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THE ASSESSMENT OF THE CONVERGENCE CRITERIA IN ROMANIA, ON THE PATH TOWARDS EURO ADOPTION

[Hodnocení konvergenčních kritérií v Rumunsku na cestě k přijetí eura]

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Abstract: The paper aimed to make an analysis of the euro adoption process of Romania and its path to the exchange rate mechanism (ERM II). The research was conducted from the perspective of the actions taken at European level for the third round of enlargement of the euro area, with its structural risks and challenges. In developing the research, both nominal and real convergence criteria were taken into account in order to outline the general achievements of monetary and fiscal policies, emphasizing the need to find an optimal timing to join the Eurozone considering the balance between costs and benefits. The analysis of the fulfillment of the Maastricht nominal criteria showed, in the past, the illusion of short-term monetary integration, but the evolutions of the last two years raise serious questions regarding the capacity of the Romanian economy to align with the European level of monetary integration and highlight the gaps between Romania and euro area. By comparison, the attitude of the citizens, although more temperate in the context of the COVID-19 pandemic and the perspective of a new economic crisis, showed an optimism which, unfortunately, is not supported by the capacity of the Romanian economy to meet the accession conditions.

Keywords: convergence, euro adoption, pandemic, Romania.

JEL classification: F15, F36, E52

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Introduction

The monetary unification process of the Euro Area is subject to a large debate on both academic and popular scenes, the third round of enlargement being often promoted by the political factors in a more theoretical terms, rather than on practical grounds. Currently, the Euro Area comprises 19 EU Member States: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain (from 1999), Greece (from 2001), Slovenia (from 2007), Cyprus and Malta (from 2008), Slovakia (from 2009), Estonia (from 2011), Latvia (from 2014) and Lithuania (from 2015). The next round of Euro Area enlargement puts more pressure on the economic framework of the area as a whole, raising new challenges derived from some artificially fulfilled conditions of the candidate countries with weak sustainability premises. Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania and Sweden, as Member States with derogation are constantly subject to the European Commission diagnosis based on the Maastricht criteria, in order to explore the integration perspective in relation with the dynamics of the Euro Area.

In this context, the main aim of the research is to analyze the third round of the Euro Area enlargement, focusing on the euro adoption process of Romania and its path to Exchange Rate Mechanism (ERM II) milestone. The multifaceted process of euro adoption in Romania is distilled by using nominal and real convergence criteria, without neglecting the time framework. The endeavor is in line with the main research objective of the paper, assuming that Romania has to find the optimum timing for joining the Euro Area without increased euro adoption costs. Even if the nominal criteria are met, their unsustainable nature suggest the necessity to achieve the real convergence criteria as a measure to correlate the business cycles with those of the monetary union member states. In order to highlight the position of Romania in the euro adoption mechanism, we have divided the paper into three main sections: (a) euro adoption targets and general assessment of the nominal convergence criteria; (b) perspectives of the third euro enlargement based on comparative studies with other Euro Area candidates; (c) public opinion regarding the euro adoption process. The previous version of the paper was published in the proceedings of the International Conference on Decision making for Small and Medium-Sized Enterprises (DEMSME 2021).

1 Literature review

Considering the case of PIGS countries (Portugal, Italy, Greece and Spain), Demeter (2011) highlights the business cycles synchronization as one of the most stressing issue of the monetary unification. Even if the decision of taking part of the Euro Area has not a unilateral character, being carefully monitored by the EU authorities in terms of efficient functioning of the economic mechanisms, the public opinion reveals a partial validation of the integration objective through the general support for the unique currency. Entering the Euro Area can bring serious advantages for Romania, summarized by Făt and Filip (2007) as following: (1) the elimination of the substantial exchange rate risks in relation to the other Euro Area member states; (2) favoring the foreign investments inflows and the sustainable economic growth; (3) more coherence of the tax policies based on the provisions of the Stability and Economic Growth Pact; and (4) the contraction of interest rates as a result of alignment to the EU average.

The Treaty of Maastricht includes the necessary conditions for a country to enter the Euro Area, known as the nominal convergence criteria:

- the budget deficit < 3% of GDP
- the total public debt < 60% of GDP
- the inflation rate with no more 1.5 pp higher than the 3 best-performers
- the interest rate on bonds which are issued with a maturity of ten years with no more 2 pp higher than the 3 best-performers
- the stability of exchange rate without significant turbulences for at least two years.

The integration of the Eastern and Central European countries to the European Union has raised the problem of structural discrepancies between these states and the former ones (with more comparable economic patterns), leading to the idea of unpredictable asymmetrical shocks in the absence of real convergence criteria fulfillment. From this category, we can mention the degree of economy openness, the structure of the economy, the GDP per capita indicator or the bilateral trade of one country with the EU member states (as part of the total foreign trade). These additional criteria are meant to make the Euro Area more efficient, Horațiu (2019) emphasizing the real beta convergence requirements for Romania, Croatia and Bulgaria, while the same author found the convergence trinity (expressed in terms of nominal, real and structural convergence) as crucial for the Euro Area integration process. The main structural components depicted in its study were the unemployment rate, the business cycle, the current account and the economic specialization, shaping a sustainable euro adoption process for the three mentioned candidates in the case of a proper management of the post-joining challenges caused by the significant loss of the monetary policy instruments. In the same extent, other research papers (Lein-Rupprecht et al. 2007) reveal that the real convergence process influences the

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nominal convergence process through the trade openness (a negative relationship) and the productivity growth (a positive relationship).

