

Euro Adoption in Romania: For or Against?

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Abstract

By joining the European Union, Romania has agreed to adopt the euro currency as soon as the Maastricht criteria has been met. But the timing of the accession depends on the national government and the convergence progress.

The remaining question is not if Romania will join the eurozone, but when. In order to answer this question, all the benefits and costs associated need to be carefully considered. Also, another important aspect is represented by the general public opinion.

The purpose of this paper is to analyze the advantages and disadvantages linked to the euro currency adoption and to understand how willing the population of Romania is to undergo such an important change.

Key words: Euro adoption, eurozone, Romania, advantages and disadvantages.

J.E.L. classification: O11, O40, E60, F15, F36.

1. Introduction

On January 1st, 2019, the euro celebrated its 20th anniversary, marking an important milestone in its journey towards ensuring stability and prosperity across the European Union. Adopting the euro currency represents a crucial step for each member states' economy. Currently, the effects of the COVID-19 pandemic are troubling the European environment causing turbulent and difficult conditions for economic development. It is now more important than ever that the decision of joining the eurozone be well-founded and carefully debated at a national level.

The Economic and Monetary Union includes all 27 Member States of the EU: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain who have already adopted the euro currency, Denmark who benefits from an opt-out clause, and 7 other countries who have to join the euro in the future: Bulgaria, Croatia, Poland, Czech Republic, Romania, Sweden and Hungary.

In order to join the eurozone, a member state needs to meet a number of nominal criteria established by the Maastricht Treaty: price stability, sustainability of the fiscal position, exchange rate stability and long-term interest rates convergence. The same treaty also refers to the sustainability of the convergence degree, hence the possibility of achieving it in the long term. Nominal convergence criteria can be sustained only in conditions of external competitiveness, financial stability and fiscal balance.

The most important question is not if this essential project for European integration will be completed, but when. In most cases, displaying a prudent attitude towards monetary integration is not linked to the inability of meeting the nominal convergence criteria, but only a reconsideration of the optimal time of the accession, given the associated increasing costs.

The economic rationale behind the adoption of the single currency is based on the assessment of the advantages and disadvantages linked to the integration process, the challenge being that there is no established methodology for quantifying them.

2. Literature review

The euro currency is aimed at reducing costs, risks and uncertainty, provides transparency, boosts production efficiency and encourages trade, investment and growth. Therefore, it ensures the economic stability and optimal functioning of the euro area with an important role in shaping EU's identity.

The main obstacle in joining a monetary union is represented by the associated costs. Consequently, the benefits need to outweigh the costs in order to justify the monetary integration. Usually, the benefits manifest mainly at a micro-economic level, while the costs at a macro-economic level.

While referring to the possible effects associated with the adoption of the single currency, Daianu et. Al (Daianu, 2016, pp. 29) recommends that the advantages and disadvantages should be classified based on the impact area, microeconomic or macroeconomic.

Table no. 1 Costs and benefits of adopting the euro currency

Cost and benefits of adopting the euro currency	
Microeconomic benefits	Transaction costs eliminated. Exchange-rate risk removed.
Macroeconomic benefits	Increased macroeconomic stability. Improved international positioning. Access to a wider and more transparent financial market. Elimination of fluctuations in production caused by economic policies. Price stability could lead to lower interest rates.
Macroeconomic costs	Waiving the monetary policy independence.
Microeconomic costs	Increased operational costs Redefining competition will require facing strategic challenges and the emergence of specific risks.

Source: (Own computation based on Daianu, 2016, 29)

In order to achieve its purpose, a currency must be used by a large number of people. (Mursa, 2014) A wide currency acceptance reduces its managing costs, decreases the transaction costs, and increases the benefits introduced through free trade and specialization. Consequently, the euro currency represents a way of reducing transaction costs caused by the exchange of goods and service within the European space, allowing the free and easy movement of goods, capital and labor, within the European Union, especially inside the eurozone.

An important advantage is represented by the almost complete reduction of the exchange-rate risk. Usually, investors worldwide protect themselves against this risk through call / put options. (Cerna, 2017) In Romania, this technique is seldom used, due to poor level of information and the high costs of premiums.

Under the floating exchange rate system, frequent changes in exchange rates inhibit trade and create difficulties for exporters and importers. (Mursa, 2014) Frequent fluctuations in exchange rates increase uncertainty and risks for firms involved in foreign exchange and discourage cross-border trading of goods and services. Increasing trade between the euro area countries and economic growth were possible through the elimination of trading costs generated by flexible exchange rates. The elimination of exchange rate fluctuations has led to the elimination of currency risk.

Rose (2005) states that entering a monetary union leads to an intensification of foreign trade with member countries by a percentage between 30-90. However, this increase will manifest itself in the long run, while the immediate effects will not be so significant.

