trend to improvement during the last years (Table 2 and Annex 1).

Table 2

Dynamics of NIIP in Romania comparing with other EU Countries

- % in GDP -

Country	2005	2007	2009	2012	2013	2014
Germany	13.3	18.8	25.1	28.8	34.9	42.3
Netherland	-5.4	-15.4	0.9	31.1	32.3	60.8
Bulgaria	…	…	…	-79.8	-75.0	-73.4
Czech Republic	-25.7	-37.0	-44.0	-46.1	-41.5	-35.6
Poland	-42.0	-49.3	-57.8	-65.9	-68.7	-68.3
ROMANIA	-29.4	-48.5	-64.1	-70.4	-62.4	-57.2
Slovakia	-60.9	-56.6	-66.7	-62.2	-63.8	-69.4
Hungary	-92.5	-88.9	-116.1	-94.4	-84.1	-73.8

Source: Eurostat

From this point of view, a similar NIIP of Romania (-57% in GDP) with other CESEE countries should be noted.

If the difference between external assets and liabilities is divided by the number of inhabitants results that, among the analyzed CESEE countries, the most pronounced negative positions are held by Slovakia (EUR 9,600 per capita), Hungary (EUR 7,500 per capita) and Poland (EUR 7,200 per capita), while Romania and Bulgaria are slightly above EUR 4,200 per capita (Annex 2).

On the other side, countries like Germany and Netherlands have a strong positive external position, corresponding to more than EUR 15,000 per capita.

At the EU level, the whole picture of all 28 Member Countries according to the position of net external creditor or debtor could be highly relevant for the description of European financial relationships, connections and balances. As results from data presented in Table 3, the EU 28, overall, was situated on a net debtor position in 2014, with a negative difference between external assets and liabilities of EUR 1778 billion, representing around 10 percent of the European GDP.

Table 3

Summary of net creditors and debtor countries at the level of EU 28 in 2014

- EUR bn. -

Net creditors countries		Net debtor countries							
Belgium	**230**	**Bulgaria**	**31**	**Croatia**	**38**	**Portugal**	**196**
Denmark	**121**	**Czech Rep.**	**54**	**Italy**	**451**	**ROMANIA**	**85**
Germany	**1228**	**Estonia**	**9**	**Cyprus**	**24**	**Slovenia**	**16**
Luxemburg	**18**	**Ireland**	**198**	**Latvia**	**15**	**Slovakia**	**52**
Malta	**3**	**Greece**	**222**	**Lithuania**	**17**	**Finland**	**2**
Netherlands	**399**	**Spain**	**996**	**Hungary**	**75**	**Sweden**	**27**
Austria	**7**	**France**	**418**	**Poland**	**275**	**United Kingdom**	**583**
TOTAL	**+2006**						**-3784**

Source: author based on Eurostat data

By far, the biggest net creditor country has been and remained Germany (EUR 1779 billion i.e. 42.3% in GDP) due to its huge current account surpluses, mainly as a result of trade surpluses. Other important net creditor countries at the end of 2014 were Netherlands (around EUR 400 billion i.e. 60.8% in GDP), Belgium (EUR 230 billion i.e. 57.2% in GDP) and Denmark (EUR 121 billion i.e. 47% in GDP).

The most of EU countries (a total number of 21) are on net debtor positions, among them more significant being Spain (EUR 996 billion i.e. – 94.1% in GDP), United Kingdom (EUR 583 billion i.e. – 25.3% in GDP), Italy (EUR 451 billion i.e. – 27.9% in GDP), France (EUR 418 billion i.e. – 19.5% in GDP), Poland (EUR 275 billion i.e.

– 68.3% in GDP), Greece (EUR 222 billion i.e. – 124.1% in GDP), Ireland (EUR 198 billion i.e. – 106.7% in GDP) and Portugal (EUR 196 billion i.e. – 113.3% in GDP). A special remark for Cyprus, with a debtor position of EUR 24 billion, representing -140% of GDP, the highest in at the level of EU 28.

Therefore, the net debtor position of Romania was found to be in line with most of other EU countries, mainly from CESEE, having a moderate dimension, although not without risks.