The main findings of the study conducted by Blesse et al. (2020) suggest that the experts form the CEE states are more cautious with respect to more coordination and centralization from the European Union part, due to the pressure of the monetary policy established by the European Central Bank to the successful adaptation to the Euro Area. Analyzing ten Central and Eastern European countries from the former Communist regime block in the context of Economic and Monetary Union (EMU) enlargement, Raileanu Szeles and Marinescu (2010) suggest that “the conditional convergence in the CEE region becomes more powerful when Romania is included in the model” (p. 195), considering the values of GDP per capita coefficients.

After 2007, several researchers analyzed Romania's progress in entering ERM II and in adopting euro. Dragan and Pascariu (2008) advocates for an optimum timing for Romania to enter the Euro Area, arguing that both a rush in process or a slowdown movement can be counterproductive. The same conclusion resulted from the study conducted on the nominal and real convergence of the Romanian economy by Duhnea et al (2012). Iancu (2017), analyzing the fulfillment of the nominal and real convergence criteria showed that, although in the period 2014 - 2015, Romania met the nominal convergence criteria and had made important progress in achieving a real convergence, the political decision was to postpone the entry deadline in the euro area in 2019. More recent studies, Schipor (2020), show that, on the one hand, Romania has moved away from alignment with the nominal convergence criteria but, in the context of the COVID-19 pandemic, the real convergence really raises questions regarding the ability to become part of the euro area, considering that there are more convergence points within the CEE region than with the rest of the EU27 countries, and adding the debate about the right timing of the euro adoption process. In addition to research on the fulfillment of the conditions and the political will on the adoption of the single currency, various authors have analyzed the opinion of Romanians on abandoning the national currency in favor of the euro. Schipor (2020), and Floroiu (2020) showing that, in 2019, although a significant percentage of the respondents thought there are benefits of adopting the single currency, most of them did not consider that Romania is ready for this step.

2 Methodology

The methodological approach is based on a mix of qualitative and quantitative data analysis, in order to explore the third round of Euro Area enlargement. The euro adoption process was depicted by nominal and real convergence criteria, focusing on designing a complex case study on Romania, in relation with other Euro Area candidates. First, were analyzed the nominal convergence criteria achieved by Romania in a dynamic time framework in order to catch the causes of the abandoned euro adoption targets. Then, we completed the analysis by a one-point-in-time approach, focusing on the ERM II milestone achieved by Croatia and Bulgaria on July 10, 2020, in order to extend the analysis on a comparative basis. Second, taking into account the disparities of the Central and Eastern European block in the new euro enlargement horizon, we capture the real convergence degree of the Romanian economy using the GDP per capita indicator, the economy openness, the structure of the economy and the intra-EU trade. The final section was devoted to the citizen’s perceptions regarding the euro adoption process, amplifying the emerging dilemma of euro adoption in Romania as part of a nuanced political actions that strengthened the illusion of a feasible target continuously abandoned over the years.

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3 Euro adoption targets: Is Romania Ready?

The Euro adoption process in Romania is based on an ongoing strategy, claiming for an optimum timing to join the Euro Area in accordance with the Romanian capacity to meet its medium-term objectives. The speed of the process is influenced by the cost-benefit analysis, while the mandatory requirements are related to the nominal and real convergence criteria, reducing the time spent in the ERM II mechanism at the minimum level (two years). According to Table 1, Romania has experienced three abandoned euro adoption targets (2014, 2015 and 2019), fixing in the Convergence Program 2019-2022 the year 2024 as a new deadline. The Convergence Program published in May 2020 suggests serious macroeconomic imbalances, some of which being amplified in the context of the COVID-19 pandemic. The last Convergence Program (May 2021) capture the focus on minimizing the negative social and economic effects of the COVID-19 pandemic, without providing a new temporal perspective for joining the euro area. However, the National Bank of Romania advances the horizon of 2028-2029 as a potential new reference period, under the significant impact of pandemic restrictions that generated a severe contraction of the economy in the second quarter of 2021. Before establishing an official timetable for joining the euro, Romania will have to restore its internal and external imbalances caused by the expansionist fiscal policies, the reduced capacity of absorption the European funds and the low level of investments. Thus, Romania has to meet a number of conditions of macroeconomic robustness in parallel with combating the negative effects generated by the COVID-19 crisis.

