THE CONVERGENCE PROGRAM OF ROMANIA AFTER JOINING THE EU

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Summary
Romania submitted this year it's first Convergence Program, which is of a special importance for him, as it is the first program which discusses both the sustainable economic development and the politics of sustainable public finances. The conclusion of the paper is that forcing the adoption of the euro in Romania could be a dangerous action, taking into account the many macroeconomic problems and structures requiring solution. In this context the consolidation of the decreased inflation, the long-term formation of the domestic capital market and the convergence of the interest rates, the relative stability of the market rate in the next few years are of outstanding importance. . In this context the period between 2012 and 2014 for adopting the euro seems to be the solution which maximizes benefits and minimizes costs.
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Introduction

According to the Maastricht Treaty(Treaty of Accession to the EU, Article 104), the countries accessing the European Union become member states to the Euro Area later. The fulfilment of the engagements assumed by Romania through the accession treaty and other official statement documents required that the Central Bank of Romania implemented the adequate measures in the fields of the following three negotiation chapters: the free movement of services (3rd chapter), the free movement of capitals (4th chapter), the economic and monetary union (11th chapter).

According to Article 99 and 104 of the Treaty of Accession of Romania to the European Union, and according to the Stability and Growth Pact of the European Council (EC Regulation No 1466/97, as amended by Regulation No 1055/2005, Regulation No 1467/97 and Regulation No 1056/2005) the EU member states which introduced the euro currency shall present annually to the European Commission the Stability Program, and the states which have not yet adopted the euro currency, present annually the Convergence Program. Romania, who accessed the EU on 1st January 2007, submitted this year it's first Convergence Program, whose methodology was ensured by the European Council through the General Directorate for Economic and Financial Affairs.

The Program elaborated for the 2006-2009 period is in line with the document concerning the introduction of the euro planned for 2007-2013; in the same time it reflects the same spirit as the accession documents. The document ensures the possibility to reconsider the steps taken for the continuation of reforms, to enhance convergence in a manner that would not affect the macroeconomic balance of the country and the nominal criteria.

Therefore, the first edition of the Convergence Program is of a special importance for Romania, as it is the first program which puts together the sustainable economic development and the politics of sustainable public finances. Membership to the EU created a new situation concerning monetary policies as well, since the chapter dealing with monetary and economic union of the accession treaty clearly stipulates that in case of a satisfactory performance joining the Eurozone will be compulsory for Romania.

1. The establishment of the economic and monetary union

The EU has two great political plans, one is the European economic and monetary union (EMU), and beginning from the end of the cold war the extension to east of the EU. Since the creation of the European Economic Community (EEC) by the Roma Treaty in 1957 there wasn't any other project with a similar significance concerning European integration. Both were justified by history. The EMU ensures the irreversibility of the European integration and the possibility that accession to EU would not be formal, respectively it ensures the functioning of a Europe promising peace and prosperity (Dyson and Featherstone, 1999).

The enlargement of the EU, the "return to Europe" means for the Central and Eastern-European countries the reunification of Europe after the collapse of communism in the area; after four decades of isolation the accession treaty meant a powerful instrument for implementing domestic economic reforms (Vachudova 2005).

The first Convergence Program includes: budgetary surveillance, the notification of budgetary statistics,

including the application modality of the excessive deficit procedure, the macroeconomic dialogue, the assessment of the economic convergence criteria. The convergence programs are part of the Stability and Growth Pact elaborated with the purpose of accomplishing a multilateral surveillance as defined by Article 99 of the EC Treaty. Concerning timing this document covers this year, last year and at least the following three years. The EU Council examines the convergence programs at the beginning of each year, on the basis of the evaluation done by the European Commission. On the basis of the European Commission's proposal and after consulting the Economic and Financial Committee the EU Council issues an opinion concerning each country's program.
According to these treaties and agreements, after the accession Romania will become part of the ERM II exchange rate mechanism, like the other member states which joined the euro, then, with the condition of achieving nominal convergence, it will adopt the euro.
Three of the five nominal convergence criteria have temporal limits: the budget deficit should not exceed 3% of the GDP over the fiscal year; the total public debt should be less than 60% of the GDP in the year when the euro is adopted, and the exchange rate should be stable and it should remain during a minimum period of 2 years within the fluctuation band of the ERM II, without major tensions and depreciations. The other two nominal convergence criteria represent "variable targets", which differ yearly: the inflation rate should be inferior or equal to 1.5% points based on the average of three best-performing member states; the interest rate on bonds for ten years should not exceed with more than 2 percentage points the average rate of the three above-mentioned states.
The relative backwardness of the accessing countries emphasizes the importance of creating the balance between the real and nominal convergence, as its absence could lead to the standstill of the closing up process. The other important feature of the 2004 EU enlargement is the increased exposure of the new members to capital inflows. The accessing Central and Eastern European countries liberalized completely their capital markets in the pre-accession period already, as this was a condition of acquiring membership; this increases their vulnerability to shocks caused by globalized, large-scale and changing capital inflows, and they have to reckon with this until the adoption of the euro (Neményi 2003). In the meantime, following the transactional shock at the beginning of the 90', the Central and Eastern European countries turning into market economies could start economic growth, if they accomplished radical changes in production structure, products and markets. Thanks to this the eight Central and Eastern European countries achieved a high level of integration into the union even before accession. The greatest part of their trade is done with the EU, the products manufactured with up-to-date technology and representing enhanced added value, respectively the trade within the sector are gaining more and more weight in their export (Landesman 2003).