The most important costs associated with the euro adoption are macroeconomic ones. Two of them are undoubtedly related to the transition process. (Driga, et. Al, 2010) The first one is related to the low inflation rate criterion, meaning that member states with high inflation rates must go

through a difficult economic restructuring process that involves: total supply increase or the use of fiscal leverage. Another issue stems from the loss of income as a result of forfeiting the right to issue currency.

The main disadvantage is the loss of monetary policy independence. Using monetary policy instruments, the Central Banks can better handle shocks that occur in the economy and ensure price and economic stability. (Cerna, 2017) Therefore, the Central Banks will no longer be able to use interest rates in order to stabilize the price level and the production volume.

We can expect increased costs between incurred by the adoption of euro between 0.3% and 0.8% of GDP during the period before and immediately after the transition (Cerna, 2017). The costs are mainly linked to updating information systems, exchanging the old national currency, recalculation of prices, implanting dual prices, training the staff.

The benefits and the costs of joining the euro are, especially those related to the loss of monetary policy and the exchange rate, depend on the global economic context and the evolution of the EU's institutional framework.

3. Research methodology

The research was based on quantitative data, as well as qualitative data. The qualitative data was analyzed and then summarized in the literature review section, while the quantitative data was gathered from the Flash Eurobarometer reports issued by the European Commission. The European Commission conducts yearly surveys among citizens coming from: Bulgaria, Czechia, Croatia, Hungary, Poland, Romania and Sweden. The quantitative data was then entered in Excel and, for better visualization purposes, included in graphs. As we are only interested in the Romanians' willingness to adopt the euro currency, we only analyzed their responses.

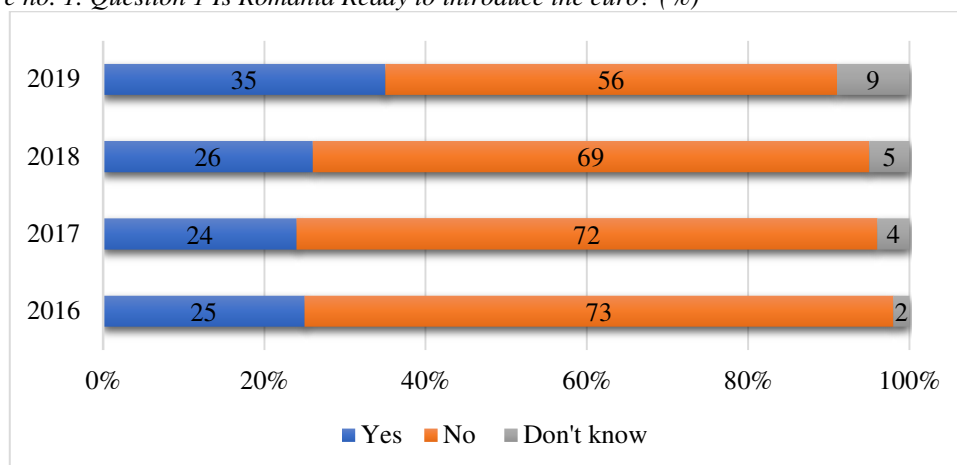
4. Findings

In order to find out if the Romanians are pro euro adoption, we have analyzed five representative questions from the Flash Eurobarometer reports and observed the responses evolution between 2014 and 2019.

Question 1. In your opinion, is Romania ready to introduce the euro? (%). This question was entered in the Flash Eurobarometer starting 2016, this is why the comparison only applies to 2016 - 2019.

According to Figure No. 1, 35% of the Romanians consider themselves ready to adopt the euro currency. Although this value is low, it is still an improvement when comparing to 2016.

Figure no. 1. Question 1 Is Romania Ready to introduce the euro? (%)