5. The EU Macroeconomic Imbalance Procedure and the assessment of Romania

Amid the economic and financial crisis, in order to secure the financial stability and to prevent excessive external imbalances, mainly residing in high current account deficits and/or unsustainable external indebtedness, the European Union introduced in 2011 an early warning system under the Macroeconomic Imbalance Procedure (MIP), part of the EU so-called “six-pack” legislation for economic governance improvement, focusing on macroeconomic policies surveillance. A scoreboard of indicators meant to imbalances identification (14 headline indicators with alert thresholds and 34 auxiliary indicators) has been designed and monitored, representing, at the same time, a relevant outlook concerning the nominal and real convergence process inside and outside of the EU.

Since 2012, the European Union has prepared, every year, the Alert Mechanism Report (AMR) which filter and identify countries requiring more in-depth reviews (IDR) in order to decide if an imbalance exists, to assess its origin, nature and severity (persistent, getting better or worsening), evaluating the related risks and submitting corrective action plans along with roadmaps and deadlines for countries with excessive imbalances as preventive actions (recommendations by country) followed, depending on the case, by corrective actions (triggering the Excessive Imbalance Procedure – EIP, including non-compliance penalties).

The AMR for the year 2015, based on the MIP scoreboard analysis, identified 16 countries with different degree of imbalances requiring more IDRs. Romania was included in MIP category „relatively manageable risks" which requires monitoring and policy action (Table 4). The reasons behind this decision in the case of Romania have considered risks from the relatively large negative investment international position, the weak medium-term export capacity and vulnerabilities in the banking system (mainly the high NPL ratio), being understood that the exit from the IMF – EU financial assistance program in 2015 has been taken into account.

Table 4

Countries identified in AMR for in-depth reviews in 2014 and 2015

	MIP Categories	2014	2015
1	No imbalance	-	-
2	Imbalances which require monitoring and policy action	Belgium, Bulgaria, Finland, Netherlands, Germany, Sweden, UK	Belgium, Finland, Netherlands, ROMANIA, Sweden, UK
3	Imbalances, which require specific monitoring and decisive policy action	Hungary	Germany, Hungary
4	Imbalances, which require specific monitoring and decisive policy action	France, Ireland, Spain	Ireland, Slovenia, Spain
5	Excessive imbalances, which require specific monitoring and decisive policy action	Croatia, Italy, Slovenia	Bulgaria, Croatia, France, Italy, Portugal
6	Excessive imbalances, which require decisive policy action and the activation of the Excessive Imbalance Procedure (EIP)	-	-

Source: based on Alert Mechanism Report 2015, p. 4.

The AMR for the year 2016 stated the requirement for new IDRs for these countries due to the persistence of identified vulnerabilities in net debtor countries. It pointed out that adjustments in external flows have not yet been translated into a significant decline in the external indebtedness in most of countries subject to IDR, including Romania, surpluses in current account beeing

stipulated as nedded in order to relieve their external liabilities burden in a timely manner [European Commission 2015b, p. 10].

The position of Romania against the MIP scoreboard indicators is however quite good if the recent macroeconomic developments, which are supposed to improve the external financial balances of the country, including the NIIP, the only indicator outside the threshold, are considered (see Annex 3).

The adverse actions that have caused the external debt increase under the pressures of the crisis impact seems to have ended in 2015, mainly due to the repayment of the sovereign loan from the IMF-EU contracted in 2009. According to NBR data, at end-November 2015, the long-term external debt stood at EUR 71.6 billion, compared with EUR 75.8 billion at end-December 2014, down 5.6% (due to the decrease in both components: public and private, including long-term deposits of non-residents). The net FDI inflows have seen a recovery in 2015 to almost EUR 3 billion. The latest MPF data reveals that, at end-October 2015, the public debt amounted to 292.4 billion lei (representing 39.3% of GDP) compared to 295.6 billion lei at end-2014 (42.1% of GDP).

As concerns Romania's economic prospects on medium- and long-run, a decrease in external financing needs is expected, by keeping the BoP current account deficits below 4% of GDP and the savings rate more than 27%. The public debt-to-GDP ratio is envisaged to be maintained in the range of 38-40%, which would be consistent with the European Fiscal Compact, international debt sustainability standards and prudential thresholds set in Romania's Convergence Programme 2015 – 2018 [Vlad 2015, pp. 255-256].

In 2015, Romania's NIIP has continued to improve, according to our estimations based on NBR data on the first ten months, the difference between external assets and liabilities would reach a ratio of -52% in GDP at the end of the year. The Figure 1 is an expressive representation of this development that shows a gradual re-approaching of Romania's NIIP to European standard.