Table 1: The euro adoption process in Romania (2006-2020)

Convergence Program	Target year	*Nominal convergence criteria achieved by Romania according to the Convergence Reports (European Commission)*		
		Indicator	*Reference value*	*Achievements*
2006-2009	-			
2007-2010	-			
2008-2011	2014	***HICP Inflation (%)***	1.7%	2.1%
		Government deficit (% of GDP)	3%	2.3%
		Government debt (% of GDP)	60%	38.4%
		Long term interest rates (%)	6.2%	5.3%
		ERM II	Yes	No
		Legal compatibility with the Treaty	Yes	No
2009-2012 2011-2014 2012-2015	2015	*HICP Inflation (%)*	0.7%	-1.3%
		Government deficit (% of GDP)	3%	0.7%
		Government debt (% of GDP)	60%	38.4%
		Long term interest rates (%)	4%	3.6%
		ERM II	Yes	No
		Legal compatibility with the Treaty	Yes	No
2013-2016	-			
2014-2017 2015-2018	2019	***HICP Inflation (%)***	1.8%	3.7%
		Government deficit (% of GDP)	3%	4.3%
		Government debt (% of GDP)	60%	35.2%
		Long term interest rates (%)	2.9%	4.4%
		ERM II	Yes	No
		Legal compatibility with the Treaty	Yes	No
2016-2019	-			
2017-2020	-			
2017-2020	-			
2019-2022	2024			
2020	-			
2021	-			

Source: Authors' compilation using data from https://mfinante.gov.ro/, https://ec.europa.eu/

We can notice the substantial regression of Romania to fulfill the mandatory Maastricht criteria in the last years, the 2019 milestone being a crucial point into the euro adoption process. Even if 2014 and 2015 have brought Romania closer to the inclusion goal, the last abandoned target

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suggests the unsustainable nature of the economic achievements, which can reveal major financial frictions between Romania and the Euro Area. After picking in the middle of 2018, the HICP (Harmonised Index of Consumer Prices) inflation in Romania was constantly higher than the Euro Area average due to the diffusion of past VAT cuts effects and the raise of the global oil prices, while in 2019 the slight deceleration was trained by the reduction of the energy prices. The National Bank of Romania increased its inflation forecast to 5.6% by the end of the year 2021. Comparing the values of September 2021 with the ones recorded in September 2020, energy increases are the highest (24.65%), followed by gas (20.55%) and fuels (16.77%). Significant increases were also recorded by bread (5.52%), potatoes (12%) and oil (23.84%).

In 2019, the fiscal developments were significantly higher than the targets established in the Convergence Programme, totalizing a government deficit of about 4.3% of GDP. The 4.4% long term interest rate (2019), which reflects, for the mentioned period, the secondary market yields on a single government benchmark bond, was also influenced by the monetary policy loosening actions of the major central banks, which substantially suppressed the long-term yield. The macroeconomic and financial context of 2020 was particularly difficult and marked by deeply divergent issues, requiring an economic recalibration and also a prudent monetary policy. In the last two years, the National Bank of Romania used an intensive arsenal of monetary policy instruments, conducting structural operations for the first time.

An important source of increased uncertainty and risks has been the fiscal and revenue policy, especially in the context of the electoral calendar and the new pension law. The major effect was the considerable deepening of the budget deficit in 2020, under the impact of the pandemic crisis and support measures, correlated with an increase in permanent spending. On the other hand, the necessary budgetary consolidation was determined by the excessive deficit procedure launched by the European Commission, including budget consolidation measures like a temporary cap on salaries in the budget sector.

The Romanian leu is not included in the ERM II, which is the euro waiting room for two other Euro Area candidate countries since July 10, 2020 (Croatia and Bulgaria). ERM II plays an important role in the euro adoption roadmap, being a preparatory phase that substantially accelerate the convergence process. Under the legislative approach, Romania has serious incompatibilies with the ESCB/ECB Statute and the TFEU(Treaty on the Functioning of the European Union), where the legislative imperfections were largely repeated from the previous year's assessments.

4 The inflation rate and its determinants

The annual inflation rate stepped up significantly in October 2021, from 6.3% in September 2021 to 7.9% (Figure 1), being influenced mainly by the outstanding upward movement in energy prices both on domestic and international markets. In September 2021, the annual adjusted CORE2 inflation rate saw a 0.7 percentage point advance comparative to June due to the high pressures generated by the supply-side shocks, while the HICP inflation edged up by 0.5 percentage points. The Harmonised Index of Consumer Prices (HICP) is 101.32% in October 2021 compared to September 2021. According to the data published by the National Institute of Statistics, the non-food prices rose by 11.39%, food by 5.25%, and services by 3.96% in October 2021 compared to October 2020.

