ROMANIA …ON ITS WAY TO EURO

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Abstract. *This paper aims to analyze whether Romania has achieved a high degree of sustainable economic convergence, if the national legislation is compatible with the Treaty establishing the European Community as well as the statutory requirements for national central banks are fulfilled by this country in order to become an integral part of the Eurosystem. The analysis reveals the need to further implement some structural reforms ensuring a higher ability of the Romanian economy to face asymmetrical shocks in relation to those impacting euro area economies. The perspective of Romanian's accession to the Economic Monetary Union – thus becoming part of the "heart of Europe" with a more powerful and more profound integration than in EU-27 – is in favor of ERM II entry in 2012 and changeover to the euro at the horizon of 2014, in context to minimize the duration of participation in this mechanism*

Keywords: *European Monetary Union, euro, convergence, economic integration.*

1. Introduction

Romanian's adhesion in the European Union on 1 January 2007 was the result of a period of sustained efforts on the reform of society and the economy, embarked on the previous decade, but accelerated since 2000. Thus, a new period started which should be completed with the euro adoption (2014), the transition to this stage requiring for the achievement of nominal convergence criteria as settled in the Maastricht Treaty for participation in a precursory phase of ERM II (2012). Nevertheless, the long term maintaing of nominal convergence indicators and, moreover, the full fructification of the benefits due to belonging to a performance monetary system, involve the fulfillment of real convergence criteria, which have a highly predictive content of the successful euro adoption by a country, respectively the acquiring of a positive cost benefit ratio.

For both the Economic Monetary Union and the European Union – the principal advantage of euro area extension is finalizing the internal market for goods, services and capital. However, these benefits would not

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apply in the case of premature euro adoption, which could harm a country in many ways. Differences in business cycles could lead to "sub-optimal" interest rates in a national context (from the perspective of both economic stabilization and resource allocation) and the emergence of local "bubbles" or "crises". Unless convergence is sustainable, a country might run into competitiveness problems, which could no longer be solved through exchange rate adjustments. If there were not enough salary and price elasticity to adjust to changes in competitiveness and/ or shocks, there would also be a risk of protracted economic losses. For the euro area as a whole, premature euro adoption could lead to losing the credibility of the EMU project.

The admission of the Romanian economy in the euro area is an objective of extreme importance that can be carried out by considering the related costs and benefits. The position of the National Bank of Romania builds on sustaining macroeconomic consolidation and on encouraging the attention of structural reforms in the first years of the post-accession period, as well by pursuing a restricted flexibility of monetary and exchange rate policies (subordinated to the objectives of accomplishing a planned disinflation and of closing the ECB's definition of price stability) through this interval. The deadlines proposed for ERM II entry and for the euro adoption take into consideration the following issues: completing the major part of structural reforms and streamlining the labor market; getting the annual rates of inflation closer, in a sustainable way, to levels consistent with the Maastricht Treaty specific criterion and the ECB definition of price stability; the ongoing synchronization of the business cycle in Romania with the euro area and making progress in terms of real convergence; the relative exchange rate stability; consolidating the domestic financial market over the long run.

Thereby ensuring a sufficiently interval of time for making important steps forward in terms of nominal and real convergence, being ambitious enough to focus political will for furthering reforms.

2. How Romania meets the convergence criteria

2.1. Nominal criteria

Romania differentiates from the most countries that have committed by the Treaty to adopt the euro by the fact that it has no problems in terms of budget deficit and total public debt, while the exchange rate criterion cannot be correctly assessed as long as the Ron takes part in the Exchange Rate Mechanism II. The present position of the Romanian economy in relation to the achievement of the nominal convergence criteria is summarized in the table 1 on the Maastricht criteria.