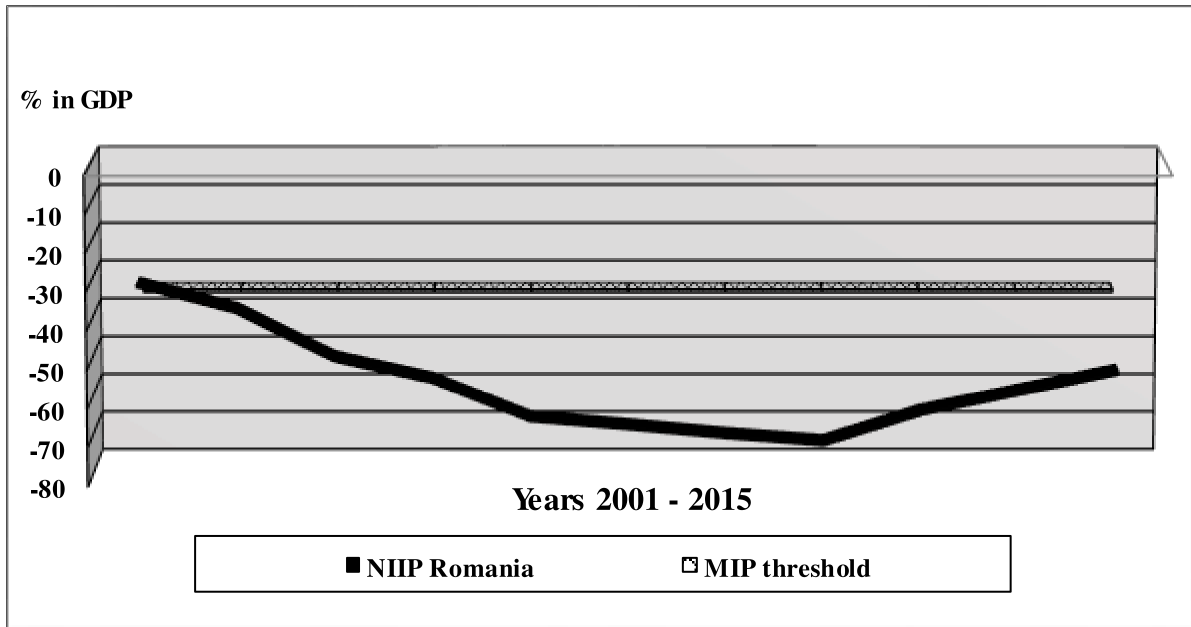

Fig. 1 Romania's NIIP compared to MIP threshold during the years 2001-2015

Source: based on NBR data. For 2015, own estimations based on NBR Monthly Bulletin, November.

Looking ahead, under the circumstances of consolidating the recent trends, it is expected that Romania would return below the MIP threshold of -35% during the next decade, thus complying with all convergence indicators and allowing the Eurozone accession.

6. Risks to financial stability and drivers of Romania's NIIP improvement

In terms of a risk-based approach, reffering to the financial stability, the soundness of the banking system and other financial sectors, the quality of financial infrastructures and of the legal framework, including its enforcement, the effectiveness of bank, insurance and financial markets supervision, the capacity of policy makers to prevent, respond and resolve a financial crisis should be considered, also in the broader context of examining the sector contribution to economic growth and maintaining internal and external financial balances.

The optimistic expectations regarding Romania’s NIIP recovery are not ignoring some persistent risks to financial stability and macroeconomic balances. Beside threats arising from unsolved problems related to the post-crisis financial system and the global economy developments, previously mentioned, some remaining vulnerabilities are exposing Romania to a series of risks which, if materialized, could lead to missing the financial stability goal, damaging the undergoing NIIP improvement trend. Despite the decline in the external indebtedness expected for the next years in Romania, unpredictable events impacts may hinder the macroeconomic sustainable recovery, threatening the financial stability of the country.

The predictability of the fiscal regime and the business environment are under the threat of hangover effects and hidden debt (ageing population), even more in terms of the public sector wages increase in 2016 and the new Tax Code that reduces several taxes, including the standard VAT quota, that could also have repercussions on financial stability. Other risks include a downturn of Romania’s economy along with the increase in debt service burden and external borrowing costs, worsening the current account balance, decreasing the economy's attractiveness to foreign investors, increasing pressures on the exchange rate and the reserve assets. To these, political risks coming from the elections in 2016 and potential contagion effects arising from regional geopolitical instability could be added.