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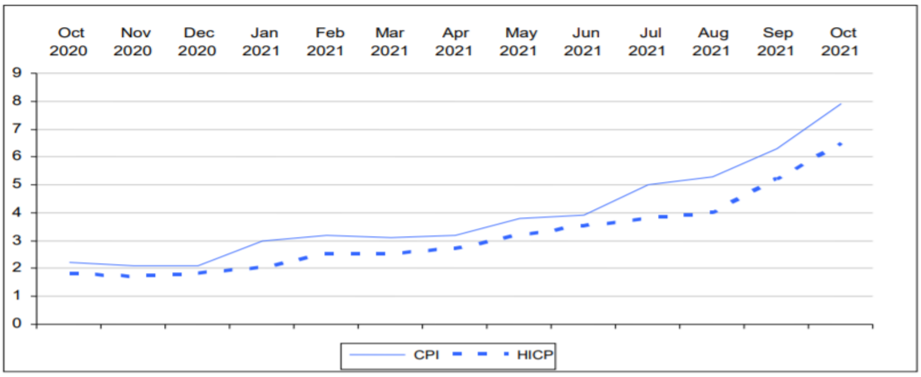
Figure 1: The annual change in consumer prices (Romania), October 2020 - October 2021 (%)



Source: https://insse.ro/cms/sites/default/files/com_presa/com_pdf/ipc10e21.pdf

An important driver of the faster pass-through of higher costs into final prices was the energy producer prices, but also similar trends of other materials and commodities or the marked deterioration of short-term inflation expectations. The price of gas increased by 46.07%, followed by electricity by 24.65% and fuels by 23.51%. Significant increases are also mentioned for potatoes (18.04%), edible oil (26.29%), vegetables and tinned vegetables (8.92%), fish and tinned fish (6.03%), milling and bakery products (6.26%), and eggs (5.58%). In the case of services, the highest increases were recorded for water supply, sewage collection, refuse collection (6.51%) and medical care (5.58%), but also car and electronic repairs, photo works (5.16%), mail services (5.53%), hygiene and cosmetics (4.80%). The labor market exerted no inflationary pressures through wages in 2021, the annual CPI inflation rate in Q2 reflecting influences from the exogenous CPI components, particularly the increase in oil prices.

In this context, the National Bank of Romania Board decided to keep the monetary policy interest rate at 1.25 percent per year in August 2021, as well as the interest rates on deposit and credit facilities at 0.75% and 1.75%, respectively. In the next period, the main uncertainties and risks were associated with the COVID-19 pandemic evolution and the restrictive measures imposed by the authorities, given the increased COVID-19 infections and the sharp slowdown in vaccination, as well as signs of a new pandemic wave amid the spread of the more contagious Delta version of COVID-19. Sources of uncertainty and risks were also the conduct of fiscal policy, as well as the absorption of European funds, in particular those related to the "Next Generation EU" program. On the labor market, the risks were associated with the evolution of the epidemiological situation and the negative effects determined by the cessation of the government support programs.

The statistical data showed an increase of the annual CPI inflation rate in July 2021 to 4.95% and to 5.25% in August 2021 (from 3.94% in June 2021), well above the upper limit of the target interval and slightly above the forecast level. The NBR Board decided to increase the monetary policy interest rate at the level of 1.5% per year in October 2021, simultaneously with the increase of the interest rate for the deposit facility (1%) and for the lending facility (2%). On November 9, 2021 the NBR Board decided to increase the monetary policy interest rate (1.75% per year) for the second time in a year and the lending facility rate with 0.50 percentage points to 2.5% per year, in order to control the inflation which could exceed the central bank's target, until the end of 2021.

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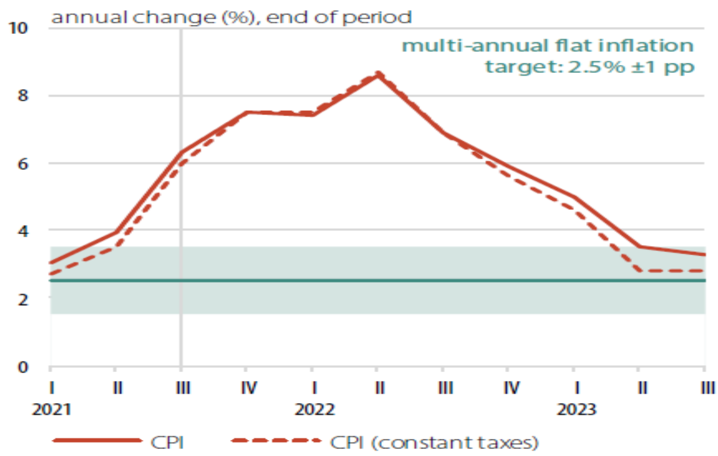
Figure 2: Inflation forecasts - Romania



Source: https://www.bnr.ro/Home.aspx

According to Figure 2, the new baseline scenario of inflation forecasts suggests an upward path, significantly adjusted to the fast-paced rise in energy prices and the prices of the other commodities. The energy market development and the risks associated with the public health crisis generated by the COVID-19 pandemic are one of the most persistent risks in the next period, being linked with a positive background of the economy, marked by expansion periods in Q3 and Q4 2021 and slowdown signs due to the price dynamics. Taking into account the baseline scenario, the economic outlook in the short run is influenced by the peculiarities of the health situation in Romania and the major vulnerabilities identified in the global value chain, being revised downwards for 2021 and 2022. Based on the inflation forecasts in Romania (November 2021), the gross fixed capital formation will have a robust contribution to the GDP growth over the next period, while the international trade is also expected to face significant constraints related to the global transport capacities.

