

# Advantages and Disadvantages Romania's Transition to the Euro

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## Abstract

*Fluctuations in the euro are known to everyone, but what many do not know is that the euro is the currency they use more than 337.5 million people worldwide. No less than 19 euro area countries using the Euro as payment every day, helping to become the second most important international currency after the dollar.*

*The Official statistics released by the European Union, however, show that the euro is stronger than the dollar in terms numeral in circulation and the cash held in 1999, even January 1, the day that became actually official currency for 11 Member States.*

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**Key words:** advantages, disadvantages, transition, euro

**J.E.L. classification:** A, A1, A10

## 1. Introduction

The primary objective of this analysis is to see concretely the advantages and disadvantages of accession to the euro area

"EURO is the best candidate for the role of the single currency, and can not be replaced with any other currency, whatever the short-term temptation" - says Jacques Delors

The euro is currently part of the daily lives of citizens in 17 Member States of the European Union (EU). In the long term, and other Member States will join the euro area. The single currency has a number of indisputable advantages: reducing the costs of financial transactions, facilitating travel, increasing the role of Europe in international affairs etc.

Now participating countries or the euro member states are: Austria, Belgium, Cyprus, Estonia, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain

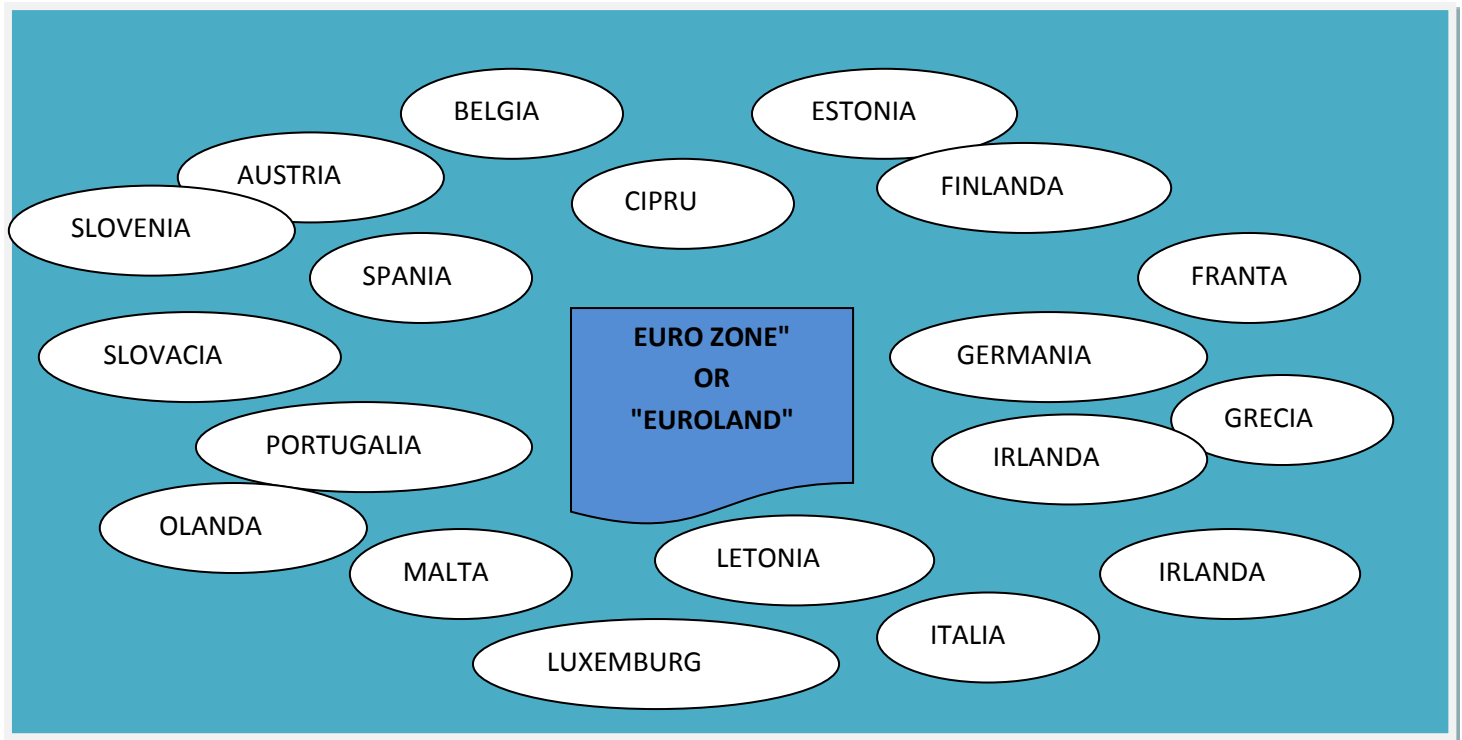
These countries are very frequently called "Euro zone" or "Euroland".