2. Nominal criteria and the performance of the Romanian economy

The simultaneous adjustment to several criteria is not a simple task even for the 12 (13 from 2007) countries members of the European Monetary Union (EMU), most of them having a developed economy. For this reason, following their accession some countries repeatedly registered indicative values, which did not comply with the current regulations. The best example could be the economy of France, where in 2005 the gross budget deficit exceeded with 6.8 percentage points the 60% limit. In short, with the exception of three member states (Finland, Ireland and Luxembourg) none of the other EMU countries was stable enough not to exceed temporarily some of the Maastricht criteria. There are countries which don't fulfil every criterion even today. This process can be illustrated by indexes of government prediction based on the Maastricht criteria and the Convergence program submitted by Romania in January 2007. The prior condition for fulfilling the nominal Maastricht criteria and the exchange rate criteria is to join to the so-called ERM II, namely to the common exchange rate mechanism.
Romania pursues the following main objectives:

1. price stability: the inflation rate should not exceed by more than 1.5 percentage points the average of the three best-performing Member States over the last one year;
2. exchange rate stability: the two years preceding the convergence report the average inflation rate should stay within the fluctuation band defined by the exchange rate mechanism,
3. budget stability: during the examination period the public deficit of the member state should not exceed 3% of the GDP, and its gross public debt should not exceed 60% of the GDP,
4. exchange rate convergence: during one year preceding the examination period the long-term interest rate of the member states may exceed with maximum 2 percentage points the average of the interest rates of the three best-performing member states.

Table 1: The Maastricht criteria in Romania in 2006

Nominal convergence indicators	Maastricht criteria	Romania 2006
Inflation rate (percentages, annual average)	<1.5 pp higher than the 3 best-performing EU members (2.8 %*)	**6.56**
Long-term interest rate on government bonds issued in lei (annual percentages)	<2 pp higher than the 3 best-performing EU members (6.2%*)	**7.49[1)]**
Exchange rate of lei comparing to euro (maximum appreciation/depreciation in percentages comparing to the two-year average)*	+ / - 15%	**+10.0 / -6.1**
Deficit of the consolidated budget (percentages of the GDP)	Under 3%	**-1.9[2)]**
Public debt (percentages of the GDP)	Under 60%	**12.4[2)]**

1) At the emission of government bonds in August 2005
2) According to the ESA 95 method
*) Based on the period between 2005 and 2006, as the fulfilment of the criterion is evaluated according to the stability of the exchange rate during the last two years.
**) The Convergence Report of the ECB (European Central Bank), December 2006.
Source: EUROSTAT, ECB, National Institute of Statistics (Institutul Național de Statistică), National Bank of Romania (Banca Națională a României – BNR)