To achieve the targets of ensuring Romania’s financial stability in the long run, the coming period is of crucial importance, when the Government and Monetary authorities should focus on consistent policies and means in order to strengthen the mentioned favorable trends that began to unfold in 2015.

To this end, on the external assets side, sustaining investments reinvigoration, including the public investments, mainly for infrastructure development, the recovery of export capacity and more effective integration into the global value added chains, increasing the internationalization of Romanian companies and their investments

abroad should be endorsed as top priorities and drivers of Romania's NIIP improvement. Rebuilding a competitive business environment, a higher absorption of European structural and investment funds and of European agricultural funds, along with the financial intermediation increase and the recovery of lending, mainly for financing long-term investment projects could help the achievement of these key objectives.

On the external liabilities side, improving Romania's NIIP depends on a number of actions on short time horizon, aimed at limiting the issuance of government bonds in foreign currency, reducing the concentration of private external debt in vulnerable areas, increasing the impact of FDI on economy competitiveness and their contribution to the financing of current account deficits. According to the recent new approach of tax policy convergence at the EU level, a closer monitoring of the companies with foreign capital, including MNC subsidiaries, in terms of cross-border transfers of profits and intra-group transfer pricing, may unwind the pressures on Romania's foreign liabilities amount.

Considering the recommendations of the European Council [2014], among structural actions that need to be undertaken in the near future, there are promoting competition and efficiency in energy and transport, improving tax collection, increasing efforts to reduce VAT fraud, accelerating reforms in the health sector, continuing the reform of social assistance and alleviate poverty, fighting corruption at all levels and improving the judiciary system efectiveness.

7. Concluding Remarks

Romania has currently a high degree of convergence with the EU, strengthening its economic and financial framework, supported by the favorable development of the real economy in recent years, significant progresses in terms of resilience to potential external shocks, increasing the market share of exports and the degree of trade, investments and financial markets integration. Basically, Romania complies with all EU nominal and real convergence indicators, except for NIIP.

Definetely, the real convergence could denote a broader area than that contained by the MIP scoreboard indicators and certainly it is not immutable overtime. Although evidence of unconditional convergence was found, the main engines of convergence being considered structural changes and manufacturing diversification as shown by Rodrik [2011, pp. 21-25] the convergence process may fail for many reasons, among which: differences in technology absorption capacity of various activities, poor participation in international production, uneven FDI as vehicle for technology transfers, specific of labor productivity, lack of appropiate policies that could foster development of new industries.

Although the current situation of external assets and liabilities of Romania, including the NIIP, does not significantly differ from that of other CESEE countries, which, overall, are on net debtor positions, in contrast with some advanced countries (Germany, Netherlands, Belgium, Denmark, the largest net creditors in the EU) nevertheless there are some particularities that have been pointed out in our study.

In terms of Romania's external assets, composed mostly of reserve assets, due to their convertion, in a large part, including that belonging to the banking system, into international securities, they do not provide enough safety background for ensuring the required solidity and liquidity. On the other hand, in terms of Romania's external liabilities, they are composed mostly of FDI stock, which contains many elements of volatility, and of debt instruments, in equal proportion between the state and private sectors, to which other elements of fragile nature are added, mainly due to the large proportion of government securities held by the banking sector, which increases the systemic and contagion risks.

In 2014, the Romanian Government set 2019 as a target year of joining the Eurozone, but so far it has not developed a roadmap in this regard, while some official positions have occurred, mainly from the central bank area, questioning wether the country is really prepared for this important endeavor.

As shown by Isarescu [2015] the essential premise of the single currency by a Member State outside the euro area is to achieve sustainable convergence, in terms of external competitiveness, financial stability and fiscal balance, and an increased attention to real convergence criteria. Given the fact that euro adoption requires the entering ERM-2 two years before, being linked also to membership of the Union Bank, a reasonable time horizon for conducting the monetary adjustments and meeting all the requirements of the single currency by Romania, including the real convergence and, in this context, complying with NIIP threshold, would be by 2020.

