ROMANIA'S MACROECONOMIC POSITION IN THE UNION EUROPE

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Abstract:
The five criteria of nominal convergence practically constitute the essential pillar for adoption of the euro currency. If Romania fails to meet all five criteria, it can not adopt the single currency. Since 2007, the year of integration in the Union, Romania attempts to solve problems of inflation, the nominal long-term interest rate and exchange rate fluctuations. This article examines all five criteria between 2007-2012, focusing on the major issues of Romania.

Keywords: economic convergence, inflation, interest rate, exchange rate.
JEL Classification: O47; E31; G12; F31.

1. Introduction

For most countries in Europe, the adoption of the common currency is a crucial step toward a new stage for them. With the advent of the euro on 1 January 1999, the currency that replaced the former European Currency Unit (ECU), the euro was put into circulation on 1 January 2002. All European Union member states had to pass first the system introduced by the European Community in 1979, called ERM II, then meet the criteria specified in the Treaty of Maastricht, real and nominal convergence criteria, each having specific boundaries. Currently, 17 of the 27 member states of the European Union use euro as their official currency, and Romania is a potential candidate for the adoption of the euro in the future.

Romania's accession to the European Union assumes adopting the single currency requires a time horizon that depends on the degree of economic integration with the euro area. According to the fifth edition of the

Convergence Programme (2011-2014), 2015 is maintained by the authorities the aim to adopt the euro, this commitment representing an important milestone for providing both budget and structural reforms required for enhancing economic competitiveness. In this respect, Romania joined the Euro Plus Pact providing measures aimed at increasing competitiveness and avoiding macroeconomic imbalances.[1]

2. Analysis of the phenomenon

Inflation rate is a problem for Romania[2] because it can not fit within the limits imposed by the Treaty of Maastricht requiring an inflation rate that should not exceed 1.5 percentage points above the average of the first three Member States with the best performance to price stability. In the year of EU integration, Romania managed to achieve a rate of 3.9% inflation rate, but, with the outbreak of the economic crisis[3], the percentage increased significantly, thhhe National Bank of Romania managing in 2012 to reduce inflation to 3.4% (see table no. 1). Although the difference between the inflation rate in 2011 compared to 2012 is 2.4%, with great sacrifices made by the National Bank to reach this percentage, Romania has still failed to meet the inflation criterion established within the nominal convergence criteria.

Table no. 1.Inflation rate in the EU between 2007-2012

States / Years	2007	2008	2009	2010	2011	2012
EU 27	2.3	3.7	1	2.1	3.1	2.6
Euro 17	2.1	3.3	0.3	1.6	2.7	2.5
Romania	**3.9**	**7.9**	**5.6**	**6.1**	**5.8**	**3.4**
Germany	2.3	2.8	0.2	1.2	2.5	2.1
Great Britain	2.3	3.6	2.2	3.3	4.5	2.8
Italy	2	3.5	0.8	1.6	2.9	3.3
Hungary	7.9	6	4	4.7	3.9	5.7
Poland	2.6	4.2	4	2.7	3.9	3.7
Cyprus	2.2	4.4	0.2	2.6	3.5	3.1
France	1.6	3.2	0.1	1.7	2.3	2.2
Slovenia	3.8	5.5	0.9	2.1	2.1	2.8

Source: www.eurostat.ro

[1] www.bnr.ro

[2] Nicolae, M., (2007), „Use of the Almon Model to Determine the Dalay in the Propagation of Shocks in the Consumer Price Index**”,** Review „Internal Auditing & Risk Management”, nr. 5-6/2007, pp.79-85;

[3] Aceleanu, M., I., (2011) *"Europe 2020" Strategy - Support for the Development of the Employment Strategy in Romania",* publicată în Revista "Review of Applied Socio-Economic Research" Nr.2/2011, pag. 14-22

NBR has proposed to target an inflation rate of 2.5% for 2013 with a variation interval of ± 1 percentage point. The current value of the inflation rate is 5.29% in the period April 2012 - April 2013. Between February and March 2013 there was a decrease in inflation by about 0.1%, but the rise of prices that Romania will face this year will make it unable to achieve the target set by the central bank.

On 31 March 2013, Romania had an inflation rate of 4.1% according to data from the European Union, while the maximum reference value was 2.5%, a difference of 1.6 percentage points that Romania hardly may recover.

Long-term nominal interest rate is the second important criterion established by the Treaty of Maastricht regarding nominal convergence. This criterion states that the nominal interest rate in Romania shall not exceed by more than 2 percentage points the average rate of the first three Member States with the best performance in terms of price stability.