2.1. The macroeconomic situation

2.1.1. Inflation rate

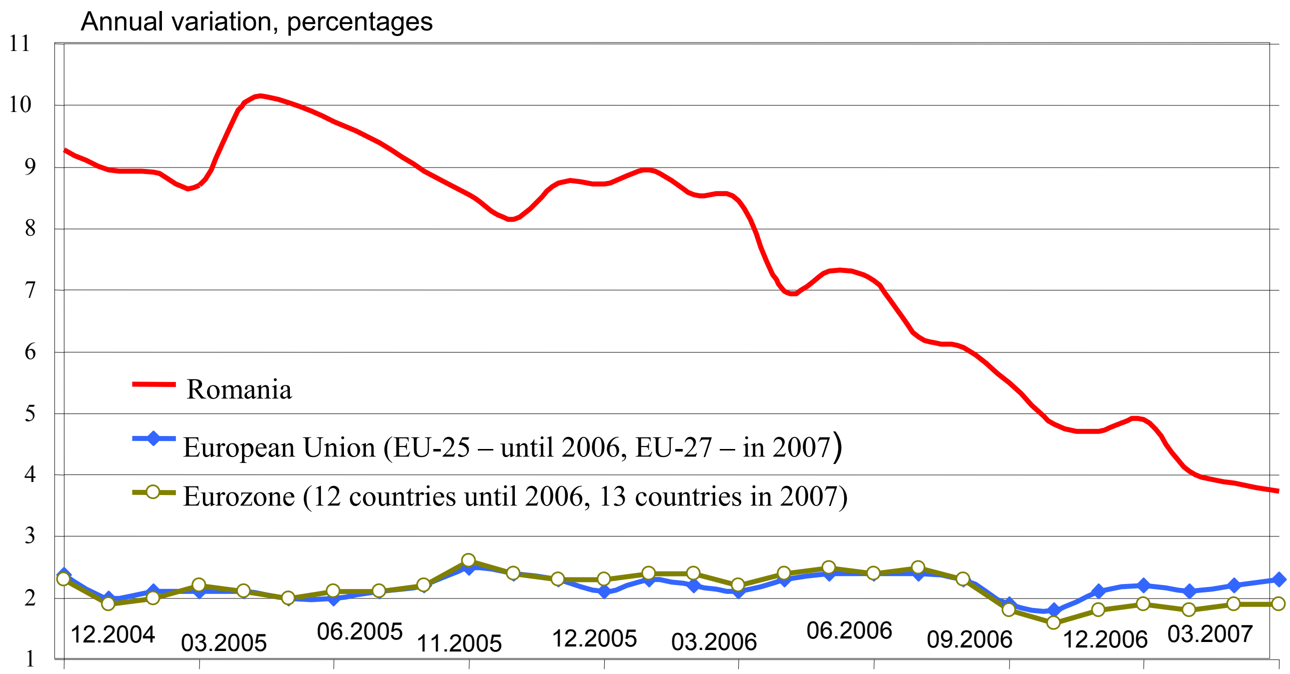
During the last decade Romania was less efficient in what concerns the decrease of the inflation rate than other Central and East European countries. The main reasons for this are: (i) the slow and late accomplishment of the price and exchange rate liberalization process (by the issue of Currency exchange regulation No 3 in 1997, the exchange rate being completely liberalized only in September 2006 through the convertibility of the national currency); (ii) the very low initial price of the energy, associated with the increase of global prices of the oil; (iii) the deliberate adoption of a strategy which consisted in the gradual decrease of inflation, this strategy implying both costs and benefits. Due to the great discrepancies caused by the centralized industry in the economy of each former socialist country, the switch to a market economy could be accomplished only with a slow gradualism and parallel with the introduction of regulations needed for the functioning of such economy.

Table 2: Inflation rate in Romania *(Percentage)*

	2001	2002	2003	2004	2005	2006
Annual average	34.5	22.5	15.3	11.9	9.0	6.6
December/December	30.3	17.8	14.1	9.3	8.6	4.9

Source: National Institute of Statistics

Diagram 1: Evolution of the inflation rate in the EU and in Romania (HCPI)



Source: National Institute of Statistics, Eurostat

The inflation rate calculated as annual average (which is taken into account by the European Commission when evaluating the fulfilment of the Maastricht criteria) reached in 2005 for the first time after 1989 a level expressed in one number, and in 2006 it decreased comparing to the 2005 value with almost one third.

In August 2005 the National Bank of Romania (Banca Nationala a Romaniei – BNR) adopted the strategy of direct inflation targeting; through this the central bank clearly and directly assumed its basic task, namely to follow rigorously and consequently the stability of prices. The main indexes of this strategy are:

1.) the direct target is expressed through the inflation rate of consumer prices (CPI) at the end of the year (December /December) – see Diagram 1;
2.) the inflation target is defined as a central point within a variation interval of ± 1 percentage point;
3.) the inflation target refers to a longer period (2 years);
4.) at the beginning the inflation targeting was more flexibly interpreted (taken into account the simultaneous liberalization of the capital account), and the theory of targeting inflation made it more and more rigorous, as the mechanism became easy-lowing, too,
5.) a limited set of circumstances were defined *ex ante*, which are not influenced by the monetary politics of the National Bank, and which determine its responsibility in attaining the inflation target;
6.) the National Bank and the Government assume jointly the inflation target.