But there are some exceptions such as Andorra, Monaco, San Marino and Vatican that use the euro, although they are not an official member euro nor members of the EU (They used before their own currencies has simply been replaced by the euro.) of these, Monaco, San Marino and Vatican have created their own coins with their own state symbols on the reverse. Andorra uses French and Spanish coins, since they used the French franc and the Spanish peseta as its currency. These countries use the euro due to agreements with EU Member States (Italy if principality of San Marino and the Vatican City and France if Monaco), approved by the Council of the European Union.

Montenegro and Kosovo, which were used as currency German mark, have also adopted the euro, although, unlike the above three states, have not entered into any explicit legal understanding

with the EU enabling them to this.

Fig 1. Eurozone or Euroland and countries



## 2. What is for Romania joining the euro area ( [www.contributors.ro](http://www.contributors.ro) )

First and first of all we have to see what we must do to be admitted to the euro zone:

1. To enter the euro zone, Romania must meet nominal convergence criteria of the Maastricht Treaty. This treaty does not provide for a strict calendar for adopting the euro, leaving it to the discretion of each country, in consultation with the European Commission and European Central Bank. But the fact is that the European Commission will not grant any permanent derogation regarding the euro changeover, as happened in the case of Great Britain and Denmark. In other words, after we joined the European Union, want it or not, we need to do and the next step. To enter the euro zone. At least that say current provisions
2. After these criteria have been met, two years before entering the euro zone actual, Romania will have to attend the so-called ERM II (European Exchange Rate Mechanism) , during which the lion will not fluctuate only within a certain margin. In other words, participation in this mechanism assumes that Romania must demonstrate that it is able to maintain macroeconomic stability achieved previously without using the exchange rate as an instrument of macroeconomic adjustment. That's because, after being admitted, Romania will have to give up the RON and therefore has to demonstrate that it can do without him.
3. The point sensitivity of entry into the euro area is however real convergence. Because it looks really living standards of the Romans, from that of the euro area, beyond some numbers on paper, which may or not mean anything concrete. Therefore the aforementioned treaty stipulates that only countries that prove achievement of sustainable convergence can participate in the final stage of Economic and Monetary Union.

## 3. What might be the advantages of joining the euro area? ( [www.contributors.ro](http://www.contributors.ro) – article Aura Lungu, Bucharest )

The Romanians will benefit mainly due to macroeconomic stability and international positions thanks to a best. The benefits will result from price stability, access to a wider and financial market transparency, or removing production fluctuations which could be due to different economic

policies. For some countries (noting is the case of Greece) price stability and all the benefits of reaching this goal were enough motivation for participation in the euro. Price stability leads to reduced interest rates, and this shows another advantage for both the government and consumers or companies. ( Bursa, 2015)

In addition, the Romanians will benefit from the elimination of transaction costs associated with the exchange, reducing administrative costs, reducing capital costs and eliminating the risk caused by uncertainty about the future evolution of exchange rates. Winning the general public in eliminating costs exchanging one currency with another currency is obvious. ( Socol, A.G., Măntescu, D. 2011)

#### **4. What would we lose or disadvantages of joining the eurozone?** ( [www.contributors.ro](http://www.contributors.ro) – article Aura Lungu -ASE Bucharest)

All the advantages described above can come true only under certain conditions. Theory, but recent experience shows that countries participating in monetary union can have definite advantages, but only when their economic structures are similar. Otherwise there is a risk that some of them insufficiently prepared, be adversely affected. So the first thing to be aware of is that euro adoption should be desired, but at the right time!

**What is the right time for Romania?** Romanian economy lost when entering independent monetary policy in the euro area and thus the exchange rate. As long as the Romanian economy will not develop other tools to take over the functions of instruments lost (stabilizers automatic tax efficient, business cycles synchronized with the euro area labor market flexibility, high degree of financial integration) we consider that the Romanian economy it is unprepared and the timing is inappropriate. The crisis has demonstrated that flexibility is key economy in puzzel adopting the euro.

A key point in the ERM II mechanism will be setting the exchange rate conversion between a lion and the euro, with significant impact on the future evolution of the Romanian economy. For joining the eurozone at too high a rate of exchange would adversely impact economic growth, while exchange rates for the currency would have depreciated against the euro could generate inflation.

#### **5. What is the current situation before the Romania's accession to the eurozone?**

For Romania's accession to the eurozone is no doubt a complex challenge, both in terms of economic size, but also political and social issues. It is extremely important how we prepare European monetary integration process, given that a successful performance of Romania after joining the euro is dependent on the sustainable economic convergence of the eurozone core group

The Romania has the capacity to meet in the near future nominal criteria required by the Eurozone. But must reduce disparities in the real economy. Studies demonstrate that Romania has very limited capacity adjustment of the national economy, which shows a predisposition Romanian economy to be affected by asymmetric shocks. In other words, chances Romanians to feel the disadvantages rather than advantages of euro adoption: inflation, unemployment, balance of payments imbalances with risks, etc. All specialized studies show that Romania still has no alternative instruments macroeconomic stabilization.

