RISKS OF ROMANIA'S EARLY ACCESSION TO THE EUROZONE

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Abstract: *EZ has a pronounced political dimension, being thought by the founders as the heart of the European integration process. It brings economic benefits related to trade, transaction costs, the elimination of currency risk and the "shelter" that the euro brings in relation to the strong shocks coming from financial markets, from the global economy. But EZ also poses risks, which have been underestimated by a few, and which have come to light after the financial crisis erupted. That is why the analysis of the accession, in this paper, will be examine so the political decision to be informed and responsible.*

***Key words**: Eurozone, integration, risk, country, member state, crisis*

INTRODUCTION

The ESR crisis is linked to inappropriate policy mechanisms and arrangements. The belief that the euro itself will be an inexorable force for real convergence, has proved to be too optimistic. Empirical evidence shows that there are no automatic mechanisms in ESAs that provide real sustainable convergence for less developed countries, the main reasons being, on the one hand, weak native institutions, structural rigidities, insufficient growth of productivity and, on the other hand, the way in which EE operates.

The crisis has highlighted the major structural and institutional weaknesses of some EMU participating countries [5]. These countries (Greece, Portugal, Spain) were those that had high rates of economic growth before the crisis, but all of them faced sharp and significant falls in real GDP per capita with the outbreak of the crisis. It has also been seen that in the EEA, external imbalances, as an illustration of competitive gaps between Member States, are not irrelevant. The current crisis has broadened the view of how real convergence with the EE of a Member State should be analyzed. This stems from the need for sustainable, healthy convergence, based on strong and non-circumstantial economic fundamentals. This is perhaps one of the most important lessons offered by the crisis to the pretending states at the entry into the EZ.

MATERIALS AND METHODS

Romania is currently meeting the official SEE entry criteria. In Romania, macroeconomic stability has been achieved with great efforts after 2010. The over-heating of the economy, in the pre-crisis years, went in tandem with the accumulation of large imbalances which, once corrected, canceled the earnings gains previously obtained. Romania had 6 years to return to the 2008 revenue (at GDP). It is noteworthy that the economic recovery in recent years has not been accompanied by a large increase in external deficits [8]. The contribution of European funds to the financing of the balance of payments can be invoked here. But there are indications that there are mutations in export capacity, with remarkable input from the IT sector. And transport services have seen significant growth. These positive data does not invalidate the thesis that structural reforms and investments of a certain nature are needed to overcome the "average income trap". The current financial crisis has shown that the mere fulfillment of nominal criteria is far from sufficient for a country to benefit from entry into EE. In addition, it has been demonstrated that the need for economic policies to ensure economic stability does not end with the adoption of the euro [4]. Sustainable real convergence is a key condition for economies that want to adopt a common currency and be resistant to adverse shocks. The great development gap between Romania and the EZ is the main obstacle to the adoption of the single currency [9]. EZ already has a big problem of heterogeneity. During the crisis, large differences in economic performance between countries have led to the accumulation of growing external imbalances, which in turn led to sovereign debt crisis after governments took over private debt to public debt. In the absence of common instruments to dampen asymmetric shocks, the development gaps within the EMU generate imbalances as in the current crisis, which will require very costly corrections in social and political terms.