In the six years analyzed in the following table, Romania has maintained an average rate of about 7 percentage points, except for 2009, when Romania has achieved a rate of 9.69% in the context of increased volatility, but also due to financial crisis and economic difficulties faced by Romania. It can be seen that in 2010, Romania has managed to stabilize long-term interest rates, falling by 2.35 percentage points compared to 2009 (see table no. 2).

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Table no. 2.Evolution of Long-term interest in the EU between 2007-2012

States / Years	2007	2008	2009	2010	2011	2012
EU 27	4.56	4.53	4.13	3.82	4.31	3.74
Euro 17	4.32	4.31	3.82	3.61	4.41	4.01
Romania	**7.13**	**7.70**	**9.69**	**7.34**	**7.29**	**6.68**
Germany	4.22	3.98	3.22	2.74	2.61	1.50
Great Britain	5.06	4.50	3.36	3.36	2.87	1.74
Italy	4.49	4.68	4.31	4.04	5.42	5.49
Hungary	6.74	8.24	9.12	7.28	7.64	7.89

States / Years	2007	2008	2009	2010	2011	2012
Poland	5.48	6.03	6.12	5.78	5.96	5
Cyprus	4.48	4.60	4.60	4.60	5.79	7
France	4.30	4.23	3.65	3.12	3.32	2.54
Slovenia	4.53	4.61	4.38	3.83	4.97	5.81

Source: www.eurostat.ro

Romania has also failed in 2012 to meet this criterion, and it still fails to manage to comply with it, so at 31 March 2013 Romania reached a long-term interest rate of 6.36%, Romania exceeding by 1.55 percentage points the accepted limit of 4.81%.

The budget deficit criterion requires that this indicator should not exceed 3% of Romania's GDP. Although in 2007, Romania managed to keep the budget deficit within the ceiling of 3% of GDP, once with the coming economic crisis[1] issues started to occur, so that in 2009 our country was able to achieve the unfortunate performance of reaching 9% in terms budget deficit, Romania facing serious economic problems in all areas in that period of time. With great sacrifice, the budget deficit was considerably diminished, so that in 2012 the budget deficit was equal to that of 2007, with the value of 2.9% of GDP. The economic crisis has not only affected Romania in 2009-2011, Britain also facing serious budget deficit problems. Even Slovenia, that has adopted the euro in 2007 had difficulties in that period, its budget deficit undergone major changes (see table no. 3.).

Table no. 3.Evolution of budgetary deficit between 2007-2012

Countries / Years	2007	2008	2009	2010	2011	2012
EU 27	-0.9	-2.4	-6.9	-6.6	-4	-4.4
Euro 17	-0.7	-2.1	-6.4	-6.2	-4.2	-3.7
Romania	**-2.9**	**-5.7**	**-9**	**-6.8**	**-5.6**	**-2.9**
Germany	0.2	-0.1	-3.1	-4.1	-0.8	0.2
Great Britain	-2.8	-5.1	-11.5	-10.2	-7.8	-6.3
Italy	-1.6	-2.7	-5.5	-4.5	-3.8	-3
Hungary	-5.1	-3.7	-4.6	-4.3	4.3	-1.9
Poland	-1.9	-3.7	-7.4	-7.9	-5	-3.9
Cyprus	3.5	0.9	-6.1	-5.3	-6.3	-6.3
France	-2.7	-3.3	-7.5	-7.1	-5.3	-4.8
Slovenia	0	-1.9	-6.2	-5.9	-6.4	-4

Source**:** www.eurostat.ro

In 2013, Romania has met the budget deficit criteria with a close call percentage of 2.9%. Given the fact that this percentage was constant by the

[1] Burghelea, C. (2011) "Economic Crisis perspective between current and forecast", *Theoretical and Applied Economics*, Vol. XVIII, No. 8, pp. 137-147

end of 2013, Romania will have no problems and has managed to meet this criterion for two consecutive years.

Public debt is limited to 60% of GDP of the country aiming to adopt the euro. Romania successfully meets this criterion because for many years its share of public debt is very low. At the end of the first quarter of 2012, Romania was ranked fourth in the European Union in terms of the lowest share of public debt to GDP, with only 36.3%. We observe (see Table 4) that between 2007-2008, Romania has kept a very low percentage of public debt, and since 2009, the percentage of debt almost doubled in 2010 to 30.5% of GDP. In 2011-2012, the share of public debt to GDP was between 34.7% and 37.8%, so Romania meets this criterion without any problem.