Table 1
Maastricht Criteria
(Nominal convergence indicators)

Nominal convergence indicators	Maastricht Criteria	Romania 2007
Inflation rate (percent, annual average)	<1.5 pp above the average of the three best performing Member States (2.8 percent)	4.9
General government deficit (percent of GDP)	< 3 percent	2.5
Government debt (percent of GDP)	< 60 percent	13.0
Exchange rate vs. euro	+/– 15 percent	+10.8/–9.6
Long term interest rates (percent per annum)	< 2 pp above the average of the three best performing Member States (6.4 percent)	7.1

Source: ECB, May 2008 Convergence Report

The inflation rate, as it was measured by the consumer price index, had an descendant trend from 45,7 percent in 2000 to 4,8 percent in 2007 (Table 2). The performance was mainly due to the following factors: the substantial sterilization of the liquidity excess in the domestic market through market operations; raising the restrictions of the reserve requirements regime applied to the foreign currency liabilities of credit institutions; the prudential measures to maintain the moderation of the non-government credit expansion, especially its currency component; the accelerated implementation of the legislation for establishing the business of lending to non-bank financial institutions. Across the euro area the average inflation rate was 2,2 percent, ranging between 1,6 percent in Finland and 3,5 percent in Ireland – against the backdrop of increasing in indirect taxes, administered prices (especially with the effects in terms of prices of tobacco and health services) and the evolution of oil price. Between April 2007 – March 2008, according to the Harmonized Index of Consumer Prices (HICP) used by European Commission and by European Central Bank, the inflation rate in Romania equaled 5,9 percent compared to the reference value of 3,2 percent, i.e. 1,5 percentage points above to the average of three best performing EU Members States: Malta (1,5 percent), Netherlands (1,7 percent) and Denmark (2 percent).

Table 2

The evolution of the inflation rate in Romania
and in some Member States of European Union, 2000-2007
(annual percentage changes)

Year	2000	2001	2002	2003	2004	2005	2006	2007
Romania	**45,7**	**34,5**	**22,5**	**15,3**	**11,9**	**9,1**	**6,6**	**4,8**
Belgium	2,7	2,4	1,6	1,5	1,9	2,5	2,3	1,8
Denmark	2,7	2,3	2,4	2,0	0,9	1,7	1,9	1,7
Germany	1,4	1,9	1,4	1,0	1,8	1,9	1,8	2,3
Ireland	5,3	4,0	4,7	4,0	2,3	2,2	2,7	2,9
Greece	2,9	3,7	3,9	3,4	3,0	3,5	3,3	3,0
Spain	3,5	2,8	3,6	3,1	3,1	3,4	3,6	2,8
France	1,8	1,8	1,9	2,2	2,3	1,9	1,9	1,6
Italy	2,6	2,3	2,6	2,8	2,3	2,2	2,2	2,0
Malta	3,0	2,5	2,6	1,9	2,7	2,5	2,6	0,7
Netherlands	2,3	5,1	3,9	2,2	1,4	1,5	1,7	2,2
Portugal	2,8	4,4	3,7	3,3	2,5	2,1	3,0	2,4
Finland	2,9	2,7	2,0	1,3	0,1	0,8	1,3	1,6

Source: EUROSTAT

The criterion of the Maastricht Treaty referring to the deficit budget – maintaining it below the ceiling of 3 percent of GDP – was respected in Romania since 2001, amid tighter control over spending and the improved performance of revenue collection (Table 3). Regarding euro area, in 2000 there was awarded a budget surplus of 0,1 percent of GDP, in view of the fact that fiscal policy was chiefly aimed at boosting the economy, as well as France and Italy (1,3 percent and 0,3 percent respectively). In the next period, the weaker-than-expected economic performance made most of the EMU members resort to tax incentives, which brought about a widening of the budget deficit, from 1,8 percent of GDP in 2001 to 3,1 percent in 2003, the highest deficits were seen in Greece (5,7 percent of GDP), France (4,1 percent of GDP) and Germany (3,9 percent in GDP). The budget deficit down to 0,6 percent of GDP in 2007, public investment and social benefits (other than social transfers in kind) paid by the general government representing 2,4 and respectively, 15,3 percent of GDP.

Table 3

Consolidated government budget in Romania
and in some Member States of European Union, 2000-2007
(as a percentage of GDP)