Diagram 2: Inflation rate in Romania

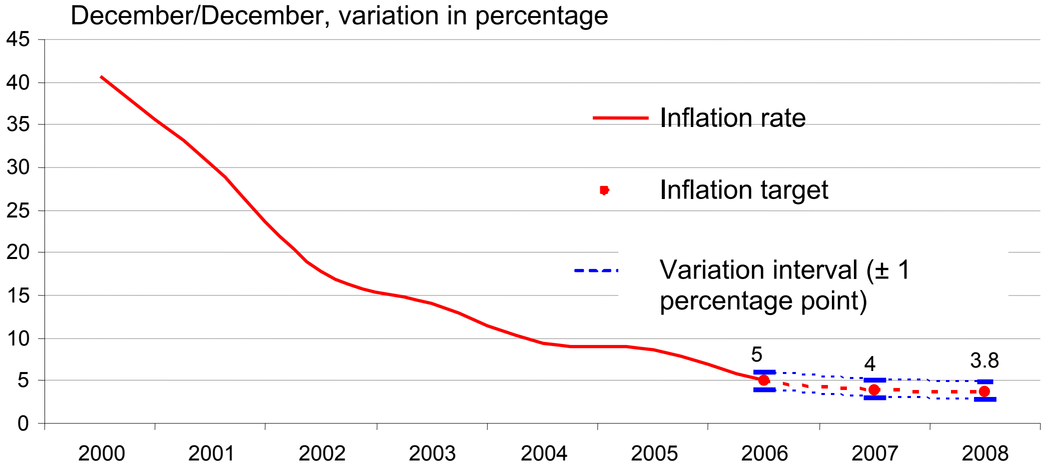


Table 3: Inflation target between 2007 and 2009 *(Percentage)*

	2006-accomplished	2007 plan	2008 plan	2009 plan
Annual average	6.6	5.0	4.3	N a
December/December	4.9	4.5	4.0	N a
Inflation target	5±1 pp	4±1 pp	3.8±1 pp	3.5±1 pp

Source: National Institute of Statistics, BNR calculations

The year 2006 was the first year when the predicted target was fulfilled, at the end of the year the inflation rate being only with 0.1% less than the predicted one, and the annual inflation rate was under 6.6%. The decrease of the inflation rate was also determined by the increase of taxes on tobacco and alcohol and by the fact that the increase of fuel-based product prices was counterbalanced by the significant reduction of the price of vegetables, fruits and egg, and by the postponement for 2007-2009 of the increase of certain administered prices planned for 2006. The short-term priority in the monetary politics of the BNR is to obtain an inflation rate under 5%, taking into account that in a situation where the capital account is completely liberalized, the persistence of certain significant differentials in inflation and interest rates is an important risk factor. The risks affecting the fulfilment of the inflation target for 2007-2008:

– a more extensive increase of administered prices until the adjustment to international levels;
– the increase in prices caused by the adoption of the common agricultural policy;
– the maintenance of the surplus in demand, and simultaneously the increase of the commercial balance deficit, while the level of imports is increasing more than exports;
– the diminution or even inversion of the nominal appreciation of the national currency, namely the depreciation of the lei;
– the inertia of predictions concerning inflation.

Due to the existence of these risks the BNR will maintain the restrictive character of the monetary politics with all means it possesses: the interest rate of the monetary politics; the rate of the minimal compulsory reserves; precaution measures; administrative measures. On medium term the BNR intends to decrease the annual average rate of inflation under 4% and to join to the exchange rate mechanism ERM II by 2010-2012, respectively to decrease the annual average rate of inflation to a level compatible with the Maastricht Treaty and to adopt euro between 2012 and 2014. These are reasonable and achievable objectives. The complementary speeding up of this process seems to be counterproductive for the following reasons:

- shortening the time for the adjustment of the prices to international levels;
- the persistence and the importance of the Balassa-Samuelson effect in a country like Romania;
- the possibility of a nominal appreciation of the exchange rate (conditioned by the productivity of labour), which might shorten the alignment of the GDP per capita to European levels;
- ensuring enough time for the enhancement of some real convergence criteria (especially the GDP per capita level and the restructuring on sectors of the economy), aiming at the maximum of benefits in adopting the common currency.

2.1.2. Long-term interest rate of government bonds issued in lei

During the year preceding the examination the average nominal interest rate should not exceed with more than 2% the average of the long-term interest rates of three of the best-performing member states in terms of price stability. In Romania the government recently issued bonds for a period of 10 years with a rate of 7.49% for 10 years.