The NBR's monetary policy stance was characterized by a prudent activity, with the main aim to bring the annual inflation rate back to the flat target of 2.5% ±1 percentage point and in order to keep it under these limits over the medium term. The annual CPI inflation rate is expected to show an upward trend until Q2 2022, being mainly influenced by the advance of exogenous components of the CPI basket and, to a lesser extent, by the core inflation, due to the large increase in production costs with raw materials. At the end of 2022, the forecast for the annual CPI inflation rate is to 7.5%, after the entry into force of the compensation measures for the electricity and natural gas consumption by household consumers, which will be also be reflected in the evolution of this indicator during the period November 2021 - March 2022. After the expiration of the mentioned measures in April 2022, the annual rate of CPI inflation will reflect increases of a substantial magnitude, reaching 8.6% in the Q2 2022. Assuming the reduction of inflation expectations, the stabilization of energy sector prices and the gradual dissipation of the negative effects of shocks on production costs, the annual inflation rate will attenuate in the second half of 2022 (Figure 2), remaining substantially above the upper limit of the target interval. The analyzed indicator will return to the upper limit of the variation band in the Q2 2023, in the context of favorable effects associated with the energy component, while the inflation in Q3 2023 will reach 3.3%.

5 Romania: the government budgetary position

The Romanian governmental deficit breached in 2019 the reference value (3%) with more than 1 percentage point to 4.3%, being launched the excessive deficit procedure according to which Romania must correct the excessive deficit criterion by 2022 at the latest. From June 2017, the

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country was subject to the significant deviation procedure under the preventive arm of the Stability and Growth Pact, as a result of the authorities' failure in correcting the negative values of the government budgetary position, suggesting a sharp worsening of the budget deficit with a significant deviation from the adjustment path towards reaching the major budgetary objectives on the medium term. The structural imbalances are marked by the strong deterioration in the economic activities, the increase in age limit in the public pension system as a result of the new legislative positions, and the fiscal measures resulting from the COVID-19 crisis.

Table 2: Public balance (% of GDP), 2017-2020

General Government net lending (+) /net borrowing (-)				
	2017	2018	2019	2020
Bulgaria	1,6%	1,7%	2,1%	-4,0%
Croatia	0,8%	0,2%	0,3%	-7,4%
Romania	**-2,6%**	**-2,9%**	**-4,4%**	**-9,4%**
EU-27	-0,8%	-0,4%	-0,5%	-6,9%
Euro Area	-0,9%	-0,4%	-0,6%	-7,2%

Source: Authors' compilation using data from https://ec.europa.eu/eurostat/

According the Eurostat data for the Q4 2020, Romania registered a public deficit of -10.6% of GDP on the seasonally adjusted series, values that are higher than the European average of -7.5% of GDP and -8% for the Euro Area, respectively, exceeding in the same time the target values assumed for 2020. The values reached by Romania starting with Q1 2019 show that we were already strongly entered the negative territory even before the appearance of the COVID-19 pandemic, unlike all the other states in the region. The figures included in the Table 2 suggest that the unfavorable position of Romania comparative with the other states that makes difficult the prospect of a quick return to the 3% required by the Maastricht criteria. This is because other states have made occasional expenditures in a particularly difficult situation marked by the COVID-19 crisis, while Romania has had to accommodate the COVID-19 measures along with the structural expenditures already expanded beyond the possibilities. According to the European Commission forecasts, Romania will have in 2022 a public deficit of 7.1% of GDP, a deficit that can only be covered by new loans.

Table 3: General government debt (% of GDP), 2017-2020

General government gross debt				
	2017	2018	2019	2020
Bulgaria	25,1%	22,1%	20,0%	24,7%
Croatia	76,7%	73,3%	71,1%	87,3%
Romania	**35,1%**	**34,7%**	**35,3%**	**47,4%**
EU-27	81,3%	79,3%	77,2%	90,1%
Euro Area	87,5%	85,5%	83,6%	97,3%

Source: Authors' compilation using data from https://ec.europa.eu/eurostat/

The mentioned values for the Romanian public balance also drive the upward trend in the debt ratio from 35.1% in 2017 to 47.4% in 2020 (Table 3). According to the data provided by the Ministry of Finance, Romania's public debt rose to lei 545.3 billion in July 2021, from lei 526 billion in June 2021. However, as a share of GDP, Romania's public debt decreased from 49.5% of GDP in June 2021 to 49.3% of GDP in July, as a result of economic growth in Q2 2021. Beyond the very high expenditures on social assistance and budgetary wages, another reason that led to the significant increase in public debt was the COVID-19 crisis and the substantial efforts to limit the spread of the disease. The historical value of Romania's public debt-to-GDP highlights the associated risks related to the debt sustainability. According to the European