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Annex 1

Dynamics of Net Investment International Position in EU28

- % in GDP -

Country	2005	2007	2008	2009	2010	2011	2012	2013	2014
Belgium	38.5	33.6	51.7	57.3	65.1	60.8	51.7	51.6	57.2
Bulgaria	…	…	…	…	-95.6	-85.2	-79.8	-75	-73.4
Czech Republic	-25.7	-37	-38.2	-44.0	-46.1	-45.3	-46.1	-41.5	-35.6
Denmark	3.8	-5.8	-5.1	0.9	12.9	28.0	36.7	38.0	47.0
Germany	13.3	18.8	18.2	25.1	25.8	23.4	28.8	34.9	42.3
Estonia	-84.7	-71.3	-75.4	-80.1	-71.2	-55.6	-52.0	-47.6	-43.6
Ireland	-38.2	-25.3	-87.7	-107.3	-104.0	-127.8	-131.5	-127.6	-106.7
Greece	-74.8	-91.8	-73.7	-86.0	-96.7	-84.9	-108.9	-122.2	-124.1
Spain	…	…	…	…	…	…	-89.0	-94.5	-94.1
France	…	…	-13.8	-14.8	-9.3	-8.7	-12.9	-17.5	-19.5
Croatia	-55.9	-92.1	-74.9	-87.6	-95.6	-92.3	-90.2	-88.5	-88.6
Italy	-17.0	-23.1	-23.6	-24.9	-23.4	-21.9	-26.6	-28.8	-27.9
Cyprus	…	…	-80.1	-101.7	-113.2	-132.6	-128.7	-136.4	-139.8
Latvia	-55.6	-69.2	-74.1	-82.4	-81.9	-74.4	-66.8	-65.1	-60.9
Lithuania	-42.3	-54.6	-51.5	-58.4	-56.0	-52.6	-53.4	-47.0	-46.4
Luxemburg	19.8	-18.8	16.6	-29.6	-20.8	29.4	35.5	36.1	36.0
Hungary	-92.5	-88.9	-102.7	-116.1	-109.4	-106.7	-94.4	-84.1	-73.8
Malta	35.9	21.4	4.2	12.6	12.1	7.9	21.3	20.8	39.5
Netherlands	-5.4	-15.4	-8.5	0.9	10.6	19.8	31.1	32.3	60.8
Austria	…	-9.8	-10.1	-5.1	-5.2	-1.9	-3.1	1.3	2.2
Poland	-42.0	-49.3	-56.0	-57.8	-65.4	-62.9	-65.9	-68.7	-68.3
Portugal	-69.9	-88.8	-95.1	-107.9	-104.3	-100.7	-113.4	-115.7	-113.3
ROMANIA	-29.4	-48.5	-54.1	-64.1	-66.2	-68.5	-70.4	-62.4	-57.2
Slovenia	-10.8	-25.5	-39.4	-43.6	-47.2	-45.2	-49.9	-45.8	-43.7
Slovakia	-60.9	-56.6	-58.4	-66.7	-62.3	-64.9	-62.2	-63.8	-69.4
Finland	-14.0	-25.9	-2.5	6.4	19.7	15.1	11.8	5.4	-0.7
Sweden	-19.6	-1.4	-1.5	0.6	2.9	-10.2	-14.3	-15.1	-6.5
United Kingdom	-8.7	-12.1	4.8	-15.3	-8.1	-7.5	-21.0	-14.2	-25.3