On medium term it is expected that the rates on government bonds will decrease following the course of the inflation, and by 2012-2014 they would be on a level compatible with the Maastricht criteria.

2.1.3. The evolution of the exchange rate of the national currency

Between 2001 and 2005 the BNR switched from a system of controlled floating of the exchange rate (where the weight of the dollar/euro reference basket was gradually modified, until the reference consisted only of euro) to an (almost) free floating system, adopted together with the strategy of direct inflation targeting. In fact starting from October 2005 the BNR did not intervene in the currency market, and let the exchange rate be defined freely by market demands. This does not mean that the BNR does not reserve the right to intervene if it considers that the level of the exchange rate deviates too much from the level justified by scientific research. However it would get involved only under the conditions defined together with the European Central Bank and the EU.

Table 4: Lei/euro exchange rate *(Annual variation in percentage)*

	2001	2002	2003	2004	2005	2006
Average change*)	-23.3	-16.7	-16.8	-7.3	11.9	10.0

*) "–" for depreciation; "+" for appreciation, calculation done on the basis of the medium exchange rate and the difference in inflation between Romania and the Eurozone

Source: BNR

From a technical point of view the development of the lei/euro exchange rate did not fulfil the Maastricht criteria requirements between 2001 and 2004, and it did fulfil them starting from 2005 (considering that the minimal admitted appreciation is 15%, unlike depreciation, which is admitted only to the limit of 2.25%). However fulfilling this criterion was not an objective, since:

(i) the framework of the monetary policy was radically modified, when in 2005 the BNR switched from the targeting of the monetary aggregates to the direct targeting of inflation;

(ii) the capital account was gradually liberalized; the permission granted in April 2005 to non-residents to open bank accounts in lei at resident banks was of a specific importance; this process was completed in September 2006, when lei became completely convertible;

(iii) the opening of the EU towards Romanian workers from 2003, which generated huge amounts of individual transfers into the current account of the balance of payments;

(iv) the euro became the reference currency for the lei exchange rate only in March 2003; the implicit euro-dollar currency basket was given up only in January 2005.

In 2006 the lei/euro exchange rate became stable, and the nominal appreciation was ca. 10%. The Romanian authorities consider that in the following period left until the adoption of the euro lei will undergo appreciation, and the current trend of slight nominal appreciation of the exchange rate will continue, conditioned by the continuous progress in the productivity of labour. According to the relevant criterion a country should keep its exchange rate within the fluctuation band during its participation within the ERM II of minimum 2 years. In the same time the evolution of the actual real exchange rate and the external balance is assessed as well. The significant real appreciation reflects the balanced real appreciation typical for countries converging to the EU, the speculative pressure on lei, and the impact of the monetary policy, which answers to the fiscal relaxation and to the increase in inflation demands by the aggravation of monetary conditions. The result of these impacts is somewhat diminished by the fact that in recent years the increase of real wages of domestic working power was behind the average increase of productivity. The strong increase of real wages (that exceeds productivity) typical for 2007, and respectively the increasing risks concerning budget deficit affect adversely the (good) capacity of the country to attract capital, which results in the increasing rate of external financing generating debts. Though this can be still conformed to the criteria, it causes further risks. Such influence on competitiveness can involve the risk that the country would not be able to make full use of a possible favourable evolution of external prosperity. Since the present growth is based more and more on the expansion of domestic demand financed from debts, the lack of prosperity or its restricted use could have grave consequences. In order to avoid such consequences, as the recent IMF report highlights it, the retention of the real wages increase would be desirable.

2.1.4. Consolidated budget deficit

The long-term predictability of budgetary processes and the exchange rate stability is not only a Maastricht criterion, but the guarantee for the rapid and sustainable economic growth. By adopting the euro the Romanian economy has the possibility to use more efficiently the advantages of stability and predictability, thus it can align sooner to the EU economy. From this point of view the enhancement of fiscal discipline is important, irrespective of the date of the adoption of the euro, since the Stability and Growth Pact is in force in each member state, according to which states are obliged to reduce deficit. In the case when such criterion is not fulfilled, Romania can be deprived even from the granting of the Cohesion Funds. That is why it is important to create and maintain a stable budgetary condition, since stable finances establish the country's later economic performance. Comparing to other Central and Eastern European countries Romania shows a satisfactory level of budget deficit. Starting from 2002 the level of the consolidated deficit was on a level compatible with the Maastricht Criteria, and complies with the reporting methodology of the Council's ESA 95 and of the GFS methodology used by the IMF in the course of budget calculations.