If, prior to the outbreak of the crisis, the ECE member countries of the EU experienced high economic growth rates, particularly due to the catching-up process supported by large inflows of capital flows from the EU, the current financial crisis has slowed down capital inflows and trajectory Economic growth, highlighting major structural vulnerabilities, especially in some countries, and the need for large-scale macroeconomic adjustments. Finally, the need to change the pattern of economic growth was not highlighted. Hence the need to promote structural reforms in these countries - and not only - in order to mobilize domestic reserves at a time when it was far above its potential. The key to achieving real convergence is competitiveness. A faster increase in competitiveness would lead to a reduction in economic, political, social and institutional disparities [3]. The efficiency of commodity, labor and capital markets that must take account of social imperatives (inclusive economic growth) would foster a higher business value and boost endogenous growth engines - higher investment in innovation, research and development And human capital. All this would help Romania and the other countries analyzed in this paper - Poland, the Czech Republic and Hungary - to move from the efficiency-based economy model to the innovation-based economy-specific development model. The analyzes made in the paper show common problems from the point of view of competitiveness for the considered region. Thus, the distance from Germany's benchmarks (as the most efficient economy in the Union) is high in terms of infrastructure, institutional development, sophistication of business and, above all, innovation. The largest distance is recorded by the Romanian economy, while the Czech economy is at the smallest distance compared to the German economy [11]. Romania needs healthy growth, an increase that does not generate imbalances that are hard to control [2].

In a context in which the potential of the Romanian economy was severely affected by the financial crisis, the intensification of structural reforms, as well as the stimulation of sustainable sources of economic growth - investments in capital and technology, research and development and innovation) and in the health and education of human capital - Are suitable solutions, although they are not easy to put into practice. Performance deficits in areas such as: institutional development, infrastructure, business complexity and innovation can be considerably diminished through full access to ECE structural and cohesion funds. Structural problems of the Romanian economy can be solved by using as many European funds as possible. Foreign direct investment (FDI) can further help Romania to grow, especially if it is implemented in areas that favor the formation of competitive advantages. If Romania maintained its average growth rate in the period 2000-2015, then the average EZ would be 27 years old, while 75% of the average EE could reach 13 years.

If it would increase by an average of 5% per year (sustainably), then the average EZ could be reached in 18 years, and 75% of the average EZ could reach it in 9 years, in 2024

Economic growth would be about 2.5-3%, considering that in the analyzed period the average EE was 1.18%, while the average in Romania was 3.68% Even a 5% annual growth rate requires an exemplary mobilization of internal efficiency reserves and resource utilization to move on to another growth model. Accession to the EE does not require prior GDP / capita GDP. As argued in our analysis, adhesion can be imagined after reaching a level of about 75% of the average EZ and meeting other structural conditions.

Countries that adopted the single currency after 2007 had GDP per capita in PPS relative to the EU27 average in the year before the adoption of the single currency between 94% in the case of Cyprus and 64% in the case of Estonia (but with the Monetary Council). The Baltic countries, operating with money councils for years before accession, had an average of around 70% and the other countries (Cyprus, Slovenia, Malta, Slovakia) averaging 83%. Romania believes that it should target a GDP / capita in PPS of at least 75% of the EU average at the time of accession. The Baltic countries are not relevant in view of their size and the currency board arrangement that is prone to an option.

The cost-benefit balance for the adoption of the single currency largely depends on the compatibility between Romania and the EES in terms of economic structure, trade integration, synchronization of business cycles in these economies, and so on. The synchronization of business cycles among the countries forming a monetary union is considered a "pre-requisite meta" to be fulfilled with a view to adopting the single currency [10]. If the economic cycles of the countries participating in a monetary union are not synchronized, a centralized monetary policy can not stabilize all economies simultaneously. Under the conditions of a single monetary policy, a state that is at a stage of the distinct business cycle compared to the other countries in the union may face restrictive policies when in recession or with expansionist monetary policies when it Are in the period of expansion (monetary policy in both situations will be inappropriate, pro-cyclical). If savings are strongly correlated and respond similarly to shocks, they can make adjustments with common tools, without the need for a coin for each.