Year	2000	2001	2002	2003	2004	2005	2006	2007
Romania	**– 4,4**	**– 3,5**	**– 2,0**	**– 1,5**	**– 1,2**	**– 1,2**	**– 2,2**	**– 2,6**
Belgium	0,0	0,5	0,0	– 0,1	– 0,2	– 2,6	0,3	– 0,3
Germany	1,3	– 2,8	– 3,7	– 4,0	–3,8	– 3,3	– 1,5	– 0,2
Ireland	4,7	0,9	– 0,4	0,4	1,4	1,7	3,0	0,2
Greece	– 3,7	– 4,5	– 4,7	– 5,7	– 7,5	– 5,1	– 2,8	– 3,5
Spain	– 1,0	– 0,6	– 0,5	– 0,2	– 0,3	1,0	2,0	2,2
France	– 1,5	– 1,5	– 3,1	– 4,1	– 3,6	– 2,9	– 2,4	– 2,7
Italy	– 0,8	– 3,1	– 2,9	– 3,5	– 3,5	– 4,3	– 3,4	– 1,6
Luxembourg	6,0	6,1	2,1	0,5	– 1,2	– 0,1	1,3	3,2
Netherlands	2,0	– 0,2	– 2,1	– 3,1	– 1,7	– 0,3	0,6	0,3
Austria	– 1,7	0,0	– 0,7	– 1,4	– 4,4	– 1,5	– 1,5	– 0,4
Portugal	– 2,9	– 4,3	– 2,8	– 2,9	– 3,4	– 6,1	– 3,9	– 2,6
Finland	6,9	5,0	4,1	2,6	2,4	2,9	4,1	5,3

Source: EUROSTAT

In 2007, the interest rates on long-term government securities stood on average at 7,1 percent per annum, slightly above the reference value of 6.4 percent (2 percentage points above the average nominal interest rates of the three best performing EU Member States in terms of price stability), vis a vis the euro area their differentials reached on average 273 basis points (Table 4). In view of the fact that long term government securities issues have a reduced frequency and the secondary market is not sufficiently liquidly – the emergence of a fair price being difficult due to the reduced number of transactions, satisfying these convergence criterion dependents on the inflation performance.

At the end of 2007 general government debt in Romania reached the level of 12,9 percent of GDP, with 9,7 percentage points below 2000 (Table 5). Even though, in terms of structure by currency it is clear that the euro was the leader (65,6 percent, mounting by 39,2 percentage points), the overall low level reduced the sensitivity to exchange risk. In terms of the Maastricht criteria, the value of this indicator is below the reference level of 60 percent of GDP. In the euro area, the public debt ratio recorded the smallest level since the beginning of Stage Three of the Economic and Monetary Union in 1999 (63,3 percent), the lowest values were acquired in Luxembourg (7 percent), Ireland (24,8 percent) and Finland (35,1 percent), being on the opposite side Italy (10,1 percent), Belgium (83,9 percent) and Germany (65,1 percent).

Table 4

Maastricht criterion bond yields in Romania
and in some Member States of European Union, 2000-2007
(percentage per annum)

Year	2000	2001	2002	2003	2004	2005	2006	2007
Romania	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**7,23**	**7,13**
Belgium	5,59	5,13	4,99	4,18	4,15	3,43	3,82	4,33
Denmark	5,64	5,08	5,06	4,31	4,30	3,40	3,81	4,29
Germany	5,26	4,80	4,78	4,07	4,04	3,35	3,76	4,22
Ireland	5,51	5,01	5,01	4,13	4,08	3,33	3,77	4,31
Greece	6,10	5,30	5,12	4,27	4,26	3,59	4,07	4,50
Spain	5,53	5,12	4,96	4,12	4,10	3,39	3,78	4,31
France	5,39	4,94	4,86	4,13	4,10	3,41	3,80	4,30
Italy	5,58	5,19	5,03	4,25	4,26	3,56	4,05	4,49
Malta	n.a.	6,19	5,82	5,04	4,69	4,56	4,32	4,72
Netherlands	5,40	4,96	4,89	4,12	4,10	3,37	3,78	4,29
Portugal	5,59	5,16	5,01	4,18	4,14	3,44	3,91	4,42
Finland	5,48	5,04	4,98	4,13	4,11	3,35	3,78	4,29

n.a. – Not available

Source: EUROSTAT

Table 5

General government debt in Romania
and in some Member States of European Union, 2000-2007
(as a percentage of GDP)