Table 5: Consolidated budget deficit in Romania *(Percentage/GDP)*

	2001	2002	2003	2004	2005	2006
According to ESA 95 method	–3.5	–2.0	–1.8	–1.3	–0.4	-1.9
According to GFS method	–3.2	–2.5	–2.3	–1.1	–0.8	–1.7

Source: Council notification (April 2006); Ministry of Public Finances, Convergence Program, January 2007

The Romanian authorities consider that a successful accession to the EU on 1st January 2007 is bound to the maximal use of the European funds already from the first year. Thus the government has a significant portfolio of projects, which can be granted European funds. Yet a certain concern of the (EU and other) authorities can be detected concerning the pro-cyclical feature of the budget policy. The Romanian authorities have the following attitude towards this concern:

(i) The planned consolidated budget deficit of 2.5% of the GDP was not attained for 2006 due to much higher actual budget incomes than those taken into account at the moment of the budget ratification; under these circumstances the deficit is 1.9% of the GDP.

(ii) For 2007 the level of budget deficit does not be exceed the limit stipulated by the criterion, taking into account the fact that the economic growth was continuous since 2000, and it is one of the greatest among Central and Eastern European countries. The budget should be free of tensions in order to ensure competitiveness, which should be one of the criteria of real convergence.

The Romanian government considers that the significant developments in infrastructure and environment protection represent an important index of the real convergence, and they are necessary for the successful preparation of the adoption of the common currency by the years 2012-2014.

2.1.5. The level of public debt

In Romania public debt is on the appropriate level comparing to the level stipulated by the Maastricht criteria. Moreover during the last five years this index was descending both according to the ESA 95 and the GFS methods, due to the joint impact of values of superior GDP increase, of low budget deficits and decreasing of some interest rates.

Table 6: Romania's public debt between 2001 and 2006

Percentage/GDP

	2001	2002	2003	2004	2005
According to ESA 95 method	23.2	23.8	20.7	18.0	15.2
According to GFS method	28.8	29.0	25.9	22.1	20.2

Source: Council notification (April 2006); Ministry of Public Finances, Convergence Program, January 2007

The Romanian authorities consider that during the period left until the introduction of the euro the level of public debt expressed as percentage of the GDP will increase, mainly because of the rise of the budget deficit, but it will remain far below the level stipulated by the Maastricht criteria. According to the Maastricht Treaty the countries accessing the European Union become member states to the Euro Area later. This process requires economic policies which make possible the fulfilment of the nominal convergence criteria and the continuation of the real convergence process. The central bank has a direct responsibility concerning the monetary policy undertakings contained in the Convergence Program elaborated together with the government, and concerning the date of joining the ERM II and adopting the euro; it also has a direct responsibility concerning the country's financial stability. A true image of the convergence path is important for the stability of requirements, and also for the money and capital market actors, the enterprises and population as well. The Romanian authorities have to make two important decisions: the date of joining the ERM II mechanism and the period of staying with this mechanism. The proposals of the European Commission and of the European Central Bank in this matter are the following:

1.) A country should join the ERM II mechanism after accession to the EU.
2.) In general participation in the ERM II should not exceed the two-year mandatory period; this implies that the respective country should be well prepared when joining the ERM II.
3.) The nominal convergence criteria should be fulfilled in a sustainable manner.

The priorities of the period preceding the joining of the ERM II are: the maintenance of the low inflation rate (sustainable disinflation), long-term development of domestic capital market and the convergence of interest rates, the relative stability of the exchange rate of the national currency around the long-term balance level (in the conditions of complete convertibility) and the accomplishment of structural reforms.

This period must be ensured for the purpose of fulfilling the nominal convergence criteria and of accomplishing significant developments in real convergence.

3. Real convergence

The direct targeting of inflation ensures the gradual fulfilment of the Maastricht criteria, and it also supports the real convergence process as well.

3.1. The evolution of the GDP per capita index in Romania

It implies the decrease of the differences between countries concerning productivity and pricing, this involving that incomes in developing countries would be raised on the level of countries having a developed industry. This is calculated through the GDP per capita expressed in PPS. The Maastricht Treaty does not specify explicitly any criterion concerning real convergence. Yet in Romania, due to the late launching and the slow completion of structural reforms (i.e. postponed privatizations and price liberalizations) the GDP per capita was 22.6% comparing to the EU-15 level. Subsequently economy developed more rapidly than in other member states, and in 2006 the GDP per capita attained 33.2% comparing to the EU-15 level.