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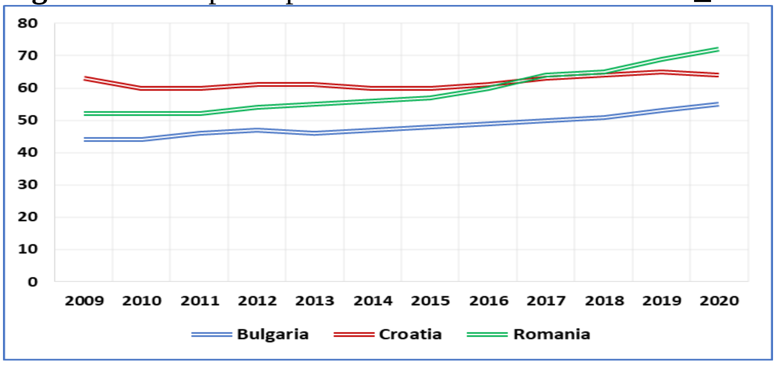
Commission forecast, the government debt will increase from 47.4% of GDP in 2020 to 49.3% of GDP in 2021, 51.8% in 2022 and 53.2% in 2023.

6 Perspectives of the third euro enlargement. The case of Romania, Bulgaria and Croatia

The third round of Eurozone enlargement is one of the most provocative challenge due to the fact that the Euro Area has to face the disparities of the Central and Eastern European block in parallel with the negative effects of a prolonged COVID-19 pandemic. In the same time, the new enlargement significance is amplified by the lessons achieved after the financial crisis, a crucial moment that moved the concerns towards financial stability issues and institutional resilience. While the euro adoption is still an obligation for the Member States with derogation, each country has its own progress rhythm. Croatia and Bulgaria are experiencing more significant results once the Croatian kuna and the Bulgarian lev were included in ERM II, testing the ground before the single currency adoption through both a market and a policy test. Their economies are expected to strengthen in this preparatory period, operating in a regime of stable exchange rates against the euro with even more efficient supervisory and macroprudential policies.

In this context, Romanian remaining vulnerabilities removed gradually the proclaimed euro adoption targets, while Bulgaria traversed the same route with different speed without any assumed deadline. Even if joining the Euro Area was constantly on the Governmental agenda in Romania, most of the actions were mainly declarative and adjusted to the political election calendar. The current section highlights a comparative analysis of the real convergence criteria for Croatia, Bulgaria and Romania, taking into account the evolutions of other CEE countries which are full EMU members (Estonia, Latvia, Lithuania, Slovakia and Slovenia) or are still outside the area (Czech Republic, Hungary and Poland).

Figure 3: GDP per capita in PPS relative to the EU27_2020



Source: Authors' compilation using data from https://ec.europa.eu/eurostat/

The real beta convergence analysis depicted in the Figure 3 emphasizes the levels of GDP per capita in PPS for Romania, Croatia and Bulgaria (EU27_2020 = 100). The data provided by Eurostat for the period 2009-2020 revealed that the GDP per capital in Purchasing Power Standards (PPS) related to the EU27_2020 grew with 20 percentage points in Romania, compared with an increase of 11 percentage points in Bulgaria. For Croatia, the level of GDP per capita in PPS remains relatively constant in the mentioned period, while the registered value for the Euro Area in 2020 was above the EU_27 average. From the CEE block, the highest levels of GDP per capita in PPS were achieved by Czech Republic (94 PPS), Slovenia (89 PPS), Lithuania (87 PPS) and Estonia (86 PPS, EU_27_2020=100).

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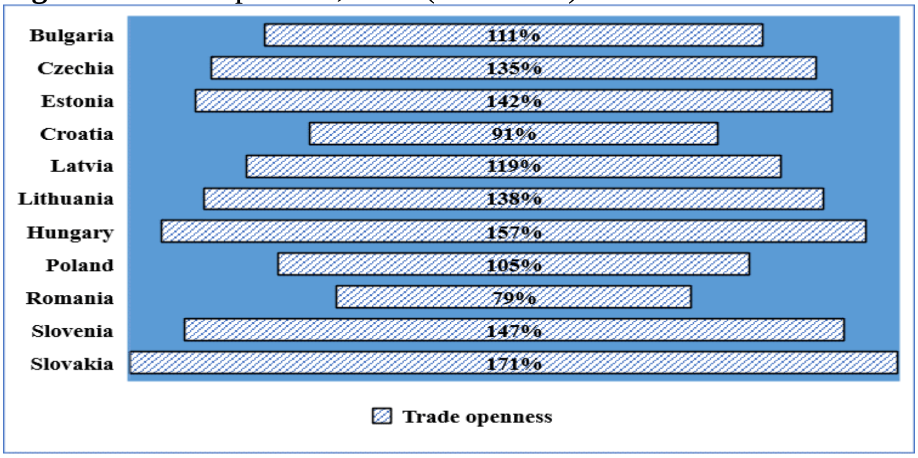
Figure 4: Trade openness, 2020 (% of GDP)



Source: Authors' compilation using data from https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS

The degree of trade openness (Figure 4) suggests that Romania has the lowest degree of trade openness (79%), while the most opened economies are Slovakia (171%), Hungary (157%) and Slovenia (147%). Bulgaria exceeds100%, while Croatia achieved 91%. The increasing trend of the indicator for Romania can be explained by the comparative advantage due to the reduced costs of manpower. Primary importance is also devoted to the sectoral structure of GDP, the data provided by the National Commission for Strategy and Prognosis suggesting the prevalence of the services sector in the horizon of 2022 (58.5%), followed by the industry sector (23.2%). It must be mentioned the decreasing trend of the agriculture in the GDP construction, which was an important sector prior the EU accession, similar to Bulgaria and the other CEE countries. This sector is mostly affected by the seasonality, being related to the under developed countries. From this point of view, Romania has still a low level of structural convergence with the European Union, the services sector being well below the level recorded by the former EU Member States. For the period 01.01.2021-30.09.2021, the Romanian exports increased by 21.7% and the imports increased by 23.2%, compared to the same period of the previous year. The value of intra-EU trade was 73.8% of total trade in 2020, whereas for Bulgaria the value of intra-EU trade was about 63.2% of total trade, according the Eurostat data.

7 Romania: For or against the Euro Area integration?

Romania has to address both nominal and real convergence criteria in order to complete the European integration, but it can not be neglected the public opinion perceptions about joining the Economic and Monetary Union. Brexit has highlighted the importance of the public support in the integration process, suggesting that a gap between the economic performance and the citizen's approval can lead to a damaging financial turmoil caused by the popular dissatisfaction to the EU mechanism. The main findings of the paper outline the deterioration of the Romanian position in terms of mandatory criteria for joining the Euro Area, but also the improvement of other states status (Bulgaria and Croatia) by entering the ERM II. These results are in line with the change in the public opinion perceptions about the readiness to introduce the euro in their countries (Figure 5).

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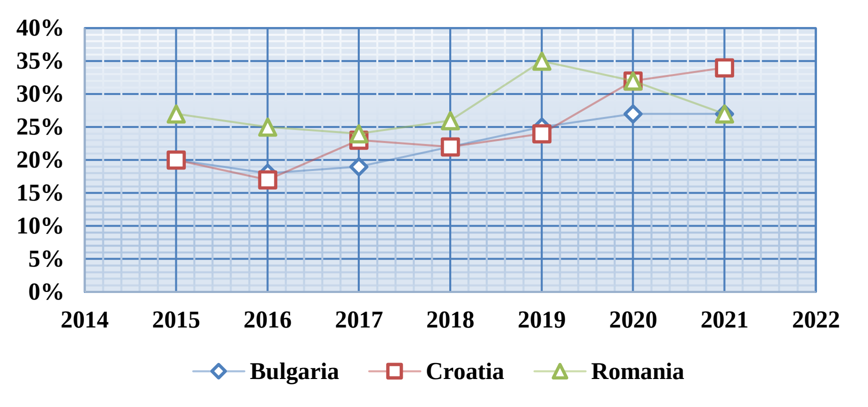
Figure 5: Positive answers about the country readiness to introduce the euro?

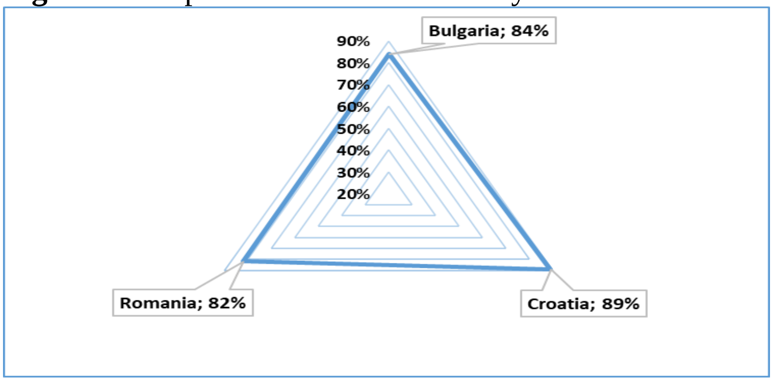


Source: Authors' compilation using data from the Flash Eurobarometer. Accessible from https://ec.europa.eu/info/business-economy-euro/euro-area/public-opinion-euro_en

Even if the majority of the Romanian respondents have seized the downturn of the Maastricht criteria achievements in the last period, their optimism is still very high, similar to Bulgaria which is much closer to the Euro area integration. Both Bulgaria and Croatia were more tempered about the euro adoption process in the 2015-2020 time framework, while the Romanian people were trained by the euro adoption illusion mainly through the political factor. However, the Convergence Report from June 2020 has proved that Romania no longer meets any Maastricht criteria and is subject to the excessive deficit procedure since April 2020. An interesting fact is that opinions in favor of introducing the euro were most positive in Romania (75%) than in Croatia (61%) and Bulgaria (54%).