Year	2000	2001	2002	2003	2004	2005	2006	2007
Romania	**22,6**	**26,0**	**25,0**	**21,5**	**18,8**	**15,8**	**12,4**	**12,9**
Belgium	107,8	106,5	103,5	98,7	94,3	92,1	87,8	83,9
Germany	59,7	58,8	60,3	63,8	65,6	67,8	67,6	65,1
Ireland	37,8	35,5	32,2	31,1	29,4	27,3	24,7	24,8
Greece	103,2	103,6	100,6	97,9	98,6	98,8	95,9	94,8
Spain	59,3	55,5	52,5	48,7	46,2	43,0	39,6	36,2
France	57,3	56,9	58,8	62,9	64,9	66,4	63,6	63,9
Italy	109,2	108,8	105,7	104,4	103,8	105,9	106,9	104,1
Luxembourg	6,2	6,3	6,3	6,1	6,3	6,1	6,6	7,0
Netherlands	53,8	50,7	50,5	52,0	52,4	51,8	47,4	45,7
Austria	66,5	67,1	66,5	65,5	64,8	63,7	62,0	59,5
Portugal	50,5	52,9	55,6	56,9	58,3	63,6	64,7	63,6
Finland	43,8	42,3	41,3	44,3	44,1	41,3	39,2	35,1

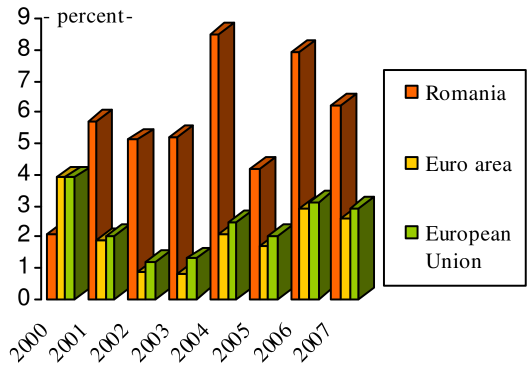
Source: EUROSTAT

At the moment, the domestic currency is not taking part in the Exchange Rate Mechanism II (ERM II). The RON is anticipated to come into this mechanism no earlier than 2012. For this reason, neither a central parity against the euro, nor ± 15 percent band for the exchange rate fluctuations was defined.

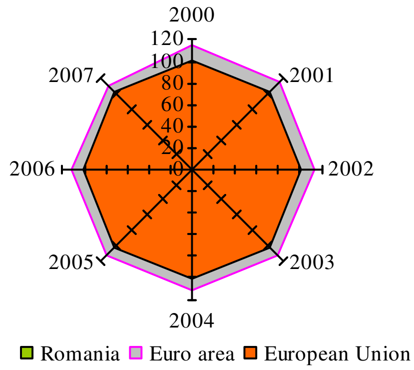
2.2. Real convergence

Gross domestic product grew an average rate dynamics of 5,6 percent, services strengthening its position of the main source of economic expansion (Graph 1). Nevertheless, at the end of 2007 the GDP per capita calculated in terms of Purchasing Power Parity was only 40,3 percent of the EU 27 average (Graph 2). The euro area saw a decrease in the rate of economic growth from 3,9 percent in 2000 to 0,8 percent in 2003, on the background of the over assessed perception of inflation following the introduction of the euro, of the uncertainties about future incomes as a result of growing unemployment and the declining public finance. In the next period, gross domestic product registered a dynamic average rate of 2,3 percent, domestic demand becoming the main engine of economic development. The performance was indicative of an augment in confidence in consumption and business environment, as well as an improvement of the labor market conditions.

In Romania, final consumption augmented from 86,16 percent of GDP in 2000 up to 87,89 percent of GDP in 2007, due to real rise incomes and to still readily available loans, that were characterized by downtrend in interest rate, particularly on Leu dominated loans and by the appreciation of the domestic currency against Euro, as well as to the larger expenditure of the services related to national defense, public order and security services, which are subject to restructuring and modernizing processes according to the requirements imposed by the accession to NATO (April 2004) and to the European Union (January 2007). In 2007, the euro area level of this indicator was 76,4 percent of GDP, less by 0,7 percentage points compared with 2000. This evolution was due to increasing share of final consumption expenditure of general government to 20,1 percent in GDP (+ 0,2 percentage points from 2000), in parallel to reducing final consumption of households and non – profit institutions serving households to 56,3 percent of GDP.



Graph 1. Real GDP growth rate in Romania Euro area and European Union, 2000-2007.



Graph 2. Development of GDP per Capita in PPS in Romania, Euro area European Union, 2000-2007.