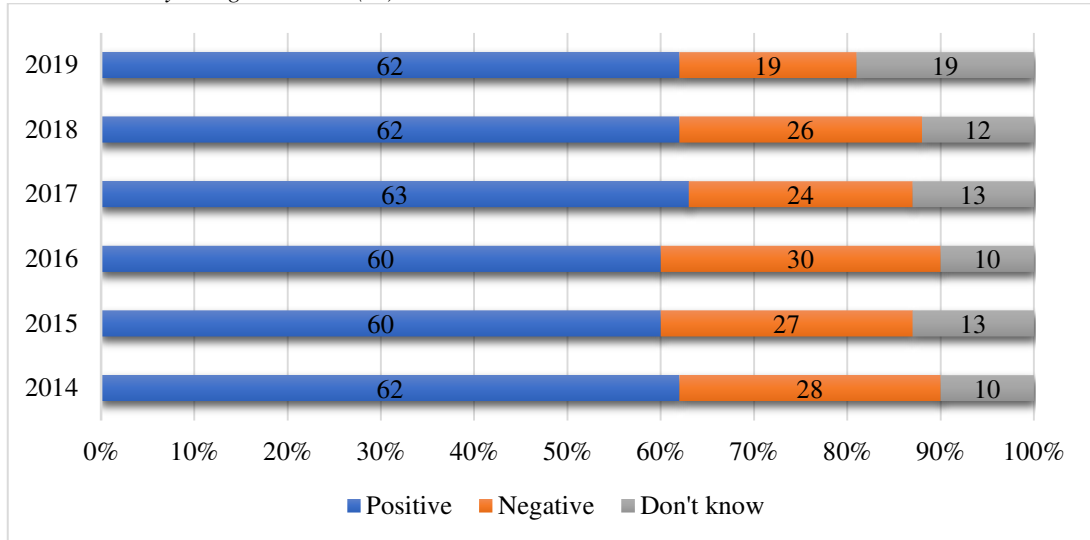


Source: (Own computation based on Flash Eurobarometer, European Commission)

Question 2 What impact do you think the introduction of the euro has had in the countries that are already using the euro? (%)

62% of the Romanians believe that the introduction of the euro has had a positive effect in the countries that have already joined the euro area. The percentage is identical to the one recorder in 2014, however there is a significant increase in the number of abstentions.

Figure no. 2. Question 2 What impact do you think the introduction of the euro has had in the countries that are already using the euro? (%)

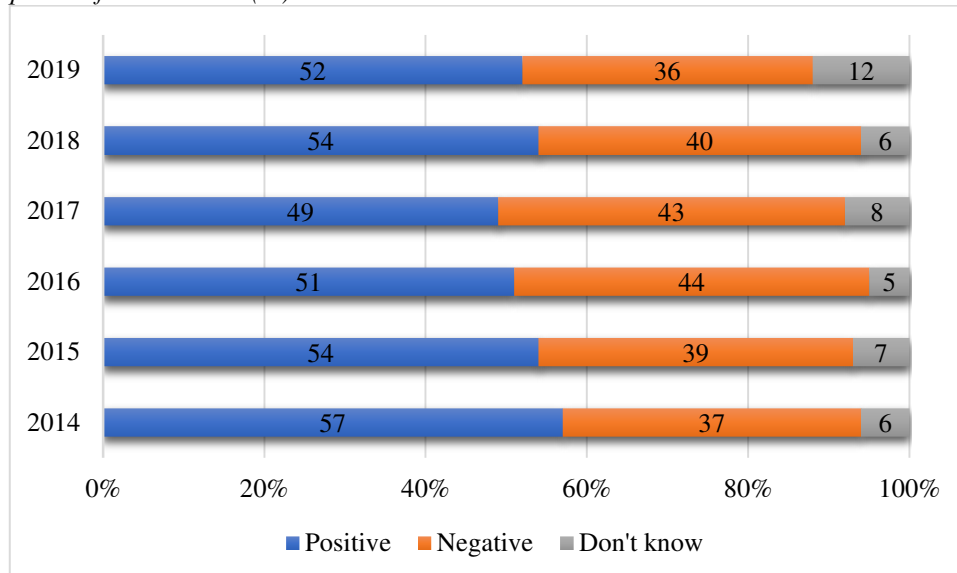


Source: (Own computation based on Flash Eurobarometer, European Commission)

Question 3 Do you think the introduction of the euro would have positive or negative consequences for Romania?

When comparing the 2019 results with the ones from Question 2, we notice that although 62% of the participants believed that the accession effects had been positive in other eurozone member states, only 52% believe that the same will happen in Romania.

Figure no. 3. Question 3 Do you think the introduction of the euro would have positive or negative consequences for Romania? (%)