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According to two reports published at the same time - Convergence Report of the European Commission and the convergence report of the European Central Bank -which examines the state of preparedness for accession to the euro and draw roughly the same conclusions: **Romania fully meets three criteria Maastricht such as price stability, public finances and the long-term**

interests, and the fourth only partially, but in terms of the legislation is not in line with EU rules.

Romania still has to fulfill the exchange rate criterion and other criteria that are not among the conditions of the Maastricht Treaty, but is pursued by the European Commission and certain legal compatibility.

So the inflation criteria (annual average inflation must not exceed by more than one and a half percent three lowest inflation in the euro area), the criterion of fiscal (government debt which must not exceed 60% of PIB and the budget deficit to be limited to 3% of PIB) and the criterion of interest (interest on 10-year government bonds should not exceed by more than two percent interest in the top three countries with the lowest inflation) are satisfied.

Tab no.1. How does the European Commission evolution of the main budget

ECONOMY DEVELOPMENT AND FORECASTS (% OF PIB)								
	2010	2011	2012	2013	2014	2015	2016	2017
General government balance	-6,9	-5,4	-3,7	-2,1	-0,9	-0,7	-2,8	-3,4
Budgetary revenues	32,7	33,7	33,4	33,1	33,5	34,8	31,8	31,5
income tax	26,9	28,0	28,0	27,5	27,7	28,2	26,6	25,8
budgetary expenditure	39,6	39,1	37,1	35,2	34,4	35,6	34,6	34,9
Interest expense	1,5	1,6	1,8	1,7	1,7	1,6	1,7	1,6
Gross debt	29,9	34,2	37,4	38,0	39,8	38,4	38,7	40,1

Susa: ( Comisia Europeana - [http://ec.europa.eu/index\\_ro.htm](http://ec.europa.eu/index_ro.htm))

The last criterion of the Treaty of Maastricht - exchange rate stability - is not fulfilled. This criterion provides that the lion should not vary by more than 15% up or down against the euro. He met practically only to be taken into account Romania should participate in the exchange rate mechanism (ERM II), which does not happen, a sign that Romania has not yet established clear target of joining the euro . But any of the seven countries analyzed in the report (Romania, Bulgaria, Poland, Hungary, Croatia and Sweden) does not meet this criterion. (Pană, M.C. 2012).

The exchange rate of RON against the euro fluctuated relatively limited between 2014 and 2016 compared with other currencies in the region that operate a regime of managed floating exchange rate, which shows that balance was preserved amid financial assistance coming from the EU and IMF, and the measures taken by the central bank.

That which is important is that the Romanian national currency RON is stable and variation in the last 12 months by the European Commission is considered to be zero. This means practically lion was not appreciated nor depreciated against the euro

The current financial crisis has only served to remind us of the risk it represents savings development models based on the accumulation of debt and other obligations, implicitly assumed beyond the limits of sustainability.

Evaluation European Commission and the European Central Bank on the conditions accepting Romania in the euro area is not limited to the fulfillment of the convergence criteria laid down in the Treaty on the Functioning of the EU. Estimates of the sustainability and durability in the future stability of the Romanian economy.

From this point of view, it is important for Romania to show that, once received in the euro area will not create a risk to price stability in the area as a result of convergence over time in the prices in Romania with the euro area.

**In conclusion**, the degree of real convergence is not the determining factor in the decision to changeover to Romania but convergence criteria (nominal) and objective analysis of the advantages and disadvantages of such a decision. And this analysis should not be in any way influenced by the views of stakeholders that Romania would maintain for as long as possible outside the euro area (as desired and delaying entry into the European Union).

## 6. Conclusion

The recent financial and economic crisis has highlighted the fact that the euro project has great

advantages but also major imperfections generating imbalances monetary, financial and economic benefits and supports the emergence and development of major divergent trends

The Economic and Monetary Union is best understood as a component of the wider process of European political integration which began at the beginning of the decade -VI century. To date, the legacy of conflict in Europe play an important role in European integration.

While the euro is primarily a project rooted in European history, ambitious economic goals, such as achieving economic growth and rising living standards in Europe have played a role, even if it was a secondary

As an important conclusion before verdicts, make statements, or to decide the fate of a nation is essential and necessary, however, to make a very serious type technical analysis cost - benefit. And what is most important is that before taking a step, we need to know even what we can expect in the near future

**Are we ready to join the euro?**

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