Among the EEA's peripheral economies, Spain was the most correlated with EZ in terms of business cycles. Instead, Portugal's business cycle was correlated to a maximum of 70% with EZ, while Greece was the most divergent EMU economy. As far as the CEE countries are concerned, the Czech economy was by far the most correlated with that of the monetary union with values of between 80 and 93%, superior to those recorded for Portugal, for example [1]. Poland and Hungary recorded relatively similar values, while Romania exhibited the lowest degree of correlation among ECE states analyzed (41% and 76%). Thus, according to the ZMO theory, Romania would have the most to lose following the renunciation of its own monetary policy, especially since it does not have alternative exchange rate mechanisms that are strong enough to adjust the potential asymmetric shocks [6]. Adoption of the single currency can bring higher benefits than costs (net benefits) if the structure of economies per sectors of activity of the economies participating in the monetary union is three of the most important economies of the so-called core (Germany, France and Italy) have a coefficient of A correlation that takes values between 93% and 99%.

Moreover, according to the literature, but also to the empirical evidence from the EB experience, even if these economies are highly correlated - a high degree of synchronization of economic cycles - as long as there are structural discrepancies between the economies that form a monetary union, They will go out in the future. This is because, if there are different economic structures, then there will be different responses to common shocks. In fact, EC experts point out that a high ESA deficiency is the "OCA convergence" (optimal currency area convergence). Increasing the degree of structural convergence is therefore a condition for reducing the likelihood of asymmetric shocks, while at the same time ensuring an increased correlation of business cycles with integrated money economies. According to the analyzes, Romania has the most different structure of the economy compared to EZ, in particular, due to a very different weight compared to the EZ of agriculture, industry and the services sector. Of the analyzed states, Hungary has the slightest structural divergence from ESAs over the entire period considered. Although it can be said that the structural divergence has increased significantly, from only 19.2% in 2000 to 28.8% in 2015, yet the values are significantly lower than in the other analyzed countries. Poland, for example, has registered a divergence of almost 28% since 2000, so that in 2015 it will already reach about 38%.

In the Czech Republic, the sectoral divergence along the same period was superior to both Poland and Hungary, but smaller than for Romania. In 2000, the Czech economy had a divergent structure compared to that of the EE in a proportion of only 32.2%, reaching 20% to 40% divergence from the EMU. What is here to be mentioned as an element of concern is the dynamics of this indicator over the period, namely the constant trend of increasing structural divergence vis-à-vis EZ for all the analyzed states. A problem of structural disparities lies in the poor contribution of services (10.8% Germany, France 12.5%, Hungary 8.4%, Poland 6.9%, 6.5% in the case of the Czech Republic and only 4.8% in Romania's case), especially in financial services (3% for Romania vs. 5% for ES, 4,1% for Poland and Hungary, and 3,8% for the Czech Republic). On the other hand, Romania has the largest share of gross value added in agriculture, 8.6% on average, compared to only 1.8% in the ESE, 2000-2015, 0.8% Germany, 2.5% % Czech Republic, 3.1% Poland, 4.4% Hungary. It should be said, however, that the analysis of structural convergence must be nuanced. For example, over-financing of the economy also brings costs.

Our analysis has found two possible explanations. The first explanation comes from labor market regulations, which stiffen the employment process and require more generous wages than any other ECE country to work beyond the program; The second explanation comes from the lack of entrepreneurial spirit. Romania is the last country in the EU in terms of employers' share of self-employed. It is possible that part of the entrepreneurial spirit is shielded from the underground economy, whose size is among the largest in the EU [11]. And the sustained increase in the minimum wage, which has reached close to the maximum threshold of 50% up to which the level is considered appropriate, increases the likelihood of expanding the underground economy to occupations whose productivity is close to the minimum wage level. Mobility between the regions of the country of labor is low, which perpetuates the income gap between regions. On the other hand, international migration is very high, as a result of the reserve wage of a job-seeker with whom it compares the salary offered by employers in Romania, is often not the unemployment benefit or the social assistance in Romania, but the potential gain outside the country, which may well exceed the labor productivity of the vacancy in the country. Thus, employers in Romania may be unable to increase their jobs.