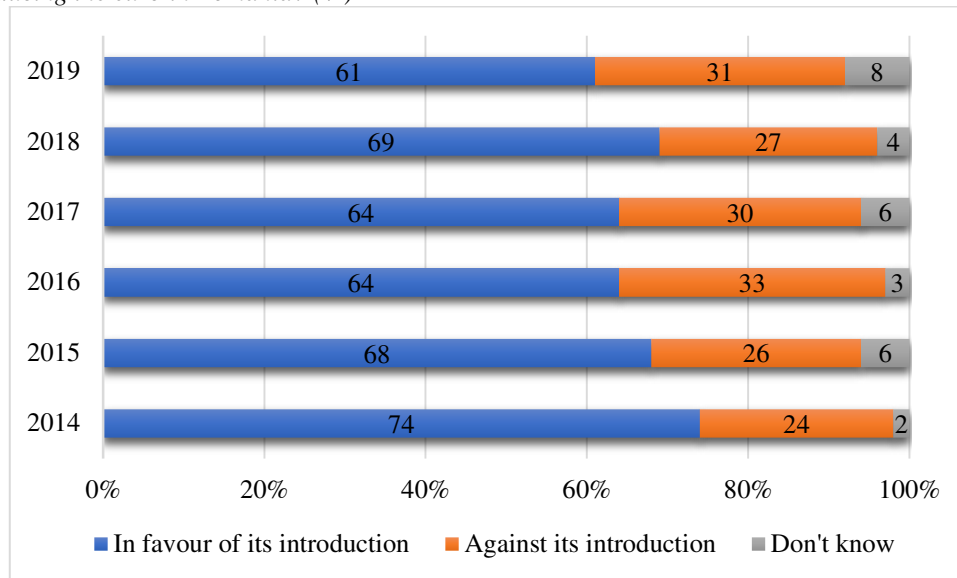


Source: (Own computation based on Flash Eurobarometer, European Commission)

Question 4 Generally speaking, are you personally more in favour or against the idea of introducing the euro in Romania? (%)

In 2019, 61% of Romanians declare themselves pro joining the euro area. However, we notice a decrease of approximately 18% when compared to 2014.

Figure no. 4. Question 4 Generally speaking, are you personally more in favour or against the idea of introducing the euro in Romania? (%)

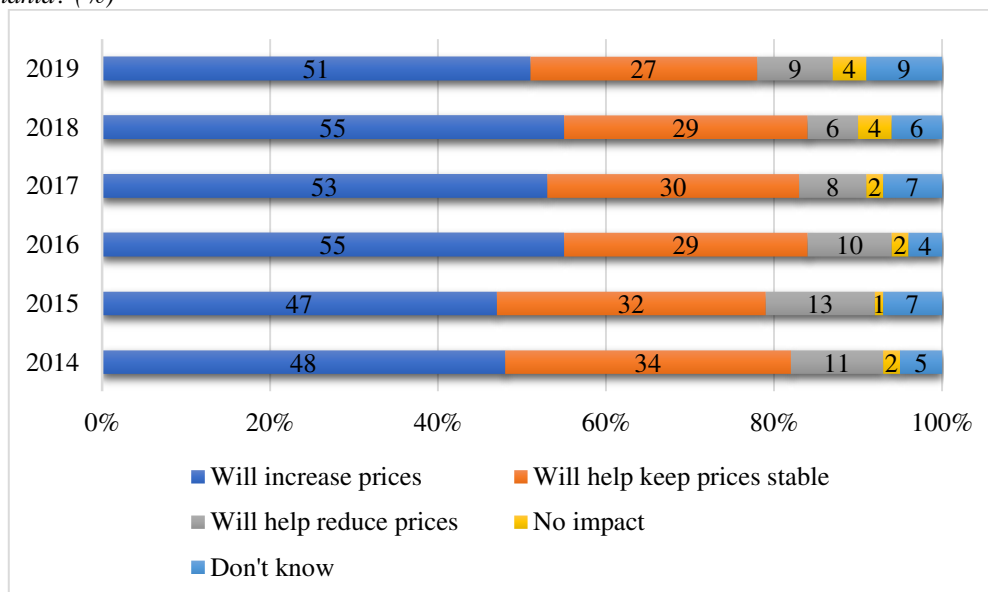


Source: (Own computation based on Flash Eurobarometer, European Commission)

Question 5 What impact, if any, do you think the introduction of the euro will have on prices in Romania?

The majority of Romanians (51%), consider that Romania's accession to the euro area implies a post-accession increase in prices. In the time period from 2014 through 2019, these values fluctuated insignificantly between 47% and 55%.

Figure no. 5. Question 5 What impact do you think the introduction of the euro will have on prices in Romania? (%)



Source: (Own computation based on Flash Eurobarometer, European Commission)

5. Conclusions

The euro currency benefits span across many different levels, manifesting at an individual level, as well as at the economy as a whole. They include better options and stable prices for consumers and citizens, increased security and more market and business opportunities, increased stability and

growth, better integrated financial markets, a stronger EU presence in the global economy and the enhancement of the European identity.

The most important disadvantages are the costs incurred in adopting the euro, the negative effect on the banking system, the loss of monetary policy control and the inflationary risk of the price convergence.

By analyzing the 2019 Eurobarometer's results, we can observe that most Romanians:

- don't think that Romania is ready to introduce the euro,
- believe that the euro had a positive effect in the eurozone member states and will also have a positive effect in Romania
- are in favour of the idea of introducing the euro in Romania
- believe that the accession will generate price increases.

Romania's decision to adopt the euro currency should not only take into account the associated benefits and costs, but should also consider the following: the evolution of the countries that initially joined the euro area in 1999, the degree to which meeting the Maastricht criteria has ensured economic growth, as well as the state of preparation towards the fulfillment of Optimum Currency Area characteristics.

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