Expansion of the investment 18,9 percent in GDP in 2000 to 30,4 percent in GDP in 2007 was supported by a complex of factors: better financial results of the corporate sector, the accessibility of the domestic and external funds, availability of non redeemable external loans taken under program such as SAPARD, ISPA, growing the private money inflows in the form of foreign current transfers. In the euro area, the restricting in investment to 20,2 percent of GDP in 2002 (less with 1,2 percentage points from 2000) was generated by upper capital expenses, inducing from falling share prices, in addition to the negative impact of labor market strictness on corporate profit margins (real unit labor costs augment thanks to the reduced correlation between salary dynamics and labor productivity, and therefore discouraging investment). In 2003, after three quarters of continues decline, investment revived in the last part of the year, due to improved financing conditions, as the European Central Bank diminished its refinancing rate to an all time low of 2 percent. In the following period, investments had a way upward trend reaching 21,8 percent of GDP in 2007 and being sustained by strong corporate wages and further business gains achieved in the corporate sector.

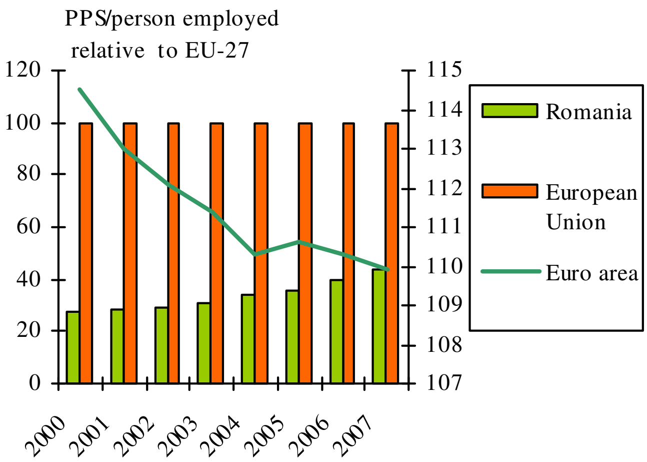
Between 2000-2007, Romania's trade balance recorded an average deficit of 8,9 percent in GDP, while members of the Economic Monetary Union had a trade surplus of 0,49 percent in GDP, as Germany (3,36 percent in GDP) and Netherlands (0,71 percent in GDP) had performances above the euro area average. In 2007, exports in the EMU amounted to 62,22 percent in GDP, up 25,0 percentage points to 2000 due to external price and physical volume.

Deliveries for China and new EU Member States recorded faster growth, the most requested products coming from the scope of capital products. Thus, the euro area had a share of 17 percent in total world exports, followed by United States (12 percent) and Japan (6 percent). Also the imports had an ascendant trend from 42,1 percent in GDP in 2000 to 65,8 percent in GDP in 2007, as they were stimulated by high dynamics of investment and cooperative exports, and currency appreciation.

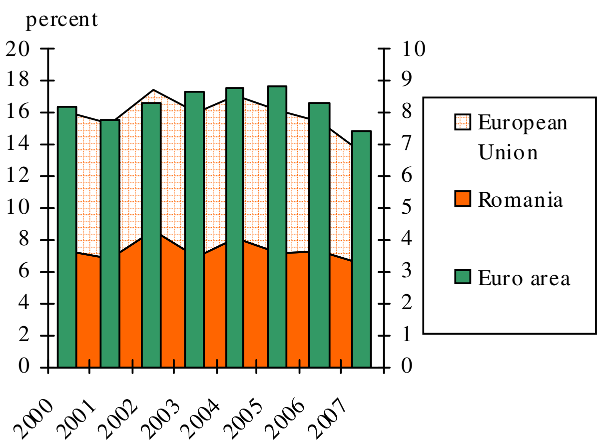
In since relation to the euro area, the Romanian foreign trade was characterized by a high concentration, the annual variation of the physical volume of exports and imports of goods was backed up in proportion of 65 percent by three and, respectively four groups commodities (in case of exports – textiles, wearing apparel and footwear; machinery, equipment and transport means; base metals and in case of imports – mineral products, equipment and transport means; textiles, wearing apparel and footwear; chemical and plastic products). In 2007, the exports to EMU represented 53,21 percent of total (increasing by 8,09 percentage points from 2000) and it was concentrated in proportion of 78,37 percent in three countries: Italy (32,04 percent), Germany (31,83 percent) and France (14,5 percent). At the same time, the imports accounted 52,11 percent of the entries of 2007 (more by 14,1 percentage points from 2000), originating mainly from Germany (32,9 percent), Italy (24,4 percent), France (11,98 percent), Austria (9,28 percent) and Netherlands (6,93 percent). The openness of the Romanian economy had an upward trend soared to 63,4 percent in 2007, amid the removal of protectionist tariffs and the faster integration of the country into the world trade.