RESEARCH RESULTS

As regards the speed of transmission of monetary policy decisions in the interest rates of national currency loans granted to the population and companies, there are no big differences with the countries in the region. There are large differences in the perception of credit risk. In Romania, corporate loans are perceived as more risky than loans for the purchase of dwellings granted to the population, which is opposite to that in neighboring countries and EE. This situation creates a disincentive for domestic companies because of the higher financing costs and an incentive for market development [9].

The paper shows how during the analyzed period the fiscal policy maneuver margin was significantly affected by the pro-cyclical nature of the fiscal policy, both in times of recession and expansion, which indicates that the macroeconomic stabilization function of fiscal policy has been virtually inoperable for ECE states. After the shock of the financial crisis, between July 2009 and January 2011, 730 thousand jobs were lost and between February 2011 and June 2016 600 thousand were created. In June 2016, it reached 43% of the gross average salary.

Under these conditions, if housing supply remains behind demand easily can develop a bubble in real estate prices. This inference is adjusted with the impact of revenues (relatively low relative to other countries in the region) and new macro-prudential regulations. After the EU accession negotiations and the capital account liberalization in Romania, significant capital inflows came in, especially in the form of direct investment and loans, with portfolio investment playing a minor role due to underdevelopment of the capital market and reduced public debt [1]. Financial intermediation and indebtedness of the private sector, especially in the currency, accelerated. Since 2008, capital inflows have slowed down, financial intermediation has fallen, and private sector indebtedness has been replaced by public sector indebtedness, which has now reached about 40% of GDP. Is considered to be acceptable for the level of development of the country and should not increase, given the conditions in the global economy. The high degree of euroisation of lending was a real barrier to the monetary policy transmission mechanism and exchange rate policy, which remained under controlled floatation.

After 2008, the hindering of the monetary policy transmission mechanism of the high degree of euro-denominated credit was not felt because most of the new loans granted were in national currency and financed by internal saving. The convergence of interest rates on RON and EUR loans has reached a point that further increases the share of lending in RON. As this process continues, it is likely that the entire foreign currency loan will be fully funded by residents' forex deposits [4]. It is to be welcomed the increase of the degree of deuroisation of the domestic economy in the last years, which helps the transmission mechanism and the robustness of the economy. De-euroisation must be encouraged. De-euroisation increases the effectiveness of monetary policy and facilitates the practice of managed floating - the effect of income and wealth as a result of depreciation is mitigated by the decline in euroisation - even if a "legacy effect" (reflex of the stock of loans denominated in Euro) is still felt significantly [7]. It is worth noting that the NBR can still practice standard policies in view of the economic growth (with significant economic growth) and the prospect that inflation will return to positive territory soon (at the end of 2017, the inflation rate is forecast by the NBR at around 2%). The non-conventional measures of the ECB complicate the formulation of monetary policies in emerging economies. The NBR can not underestimate the differential of monetary policy rates in its decisions.

CONCLUSIONS

EZ does not have instruments for asymmetric shock damping:

• Fiscal integration, even very gradual, is necessary to make the ZE viable in the long run.

• The large heterogeneity of the EZ did not help its operation.

• The ECB played an essential role in avoiding the collapse of the EZ.

• UB is an important step in the right direction, but it can not be a substitute for reforming the EZ's operating mechanisms.

• UB is incomplete; it needs, inter alia, a collective bank deposit guarantee scheme and a solid resolution fund.

• EZ macroeconomics remains a major problem as far as the policy stance is needed at the level of the whole.

• Pre-crisis economic growth rates are no longer achievable; The "stagnant secularity" that is shaping up, as well as the "deflationary bias" of EZ are major barriers.

• Great uncertainties influence the expectations of people, governments and the private sector; Here are listed conventional and non-conventional shocks, which increase the inability to take risks.

• Robustness / resilience becomes a central objective of economic policy. National governments and European institutions (including the ECB) take this into account.

• EU membership must be judged from the perspective of achieving a critical mass of ex ante robustness (which includes competitiveness as a component).

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