About 48% of Romanians feel total informed about the euro, similar to the citizens from Croatia (46%), while a majority of 54% of the Bulgarians feel well-informed. The general data provided by the European Commission suggest that people who have previously used the euro coins or banknotes are more likely to feel more informed about the euro than those who have not used them. According to this finding, we included in the analysis the percentage of those people that have declared their familiarity with the euro coins or banknotes due to their use in the past (Figure 6). Form the seven Member States with Derogation (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Sweden), in Hungary (81%), Romania (82%) and Czech Republic (82%) the people were the least likely to have used the euro coins or banknotes in 2020. The proportion has increased by 17 pp since the previous year, in Romania. By reverse, the respondents form Croatia and Sweeden were more likely to have used the euro in 2021, reaching the level of 89%.

Figure 6: Respondents that have already used euro coins or banknotes in 2021



Source: Authors' compilation using data from the Flash Eurobarometer 492, 2021. Accessible fromhttps://ec.europa.eu/info/business-economy-euro/euro-area/public-opinion-euro_en

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In the same extent, there is a clear increase of the Romanians agreement that they will manage to adapt to the replacement of the national currency by the single currency on an individual basis (from 55% in 2015 to 89% in 2021). There is a large majority of respondents in Romania who believe that the euro adoption would have positive consequences for the country (63%), while in Bulgaria the opinions are more divided (49% negative consequences, 47% positive consequences). In line with these findings, 36% of the respondents from Croatia would like the euro to become their currency as late as possible/never and 37% of the Bulgarians think in the same way, while for Romania the public support dilemma is not so intense (46% as soon as possible, 19% as late as possible/never).

Conclusion

The third round of Euro Area enlargement is more provocative than ever in the actual context of COVID-19 pandemic, Brexit and recovery after the financial crisis, in parallel with the discrepancies between the Central and Eastern European countries and the former countries of the Euro Area. The convergence trinity become the only way to fight against the asymmetrical shocks, which is crucial for both individual economies and EMU financial health.

Our research focused on the way in which Romania has managed, in recent years, to meet the criteria of nominal convergence but also the level of real convergence of the Romanian economy with the economies in the euro area. Analyzed by comparison with other countries in the region, the nominal convergence criteria are met by Romania only to a small extent, the discrepancies with the reference levels being higher in the last two years compared to previous periods. Among the criteria, our analysis focused on inflation, budget deficit and public debt. The obtained results showed that, in 2021, there was a level of inflation well above the target set by NBR but also of the reference level. Exogenous factors such as the energy prices, monetary policy measures to curb credit consumption taken too late by the monetary authority, problems related to transport and logistics at international level will determine a difficult return to the level necessary to stabilize the Romanian economy. On the other hand, although increasing, the ratio of public debt in GDP remains the only criterion met by Romania and even with growing prospects, its level will be below the reference level of 60%. It remains to be seen, in this complex context of a pandemic that seems to last until at least the end of 2022, whether the measures announced by the new government installed in November 2021 will be enough to mitigate the deepening budget deficit and the devaluation of the national currency.

After the most recent economic evolutions, the optimum timing for Romania to join the Euro Area can be best perceived as an illusion trained by the political actors, proclaimed mainly in the election campaigns. The assumed euro adoption targets were gradually abandoned by the same actors suggesting that the process is viewed more in theoretical terms, rather than on practical grounds. Thus, the Romanian path to the ERM II milestone reveals major financial frictions that amplified the substantial regression of Romania to fulfill the mandatory Maastricht criteria due to the unsustainable nature of the economic achievements.

The emerging dilemma of the euro adoption in Romania can be best outlined by the citizen's perceptions on the subject through a partial validation of the integration objective. The poor performance in terms of nominal and real convergence criteria was seized by the general public, generating a shift in perceptions and a more temperate attitude. Even if the Romanians optimism is still very high compared with the other candidate countries, there is a significant decrease regarding the readiness to introduce the euro, even if there are positive adjustments to the behavioral mechanism: the use of euro coins/banknotes or the confidence to adapt to the replacement of the national currency by the single currency.

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The concluding remarks suggest that the public support dilemma is not so intense in Romania, with 46% of the respondents that would like the euro to become their currency as soon as possible and 19% of them that would like the contrary. The Romanians optimism is not linked to the economic reality, with the negative effects of COVID-19 pandemic and the premises of a new economic crisis. Before establishing a new timetable for joining the euro, Romania will have to restore its economic imbalances caused by the expansionist fiscal policies, in parallel with combating the negative effects generated by the COVID-19 crisis. The lessons achieved after the inclusion of the Bulgarian leva and the Croatian kuna in ERM II revel that each country has its own progress rhythm and both a rush in process or a slowdown movement can only increase the euro adoption costs.

The single currency adoption process must be well balanced, the Romania-EU convergence being examined on the long run, with a special focus on the sustainability of the Maastricht criteria fulfillment. The European construction is based on a progressive integration and depends on the mentioned macroeconomic indicators, which make the independent national economies more compatible with the Euro Area mechanism, as a whole.

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