Tabelul nr.4.Evoluția datoriei publice în PIB în UE între anii 2007-2012

Countries / Years	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
EU 27	59	62.3	74.6	80	82.5	85.3
Euro 17	66.4	70.2	80	85.4	87.3	90.6
Romania	**12.8**	**13.4**	**23.6**	**30.5**	**34.7**	**37.8**
Germany	65.2	66.8	74.5	82.4	80.4	81.9
Great Britain	44.2	52.7	67.8	79.4	85.5	90
Italy	103.3	106.1	116.4	119.3	120.8	127
Hungary	67	73	79.8	81.8	81.4	79.2
Poland	45	47.1	50.9	54.8	56.2	55.6
Cyprus	58.8	48.9	58.5	61.3	71.1	85.8
France	64.2	68.2	79.2	82.4	85.8	90.2
Slovenia	23.1	22	35	38.6	46.9	54.1

Source: www.eurostat.ro

In late March 2013, the share of public debt was down from 2012, reaching 36.8% of GDP. It is estimated that Romania has accumulated a public debt amounting to 229 billion lei in March 2013, up from December 2012 when the public debt stood at 222 billion, but this decrease in the percentage of public debt is due to a higher rated GDP reaching 623 billion lei, compared to 2012 when nominal GDP was worth 587 billion lei.

Although Romania does not have problems in terms of public debt criterion, many economists believe that higher debt can cause more problems, so it is preferable for Romania to maintain a constant rate, taking into account a lower percentage of debt compared to the 60% provided for in the Treaty of Maastricht.

The exchange rate is one of the most difficult to reach criterion by Romania since the fluctuation margins must match the ones set by the European Monetary System - within ± 15 % in the two years preceding the examination (in fact the technical negotiations fluctuation accepted by the Commission is +15 %/-2.25%). The Romanian currency – leu - is not participating in ERM II. Romania uses a system of floating exchange rate. Nominal exchange rate of the leu against the euro has fluctuated in a wide range of economic crisis in previous years. In autumn of 2008, the leu faced strong destabilizing pressure in the context of the intensification of the global financial crisis and emphasizing domestic macroeconomic imbalances. Short-term interest rate differentials against the euro area began to grow as lack of liquidity has increased the interest rates in the short term. Following an agreement in early 2009, from which Romania benefited of a coordinated package of international financial assistance, financial market pressures eased and the leu broadly stabilized against the euro to levels that were largely maintained in 2009-2011. The exchange rate of the leu against the euro has depreciated at temporary intervals of global risk aversion, including the second half of 2011. In early 2012, it remained moderately lower than the average of 2009-2011. In the two years preceding that assessment, our currency depreciated by 6.4 % against the euro.[1] This last criterion of nominal convergence is hardly fulfilled by Romania, NBR making sacrifices to reach a ± 15 % fluctuation of the exchange rate.

3. Conclusions

Since the advent of the single currency - euro, most of European Union member states have targeted the adoption of the euro, which implies that the central banks of each country to become an underlying member of the European Central Bank, aimed mainly at controlling inflation in all Member countries.

As regards the situation of Romania, great efforts are being made for the adoption of the euro. Unfortunately, the deadline for adoption of the currency set for 2015 has been delayed because Romania failed to meet two of the five criteria of nominal convergence. More specifically, Romania currently meets the criterion of public debt, which in 2012 was at 37.8% of GDP, compared with the 60% referred to in the Maastricht Treaty, the budget deficit will be strengthened in 2012 at -2.8%, compared to less than 3% of GDP and the exchange rate against the euro has remained in 2012 between +2/-10.4%, which fits the required +/-15 percent. Romania is experiencing problems with regard to the rate of inflation and long-term interest rates. Regarding inflation, our country goes about 1.4 percentage points over the ceiling provided for in the criteria set out in March 2013, reaching a percentage of approximately 3.9, while for meeting the second criterion, namely the long-term interest rate, Romania exceeds by about 1.6 percentage points the imposed limit, recording in March 2013 a percentage of 6.4 percentage points.

[1] European Union Convergence Report, 2012

Currently Romania is not ready for adoption of the euro, this being quite costly for our country, especially because of the fact that even after six years when it joined the European Union, Romania has not managed to keep the mentioned indicators below the limits laid down in the Maastricht Treaty in order to adopt the euro as soon as possible.

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