Table 7: Indexes of real convergence (GDP per capita)

	EURO					PPS*				
	2000	2002	2004	2005	2006	2000	2002	2004	2005	2006
EU-15	23,100	24,500	25,800	26,500	27,600	22,100	23,500	24,700	25,400	26,500
Romania	1,795	2,224	2,805	3,676	4,498	5,000	6,100	7,400	8,100	8,800

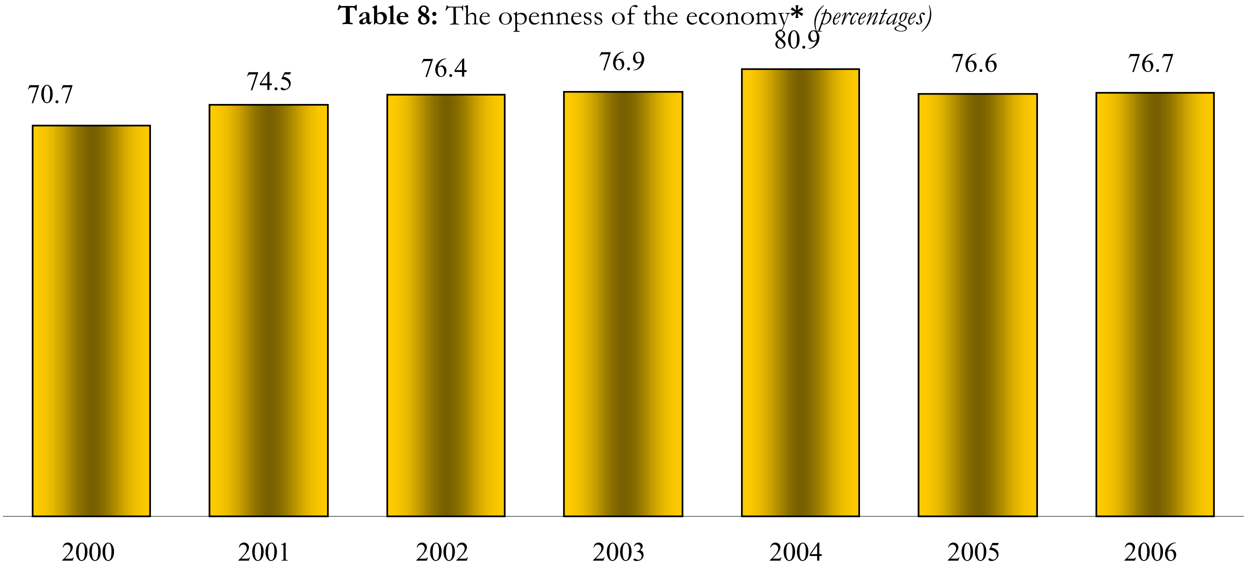
*) Purches power standard

Source: EUROSTAT, National Institute of Statistics, BNR

3.2. The openness of the economy

Romania shows an average level of economy openness, expressed as the weight in the GDP of the amount of exported and imported goods and services. This reveals a small and half-open economy, a situation similar to Poland's and normal for a country having a relatively numerous population. Concerning the openness level of the economy, one can see clearly that the Romanian economy has further possibilities in the following period to open towards international economic processes.

Table 8: The openness of the economy* *(percentages)*



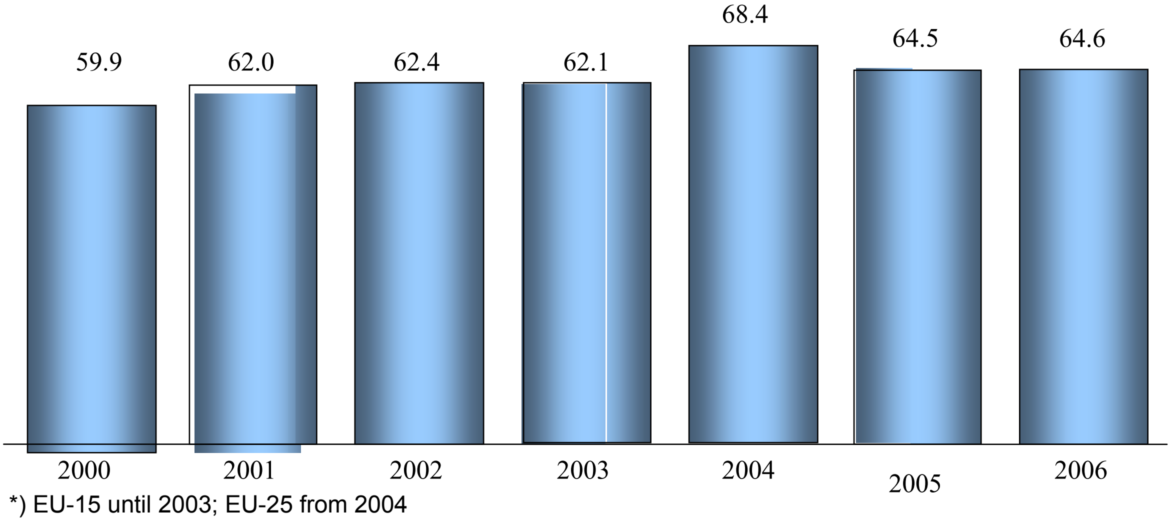
*) (import + export)/GDP

Source: National Institute of Statistics; BNR calculations

3.3. The ratio of the trade with the EU comparing to the total of foreign trade

As stipulated by the theory of economics, the more the national economies are interconnected through commercial transactions, the more their economic cycles tend to correlate, and the probability of asymmetrical shocks decreases.

Table 9: The ratio of the trade with the EU* comparing to the total of foreign trade *(percentage)*



*) EU-15 until 2003; EU-25 from 2004

Source: National Institute of Statistics

In the course of real convergence the qualitative fulfilment of criteria should be pursued, since a correction lacking quality could subvert the positive impacts of adopting the euro.

4. Conclusions

The adoption of the euro is a matter of optimal timing, where the schedule is defined by the analysis of costs and benefits subject to the following elements:

(i) the sustainable stability of the fulfilment of nominal convergence criteria;
(ii) achievement of an appropriate level of real convergence and the sustainability of this level;
(iii) decrease of participation in the ERM II exchange rate mechanism to the mandatory two-year period.

At the elaboration of the first Convergence Program of Romania, the convergence programs of the countries accessing EU in 2004, respectively other strategic documents of the authorities (i.e. National Strategic Reference Framework, National Development and Reform Program) were taken into account as well.

Basically the schedule of adopting the euro is an issue of temporal optimization, where the speed is determined by the costs and benefits analysis and it is subjected to the following restrictions:

1. sustainable fulfilment of nominal convergence criteria;
2. achievement of a satisfactory level of real convergence criteria;
3. reduction of the period within the ERM II exchange rate mechanism to the minimal mandatory time, which is two years.

Though it is stipulated that following accession the monetary and exchange rate policies of each country become issues of common interest, it is also clear that “the choice of a monetary and exchange rate strategy after joining the EU is first of all the responsibility and a prerogative of the respective member state.”

More precisely the calendar proposed by the Romanian authorities for joining the ERM II exchange rate mechanism and subsequently for adopting the euro must fulfil the following criteria:

1. it must grant a period of time long enough to fulfil the above mentioned (1) and (2) restrictions; though
2. it should be ambitious enough to concentrate in time political will and efforts aiming reforms.

All these considerations show that forcing the adoption of the euro in Romania could be a hazardous action, taking into account the many macroeconomic problems and structures requiring solution. In this context the consolidation of the decreased inflation, the long-term formation of the domestic capital market and the convergence of the interest rates, finally the relative stability of the market rate around the balance level for the next period of 2007-2010 are of outstanding importance.

An additional argument to this is the example of the countries joining the EU in 2004, which adopted the inflation targeting strategy in their monetary policies. The rhythm of reforms should be maintained, and the political will should remain fully concentrated on completing the obligations assumed in the Convergence Program, since the success of integration rests upon this Convergence Program. According to our calculations, and taking into account the future challenges of structural and real convergence (reforms in the public health sector and in the retirement system, decrease of the number of public employees, the change in the structure of the national economy and its sector performance), in the condition of fulfilling the mandatory nominal convergence criteria, the period between 2012 and 2014 seems to be the best interval for adopting the euro, when benefits of accession could be maximized and costs could be kept at a minimum level. An unfavourable ratio of costs and benefits would be a burden not only for Romania's society and authorities, but also for the community's authorities. If in the purpose of effectuating reforms the economical politics implements a carefully though-out, genuine program that the EU organisations too have revised, it could decrease significantly the nominal fluctuations arising from uncertainties concerning reforms. In turn, if the economical politics does not assume the political risk that the launching of the reforms involves, the sole postponement of adopting the euro would not mean any advantages.

As well as today, in the future the main issue will be if the government in power has the appropriate political will, respectively if it is ready to assume the short-term risks related to reforms and the political risks, on the behalf of the country's medium and long-term competitiveness and economic growth.

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