In the period 2000-2007, a essential economic correlation was noticed in Romania, i.e. productivity mounted more rapidly than wages (Graph 3). Therefore, the domestic currency strengthened versus the major currencies in real terms (and even in nominal terms more recently) entailing a wealth effect (an augment in the EUR – denominated value of fixed and non-fixed assets of households).

Unemployment rate reached 6,4 percent at the end of 2007 (Graph 4). Unlike 2002, reducing the number of the unemployed (by 204 thousand persons) was higher to increasing the number of the employees (by 119 thousand persons) and it can be made on the account of amplifying external migration – suggested by the growth of private transfers by non – residents and compensation from work (altogether, they posted an annual growth rate of 33,78 percent), having the effect of limiting the current account deficit – and on the persistence of the informal economy, especially in rural area auto producers. Compared with the Economic Monetary Union, in terms of unemployment rate, Romania was below the euro area average (7,0 percent), lower than Germany (8,4 percent), Greece, France and Spain (8,3 percent), Portugal (8,1 percent) and Belgium (7,5 percent).



Graph 3. Labour productivity per person employed in Romania, Euro area and European Union, 2000-2007.



Graph 4. Unemployment rate in Romania Euro area and European Union, 2000-2007.

In 2007, Romanian's economy apparently made steps forward in achieving a structure of the economy by sectors similar to the advanced EU member States. Compared with 2000, the share of industry and agriculture of GDP declined by 3,8 and 4,5 percentage points reaching 23,5 percent with 2000 and, respectively 6,6 per cent of GDP. At the same time, the share of services rose to 49,7 percent of GDP (+ 8,3 percentage points),but there still exist a gap towards the euro area, where this sector of activity holds 65-70 percent of GDP.

3. Priorities on the way to euro

Taking into account the big number of challenges that Romanian economy has to handle in regard to nominal and real convergence, it is necessary to adapt the macroeconomic policy mix to the change in the economic environment and that means: to persist putting into practice structural reforms to facilitate the growth of productivity and external competitiveness of Romanian products and services; to pursue a further restrictive monetary policy; to conduct a tighter-than-projected fiscal policy in an effort to remedy macroeconomic disparities through measures like optimized budget planning by approving multi-annual budgets, ensuring smooth and predictable budget execution, limiting the enlarge of public expenditures and their channeling mostly into investment; to adopt a policy of corresponding wage augments to productivity gains.

A major challenge is that the Romanian foreign balance of payments showed a progressive worsening of the current account from 3,3 percent in GDP in 2002 to 13,9 percent in GDP in 2007. Along with the stringer RON versus the EUR and income increases overtaking productivity gains, some structural causes generated this decline. Net external demand represented a factor limiting economic growth, its negative contribution to GDP was under the conditions of mounting the spread between the rate of increase the volume of imports and exports of goods and services by 4,8 percentage points, based on lower competitiveness of some products holding a large share in total exports (electrical machinery and apparatus; chemicals; light industry products) and competition of Asian countries. Another critical issue for Romania is the fact that important services, for example transportation and tourism, recorded deficits and, contrasting the state-of-affairs in other Central and East-European countries, they have a dampening effect on the current account. Also, the net increase in inflows came out of private transfers, mainly due to the fact that acceleration of money flows towards residents was largely counterbalanced with the output revenue obtained by foreigners who operate in Romania. In the following period, it is possible for the amounts transferred by the Romanians working abroad (Italy – 35,2 percent, Spain – 21,2 percent, United Kingdom – 5 percent, Germany – 3,2 percent) to diminish, given the expected significant decline in the economic activity in these countries and the European fund-absorbing capacity which becomes more and more important. As for financing the deficit via the capital and financial account it was subsidized over 80 percent by the net entering of direct investments. As the inflows were channelled towards the manufacturing sector, it is considered that a potential focus on resources ear-marking for non tradable sectors may cause boom & bust developments.

At the same time, external debt had a constant upward evolution in the whole analyzed period, reaching 48,27 of GDP the end 2007. In the following period, the growth of the indicator can generate problems in terms of financial stability due to the risk of exchange rate and its sharp depreciation may lead to an increase in the cost of external financing. That may happen in case of a change in the perception of investors (expressed in the withdrawal of capital flows), as a result of an internal shock, or through contagion after a crisis in one of countries in the region. In relation to the liquidity risk, strengthening of the foreign exchange reserves decreased substantially the risk, as the debt service was entirely covered by them.

Concerning product markets, efforts should be made to complete the liberalization of network industries and to significantly boost energy efficiency. In addition, developments in the labor supply conditions are of principal importance, as increasingly severe labor deficiencies are threatening the continuation of the successful catching-up process, as well as the past achievements with regard to disinflation. At the same, time as employment creation should be sustained by adjusting tax and benefit systems, it must be ensured that tax reductions are accompanied by expenditure restraint, which ought to be supported, among other things by an increased public spending efficiency. Measures to improve the quantity and quality of the labor supply should refer to the tailoring the education levels to labor market requirements, they should regard the development of training programs for the rural population, a greater flexibility in labor contracts and better incentives for regional mobility. Moreover, wage increases should reflect labor productivity growth, labor market conditions and developments in competitor countries. Public sector wage restraint is important for moderate overall wage developments. Such measures, jointly with a stability-oriented monetary policy, will help to attain an environment favorable to sustainable price stability, in addition to encourage competitiveness and employment growth.

A suggestion is the implementation of a fiscal policy lax, which allows in future budget deficits above the ceiling of 3 percent of GDP stipulated in the Maastricht Treaty. The motivation of such measures lies in the need for numerous budgetary expenditures related to the accession to the EU and NATO, to the reform of the pension system and to improving the infrastructure. Hence, several Central European countries that have proceeded in a similar manner is moot. Although motivated, such an approach incubated numerous risks.

Thus, if in the other countries with large budget deficits, the inflation was previously brought under control, in Romania that has not happened yet, and one of the main anti inflationary policies consists in controlling the budget deficit; if Romania gave up of the low budget deficits, it would be without one of the few advantages that this country has and which qualifies it to the subsequent euro adoption. In addition, large quasi fiscal deficits should not be lost sight of; only after significant and length reduction of them, there may be possible a question of increasing the budget deficit.

Romanian law does not meet the terms with all the requirements for the independence and legal integration into the Eurosystem of the Central Bank. Romania is a Member State with derogation and for this reason it must fulfill with all adaptation requirements under Article 109 of the Treaty.

4. Conclusions

The main benefit of Monetary Union can be considered the easy adjustment to a shock. The benefits of a single currency found at microeconomic level and it is consider that they are not exhausted until all the countries of the world are not covered. There are four benefits exchange rates irrevocably established: reducing the costs of exchange rate volatility, diminishing the transaction costs and of the uncertainty, as well as decreasing on the "local preference". Although monetary policy is seen as powerless in influencing real variables in the long term, the EU may be close to an optimal currency area. Euro holds an extremely important role in the smooth functioning of the vast European market, and thence in achieving a true single market. Meanwhile, common currency has helped to protect the economy of the euro against the many shocks that have occurred worldwide and the major turmoil in the recent years.

The current euro area may have positive net benefits, as the adjustment mechanism works best and the economy becomes more flexible. Firms and population are becoming more aware of the euro area dimension of their actions and decisions. Households are increasingly aware of the chances offered by an expanded economic and financial area. The public and its political representatives are starting to think beyond their national horizons and more towards a euro area dimension. This shift in mindset is gradually unfolding.

There is no trace of doubt that the decision to adhere the Economic Monetary Union is the only accurate and useful for the long time development of Romania, because such decision represents a catalyst towards progress and a tool by which it is possible to eliminate disparities towards EU, both in economy as well as institutions and in the overall performance of the society. There is no doubt that this will involve a long term effort, and it entails giving upon an outdated mentality for a society characterized by competition, performance and welfare.

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