Source: Eurostat

Annex 2

Dynamics of Net Investment International Position in the EU28

- EUR per capita -

Country	2005	2007	2008	2009	2010	2011	2012	2013	2014
Belgium	11459	10947	17205	18651	21958	20987	18076	18259	20532
Bulgaria	…	…	…	…	-4736	-4637	-4459	-4228	-4255
Czech Republic	-2831	-5193	-5518	-6252	-6952	-6740	-7055	-5877	-5214
Denmark	1485	-2471	-2253	357	5630	12398	16434	17197	21493
Germany	3706	5720	5673	7508	8122	7711	9682	11953	15208
Estonia	-7016	-8622	-9307	-8479	-7860	-6864	-6920	-6750	-6475
Ireland	-15734	-11453	-36766	-39883	-37703	-47829	-49567	-48595	-42966
Greece	-13572	-19376	-16134	-18403	-19664	-15852	-19074	-20253	-20347
Spain	…	…	…	…	…	…	-20053	-21228	-21407
France	…	…	-4300	-4464	-2865	-2746	-4121	-5636	-6355
Croatia	-4755	-9386	-8215	-9220	-9870	-9493	-9227	-8993	-8963
Italy	-4378	-6390	-6559	-6631	-6344	-6039	-7298	-7823	-7417
Cyprus	…	…	-19374	-23508	-26346	-30771	-28972	-28546	-28517
Latvia	-3395	-7087	-8250	-7169	-6955	-7248	-7254	-7489	-7320
Lithuania	-2648	-4876	-5246	-4943	-4990	-5383	-5924	-5532	-5724
Luxemburg	12801	-14179	12857	-21670	-16331	24379	29624	30443	32353
Hungary	-8092	-8856	-10327	-11202	-10588	-9527	-9284	-8531	-7555
Malta	4585	3044	629	1885	1933	1313	3666	3712	7402
Netherlands	-1786	-5720	-3279	335	4042	7632	11908	12374	23686
Austria	…	-3333	-3534	-1739	-1830	-708	-1179	496	848
Poland	-2808	-4267	-4515	-5026	-6223	-5763	-6866	-7224	-7247
Portugal	-10574	-14793	-16124	-17922	-17755	-16783	-18249	-18888	-18802
ROMANIA	-1086	-2661	-3415	-3778	-4087	-4433	-4702	-4457	-4284
Slovenia	-1582	-4451	-7429	-7758	-8352	-8133	-8741	-8044	-7889
Slovakia	-4456	-5903	-7133	-7906	-7766	-8440	-8313	-8672	-9633
Finland	-4410	-9174	-897	2172	6875	5530	4333	2021	-278
Sweden	-6749	-535	-514	221	1206	-4466	-6457	-6720	-2818
United Kingdom	-2805	-4013	1248	-4104	-2356	-2313	-6708	-4580	-9067

Source: author based on Eurostat data

Annex 3

The MIP Scoreboard indicators for Romania

Romania		Thresholds	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
External imbalances and competitiveness indicators												
Current account balance, % of GDP	**3 year average**	-4%/6%	-7.6	-9.1	-10.8	-11.8	-9.9	-7.1	-4.9	-4.9	-3.6	-2.1
Net international investment position	**% of GDP**	-35%	-29.4	-36.0	-48.5	-54.1	-64.1	-66.2	-68.5	-70.4	-62.4	-57.2
Real effective exchange rate - 42 trading partners, HICP deflator	**3 years % change**	±5% (EA) ±11% (Non-EA)	16.6	28.1	35.9	9.5	-5.0	-10.8	-3.2	-1.9	0.3	-1.1
Export market share - % of world exports	**5 years % change**	-6%	84.6	73.9	84.2	91.4	69.3	53.2	50.6	12.9	14.9	21.5
Nominal unit labour cost index (2010=100)	**3 years % change**	9% (EA) 12% (Non-EA)	52.0	32.0	38.5	39.1	37.0	29.5	-0.5	-0.2b	-3.9p	2.3p
Internal imbalances indicators												
House price index (2010=100), deflated	**1 year % change**	6%	na	na	na	na	-29.6e	-14.0	-17.6	-10.5	-2.8p	-3.6p
Private sector credit flow, consolidated	**% of GDP**	14%	11.6	15.1	20.3	13.1	-1.7	0.9	2.8	0.3	-1.5	-2.4
Private sector debt, consolidated	**% of GDP**	133%	39.1	44.5	57.8	65.5	71.9	73.9	72.9	71.9	66.6	62.2
General government gross debt	**% of GDP**	60%	15.7	12.3	12.7	13.2	23.2	29.9	34.2	37.4	38.0	39.9
Unemployment rate	**3 year average**	10%	7.6	7.4	6.9	6.4	6.2	6.4	6.9	7.0	7.0	6.9
Total financial sector liabilities, non-consolidated	**1 year % change**	16.5%	46.8	35.3	35.1	11.8	18.5	5.0	4.6	4.0	1.9	1.1
New employment indicators												
Activity rate, % of total population aged 15-64	**3 years change in p.p**	-0.2%	-1.1	1.4	0.0	0.6	-0.5	1.9b	1.2	1.7	0.0	1.6
Long-term unemployment rate, % of active population aged 15-74	**3 years change in p.p**	0.5	-0.5	-0.7	-1.5	-1.7	-2.0	-0.8	0.6	0.9	0.8	-0.1
Youth unemployment rate, % of active population aged	**3 years change in p.p**	0.2%	-0.7	1.7	-1.2	-1.5	-0.2	2.8	6.3	2.6	1.6	0.1

Note: b - break in time series; e - estimated; p - provisional; na - not available.

Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund