Management Dynamics in the Knowledge Economy
Vol. 3 (2015) no. 1, pp.151-169; www.managementdynamics.ro
ISSN 2392-8042 (online)

Main Economic Policies in order to Manage an Optimum Accession of Romania to the Euro Zone

Lucian Claudiu ANGHEL
College of Management
National University of Political Studies and Public Administration, Romania
6 Povernei St., Sector 1, Bucharest, Romania, 010643
lucian.anghel@facultateademanagement.ro

Laurenţiu-Mihai TREAPĂT
College of Management
National University of Political Studies and Public Administration, Romania
6 Povernei St., Sector 1, Bucharest, Romania, 010643
laurentiu.treapat@facultateademanagement.ro

Abstract. *The present paper aims at analysing several options concerning the economic policies Romania should adopt in the following years, in order to attenuate the long term vulnerabilities within the process of joining to the Euro zone, with the observation that, the economic policies proposed in the current work were selected mainly based on the decisive factors for the real equilibrium exchange rate in Romania. Fulfilling the nominal criteria for adhesion can prove itself to be more facile but not able to ensure, on a long term and in a sustainable manner, reaching an optimum for the economy that adheres irreversibly to the Euro zone. It is important to analyze how the competitiveness of other economies evolved prior and after joining the Euro zone, from the perspective of identifying some economic policies meant to ensure the accomplishment of the real convergence criteria to the Euro zone for Romania's case, on a long term. The economic policies proposed by the authors try to help covering the greatest delays for Romania in comparison with other states in the Euro zone and which, unsolved, can create in time significant vulnerabilities on a long term, having a negative impact for many generations of Romanians from now on.*

Keywords: *Euro zone, adhesion, equilibrium exchange rate, real convergence, nominal convergence.*

Introduction

Any state that aims at adhering to the Euro must fulfil the five nominal criteria established by the Treaty of Maastricht. The authors will begin the study of this issue with the analysis of Romania's framing in the convergence criteria, starting with 2012, for thus highlighting the evolution and the dynamics of the phenomenon, in comparison with the upcoming period. In Romania's case, at the beginning of 2012, these criteria are the following:

Table 1. Convergence criteria for taking part in the Economic and Monetary Union (source: BCE, Eurostat, BNR, Anghel, L. C., Ciurila, N. & Bojesteanu, E., 2012)

Nominal Convergence Criteria		**Romania**	**Accomplished Criteria**
Price Stability	The average inflation rate (calculated by using the harmonized/aligned consumer price index) for the last 12 months must not exceed the average of the first three ranked member states according to their performance in what concerns price stability, by more than 1.5 p.p..	4,6%	No
Interest Rates	The nominal interest rate on a long term must not exceed the average of the interest rate in the first three ranked member states according to their performance in what concerns price stability by more than 2 p.p..	7,3%	No
Exchange Rate Stability	The exchange rate must maintain itself within the interval between the fluctuation margins of ±15% as settled by the European Monetary System, for a period of at least 2 years.	Minimum 2 years	No
Public Finance	The budgetary deficit must not exceed 3% of the GDP.	5,2%	No
	The share of the public debt within the GDP must not be higher than 60%.	33,3%	Yes

As we have mentioned before, by watching the phenomenon in its time evolution, we acknowledged that, two years later, namely at the end of 2013, the nominal convergence criteria indicators were substantially improved. Among these, we mention the level of the budgetary deficit that does not exceed 3% of the GDP, the level of inflation that was significantly reduced and also the long term loans. Thus, starting with the year 2014, most of the indicators fulfilled the nominal convergence criteria, being at the opposite end towards the beginning of the year 2012.

As these indicators represent a picture at a certain moment in time, we can realize that, depending on the moment the picture is taken and judging from the perspective of these five indicators, an economy can look better or worse. For this reason, the entity that coordinates and finally approves the adhesion of a state to the Euro zone is very much based on the sustainability of these indicators on a long term. For this reason, the economic policies that are necessary to be adopted by a state may increase the probability that the fulfilment of the nominal convergence criteria is sustainable on a long term and not just at a certain favourable moment for a country. For Romania's case, the first nominal criterion – the stability of prices – was reached during the spring of 2014 by registering an inflation rate of approximately 1%. This situation was also due to an exceptional agricultural year (2013) that generated a significant price reduction for the

agro-food products, products that in Romania have a more than double average level in the consumer basket compared with other member states of the Euro zone as has been shown (Anghel, Ciurila & Bojesteanu, 2012). Consequently, a dry year led to a much bigger increase in the consumption prices in Romania compared to the average level of the Euro zone (as shown by the data within the table above) while a very good agricultural year helped Romania to register a high performance in what concerns the inflation.

For Romania, two of the most difficult nominal criteria to be fulfilled during the adhesion process to the Euro zone are, probably, the ones referring to price stability and the exchange rate evolution. It is ideal for a country to join the Euro zone the moment it is prepared. A forced adhesion, faster than necessary may have negative consequences on a long term. As Anghel, Pînzaru and Dinu (2014) demonstrated, the moment of entering the Exchange Rate Mechanism II (ERM II) must also be very carefully chosen, as for the country taken into discussion and once entered, only the minimum "testing" period of two years is known. What is still unknown is yet the maximum testing period that can be extended to extreme, if the economy does not also fulfil the other nominal criteria.

What is essential for any economy is to establish the level of the national currency exchange rate against the Euro, a level according to which all the financial and economic flows will be fixed on an extremely long term (even if not). For example, the RON/EURO exchange rate for adopting the single currency by Romania should not be either too strong or too weak, which emphasizes the difficulty of establishing it and makes harder the analysis when the models' forecasts are considered relatively valid for maximum 8 trimesters.

If the RON/ EURO parity is established at a too strong level for the national currency, the exports competitiveness can be affected. Also, the economy's still reduced openness but on an ascendant evolution, in parallel with imports increase stimulation, would determine a lack of balance in the trade and current account deficit, with negative effects upon the economic evolution in our country. If the RON/EURO parity is too low for the national currency (the RON is under evaluated) then, inflation can stay at a level that exceeds the normal one, for a long period of time, thus eroding the Romanians' purchasing power. Consumption will also be affected when the people and the companies' indebting in foreign currency is high, which would increase the reimbursement effort and allocate a smaller weight from the available income to consumption and investments. It is the right time for us to underline the need to learn from other countries' examples,

from their past experiences, with a very clear reference to the effects the were unleashed by CHF's strengthening in 2014 and especially in January 2015, towards some currencies belonging to the Central and South-Eastern European countries.

Consequently, fixing the RON/ EURO optimum parity level on a long term is a very difficult mission. So, if an economy is not a high achiever and is not ready to adhere to the Euro zone, it is better not to push a premature entrance in ERM II, as this will negatively affect the way in which the respective country will develop further on, on a long term, as Anghel et al. (2014, p.2) considered.

The Evolution of the Nominal Convergence and of the Competitiveness during ERM II and after the Accession to the Euro Zone

We will analyze the way the candidate states have complied with the nominal convergence criteria regarding price stability. These criteria will be analyzed for a long period before adhesion to ERM II. Table 2 illustrates the evolution of average annual inflation in Greece, Cyprus, Malta, Slovakia, Slovenia, Estonia compared to the euro zone, between 2000 and 2011, as Anghel et al. (2014, p.2) found out.

Table 2. The evolution of the average annual inflation variation. Gap between the values recorded in the euro zone (percentage points) (Source: Eurostat, Anghel, L.C., Ciurila, N. & Bojesteanu, E., 2012)

	Estonia	Greece	Cyprus	Malta	Slovenia	Slovakia
2000	1,7	0,7	2,7	0,8	6,7	10,0
2001	3,2	1,3	-0,4	0,1	6,2	4,8
2002	1,3	1,6	0,5	0,3	5,2	1,2
2003	-0,7	1,3	1,9	-0,2	3,6	6,3
2004	0,8	0,8	-0,3	0,5	1,5	5,3
2005	1,9	1,3	-0,2	0,3	0,3	0,6
2006	2,2	1,1	0,0	0,4	0,3	2,1
2007	4,6	0,9	0,1	-1,4	1,7	-0,2
2008	7,3	0,9	1,1	1,4	2,2	0,6
2009	-0,1	1,0	-0,1	1,5	0,6	0,6
2010	1,1	3,1	1,0	0,4	0,5	-0,9
2011	2,4	0,4	0,8	-0,2	-0,6	1,4
Average	*2,1*	*1,2*	*0,6*	*0,3*	*2,4*	*2,7*

Significant differences - as an average, towards the indicator recorded at the Euro zone level, are to be noticed. Only the small countries such as Malta and Cyprus registered, on average, smaller deviations than 1 p.p., while the rest of the analyzed countries registered over 1 p.p. It is important to mention that for ECB, the stability is the primordial objective and, this way,

it might not want to accept the accession of a new country of considerable size such as Romania, if it is not sure that we are capable of fulfilling this criterion on a long term.

The following Table no. 3. presents a summary of the average annual variations of all the previously exposed price categories, highlighting the differences against the Euro zone that are higher than 1.5 p.p.
We can observe that, for the entire consumer basket, only Estonia, Slovenia and Slovakia recorded price variations higher than 1.5 p.p.against the Euro zone. For the energetic field products, all the states subject to analyses present significantly higher variations compared to the Euro zone.

Table 3. The average annual variation of the different categories of prices against the Euro zone (p.p.) (Source: Eurostat, Anghel, L.C., Ciurila, N. & Bojesteanu, E., 2012)

	Estonia	**Greece**	**Cyprus**	**Malta**	**Slovenia**	**Slovakia**
Industrial non-energetic products	0,6	1,0	-1,4	-0,3	0,5	0,2
Energy	3,8	2,9	4,2	2,4	2,6	5,2
Foodstuff products	2,3	1,0	1,9	0,8	2,1	1,2
Services	2,6	1,2	0,6	0,6	2,7	4,4
Administration prices	5,9	0,5	1,3	5,1	1,6	6,0
Total	2,1	1,2	0,6	0,3	2,4	2,7

Consequently, we can draw the conclusion that the countries that are not advanced in what concerns the structural reforms, will record important variations of the inflation compared with the Euro zone average value, which required an increased effort from ECB side to provide the stability of prices.

In what concerns the *competitiveness* of the states subject to analysis, we will appreciate it based on two indicators: the market share and the effective real exchange rate. The market share was calculated as a ratio between the exports of the analyzed state and the total UE imports. By analysing the market share evolution starting with 2000 (see Table 4), we can observe marginal modifications after the accession to the Euro zone. Slovakia significantly increased the market share in EU, but this trend was visible even since 2000 year and consequently not related to the accession to the euro zone. It is worth noticing the fact Slovakia's exports were extremely dynamic despite a significant appreciation of the real exchange rate (see Figure 1.). Increases in the market share after the accession to the Euro zone were recorded for Slovenia and Estonia, while for Greece, Malta and Cyprus; no significant modifications were recorded, as it was shown (Anghel et al., 2014, p.3).

The real effective rate can be calculated using various price differentials: of consumption, of export, the GDP deflator or the unitary cost with the labour force. As we will see in the graphs below, evaluating the competitiveness by price, based on the effective real rate that was built by using 36 commercial partners, will be roughly the same, regardless of the price margins used.

Analyzing the effective real rate calculated based on *the aligned consumption* price indices (Figure 1), we can observe that Slovakia is a country where competitiveness by prices suffered most, the real rate constantly increasing constantly since 2000. The same evaluation is also applicable to Estonia, mentioning that, for this economy the real rate increased less than for Slovakia's case. Slovenia and Malta preserved their competitiveness by price best, while the effective real rate of Cyprus and Greece evolved similarly to the one in the Euro zone, as a whole. Such types of studies were done by taking into consideration the whole price consumer basket (Anghel et al., 2014, pp.5-7).

Table 4. The market share within the European Union (source: Eurostat, Anghel, L. C., Ciurila, N. & Bojesteanu, E., 2012)

	Estonia	**Greece**	**Cyprus**	**Malta**	**Slovenia**	**Slovakia**
2000	0,26	0,04	0,04	0,40	0,13	0,26
2001	0,28	0,05	0,04	0,45	0,12	0,27
2002	0,28	0,04	0,03	0,51	0,13	0,29
2003	0,31	0,04	0,04	0,62	0,13	0,31
2004	0,28	0,04	0,04	0,62	0,14	0,30
2005	0,27	0,04	0,04	0,61	0,15	0,28
2006	0,28	0,04	0,09	0,67	0,15	0,28
2007	0,29	0,03	0,06	0,81	0,14	0,32
2008	0,27	0,04	0,05	0,84	0,13	0,32
2009	0,28	0,04	0,04	0,92	0,13	0,32
2010	0,27	0,04	0,05	0,96	0,14	0,33
2011	0,27	0,04	0,05	1,00	0,17	0,34

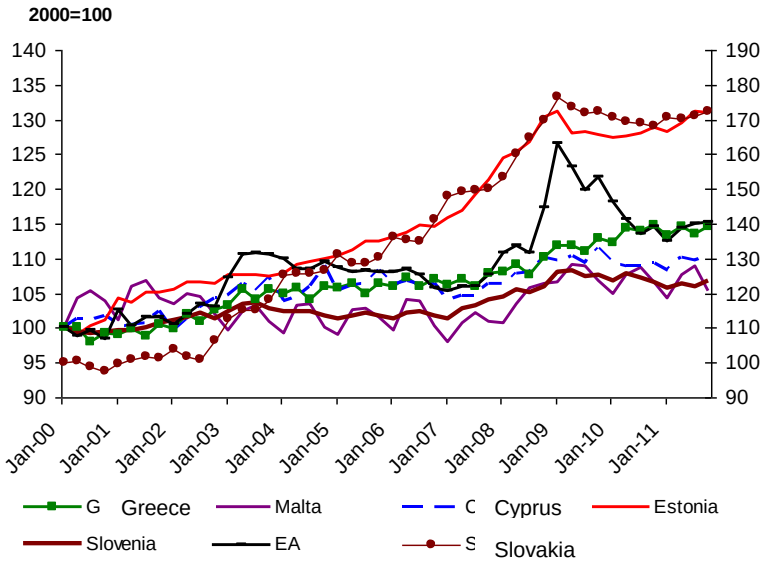

Figure 1. The evolution of the effective real rate based on the consumer price indices (2000=100) (source: Eurostat, Anghel, L.C., Ciurila, N. & Bojesteanu, E., 2012). Note: An increase of the effective real rate indicates an appreciation of the national currency.

The Equilibrium Real Exchange Rate and Its Decisive Factors – Romania's Case

A preliminary stage, mandatory during the accession to the Euro zone is represented by the participation in the Exchange Rate Mechanism II (ERM II). As Anghel, Pînzaru and Treapăt demonstrated (2014), *"...from that moment on, after attending the Exchange Rate Mechanism II (ERM II), the respective country's economy loses an equilibrium buffer – the exchange rate".*

ERM II represents a framework for the exchange rate regime in the Member States that have not adopted the Euro yet, but intend to do this in the near future and also a preliminary condition for the accession to the Euro zone, as ruled by The Treaty of Maastricht.

The participation in this mechanism is done based on a parity/central equilibrium exchange rate, established by negotiations between ECB, the ministries of finance and the national banks in the Euro zone and also by the participants in ERM II, with ECOFIN consultation. By definition, *the parity/central exchange rate* represents the reference value of the national currency against the Euro, as settled at the moment when the participation

in ERM II began and towards which the fluctuation interval of the market exchange rate is calculated and implicitly, the values of intervention.

The exchange rate on the market when entering ERM II may be different from the reference value. In principle, the exchange rate on the market during the participation in ERM II evolves freely within a fluctuation interval of ± 15% against the central parity, but it is also possible to fix tighter fluctuation intervals by bilateral agreements between the central bank of the candidate state and the ECB. Reaching the upper limit or the lower limit of the fluctuation interval automatically generates the focused intervention of ECB and of the central bank of the candidate state.

The central parity can be modified along the participation in ERM II. The revaluation of the national currency does not have any impact upon fulfilling the Maastricht criteria. On the other hand, the devaluation of the national currency is considered a non-fulfilment of the Maastricht criteria concerning the stability of the exchange rate for at least 2 years, within ERM II. In this case, the participation period in ERM II is automatically extended and the candidate state must postpone adopting the Euro by at least 2 years. For this reason, the correct setting of the exchange rate and implicitly of the central parity is crucial in the adhesion process to the Euro zone.

The central parity is tightly bound to the equilibrium level of the exchange rate. This is why the equilibrium exchange rate is compatible with achieving the internal and external equilibrium of an economy, and accomplishing these equilibriums represents a prerequisite of long term stability. The setting of the central parity and of the equilibrium value of the exchange rate is not an easy task, first of all due to the fact that this equilibrium value may fluctuate in time, especially in the countries where the process of nominal and real convergence is under way.

Numerous studies evidence the way in which the equilibrium level of one country's real exchange rate can be fixed prior to its accession to the Euro zone. Selecting a relatively large number of explanatory variables allows building a vast set of econometric models in order to investigate the decisive factors for the real equilibrium exchange rate in Romania. According to the study elaborated by Anghel, Ciurila and Bojesteanu (2012) by using data of a quarterly frequency for the period 2005Q1-2012Q1, as provided by Eurostat, the National Institute for Statistics, the Romanian National Bank and Bloomberg, an analysis was performed for identifying the decisive factors for Romania in what the RON/EURO real exchange rate concerns. A summary of the quotients obtained based on the econometric estimations is presented in Table 5. Based on this study, we may affirm that

the most important determinant for the real exchange rate is the risk premium, followed by the direct foreign investments, the opening degree of the Romanian economy, the balance of the current account and of the capital account and also the exchange ratio. A summary of the obtained quotients based on the econometric estimations is presented in Table 5.

Table 5. The estimated quotients based on econometric calculations

Decisive Factors	⇧ appreciation ⇩depreciation	An increase by 1% of the decisive factor would have an impact upon the real exchange rate of:
Risk Premium	⇩	2.5 %
Direct Foreign Investment	⇧	1.5 %
The Openness Degree of Economy	⇧	1.0 %
The Balance of the Current Account	⇩	0.7 %
The Balance of the Capital Account	⇧	0.6 %
The Exchange Ratio	⇧	0.2 – 0.3 %

Consequently, within accession process to the Euro zone, Romania is vulnerable especially for the international investors sentiments (quantified within the risk premium), for the direct foreign investment flow in Romania and, thirdly, for the increase of the openness degree of the Romanian economy – an irreversible process considering the reduced openness compared with other countries such as the Czech Republic, Slovakia and Hungary.

Reducing Romania's vulnerabilities on a long term, would allow increasing the probability the decision-makers to accept Romania's accession to the Euro zone. In addition, Romania's economy will be able to sustainably develop and to capitalize the benefits provided by the adhesion to the Euro zone, at their best. All these can be accomplished, mainly through economic policies applied with tenacity, on a long term.

The Economic Policies That Are Necessary to Be Applied in order to Optimize the Accession to the Euro Zone

This paper succinctly proposes six economic policies that would support a sustainable development of Romania, judging from the angle of the process of accession to the Euro zone optimization and would reduce the vulnerabilities exposed in the present work, with favourable effects for the Romanians, on a long term. The exchange rate may stimulate the exports competitiveness only on a short term, but what matters on a long term is the non-price competitiveness (Anghel et al. 2014). For these reasons, the

economic policies should support the non-price competitiveness that decisively matters on a long term.

1. *Accelerating the EU funds* waiver for a potential GDP increase of approximately 2% in 2012-2013 to 3-4% in 2014-2015 and on a medium and long term. The decrease of the potential GDP from approximately 5% prior to 2008 to approximately 2% at present Sinca (2013) makes Romania's convergence to the Euro zone standards almost impossible and raises the issue of rapidly finding some new engines of increase. The negative natural growth of the population (constantly manifested ever since 1992, the relatively reduced capacity of the banking system to finance the real economy in the context of the new requirements imposed by ECB and Basel III. Various estimations Dumitru (2008) show that the structural European funds have a better capacity to simulate the total productivity of the production factors than the public investments made from national resources or the foreign direct investments in non-tradable sectors (such as: retail, constructions). The excessive orientation of the direct foreign investments to the residential sector, retail trade or the financial sector prior to 2008 limited the development of the production capacities in sectors oriented towards export (processing industry, agriculture). This, in its turn, imprinted Romania with certain vulnerability on the international financial markets through a reduced capacity to counterbalance the speculative capital outputs with foreign currency inputs from exports.

2. *Creating a list with priority/prioritized major projects in the field of research and development, agreed by the political class* and that follows to be financed from 3 sources: EU funds, funds allocated from the national budget and also private funds, both from Romania and from abroad. This step from the Romanian Government must come in the context in which the European Union will be interested more and more in the research-development activity, within the multiannual financial framework 2014 – 1020, after it was acknowledged that Europe was left behind by its main global competitors. The amount proposed by the European Commission (CE) for research and innovation, for the period 2014 – 2020 (*Common Strategic Framework for Research and Innovation*) is of 80 billion Euros, increasing from 59.3 billion Euros within 2007 – 2013 (without the cohesion policy). The European Commission's documents [„A Budget for Europe 2020 – Part II: Policy fiches. SEC(2011) 868 final"] show that Europe's performance in the field of research and innovation is behind the performance of the United States and Japan, while China, Brazil and India recover the gaps rapidly. The statistical data confirm this aspect – EU allocates 2% of the GDP for research, while USA and Japan allocate 2.79% and respectively 3.45% of the GDP.The discrepancies among the EU countries are very deep: Romania

allocates only 0.47% of the GDP for research and development, the least in all Europe, while Finland allocates 3.87% of the GDP.

According to Lazea at al. (2012), the Government should explore the possibility to invest in development projects in sectors that can generate exports, financed in a system of 49% public sector/51% private sector or 75% public sector/25% private sector.

3. *Creating and implementing a governmental strategy for attracting direct foreign investments.* The alarming reduction of the direct foreign investments annual flows from 9.3 billion Euros in 2008 to 1.8 billion Euros in 2011 due to the sovereign debts crisis, to the internal political turbulences and to the poor economic growth perspectives in Romania's case. This requires fixing a clear time plan with realistic objectives and implementation terms, for attracting new direct foreign investments. Romania's diplomatic and economic missions abroad must be dimensioned according to the new global economic realities that show that the perspectives of economic growth for Europe are much below the ones for Asia, North America or South America.

The governmental policies should target attracting new direct foreign investments in areas with export potential (such as the manufacturing industry, agriculture, tourism). A second selection level should be the orientation towards those fields that encapsulate a high technology level such as the automotive industry, IT&C services, health services, architecture services that achieve not only an impulse for the exports but also a decrease of imports and implicitly, an improvement of the current account balance. The government policies in the field of investments should be oriented also to a more balanced distribution of the direct foreign investments in Romania's development regions. According to Sinca (2013), from the total direct foreign investments attracted by Romania until the end of 2011 year, of 55.1 billion Euros, Bucharest and Ilfov attracted 61.7% of the total investments while the North-Eastern region attracted only 2.9% of the total.

4. *Supporting the internal agricultural sector for increasing the productivity per hectare to the average level of the European Union and increasing the export of refined agricultural products.* The particular potential the Romanian agriculture has, according to Anghel at al.(2012), a country that could feed between 80 – 105 million inhabitants if the productivity per hectare converged towards the European standards and the uncultivated areas were reduced - is a very well known reality.

The Government should institute a mix of policies according to Lazea at al. (2012) for merging the agricultural lands, based on several pillars:

Granting bonuses to the old farmers, in order to make them sell their lands. The existence of a law project in this respect is beneficial, but this should be modified in order to increase the amounts granted thus stimulating the sale of the lands;

Discouraging the non-cultivation of the lands by applying a tax like in the case of urban lands having the destination "yards – constructions", when the private individuals own agricultural land but do not cultivate it. Such sanction exists and has been applied since 2007 but only for the lands owned by juridical persons.
Merging the agricultural lands will also lead, within the following years, to the development of the irrigation systems and to reducing the excessive dependency of the Romanian agriculture on weather conditions, considering that payments for irrigations can be returned only by the medium-sized and large agricultural exploitations. Sinca (2013) shows that Romania loses, in the years with a weak agricultural production, approximately 800 million Euros, both from agriculture and related sectors (foodstuff industry, transportation and storage services for agricultural goods, etc).

5. The tourism development in order to improve the services balances within the current account. The extremely weak performance of tourism in Romania in the last years, that recorded a deficit of 391 million Euros in 2011 (0.3% of the GDP) against an excess of 1.9 billion of Euro for Bulgaria's case (the equivalent of 4.9% of the GDP) or of 2.2 billion Euro for Hungary's case (2.2% of the GDP) must be adjusted through well targeted public policies, according to Anghel at al. (2012). A first direction of action must be the construction of highways and the modernization of the airports in the main touristic areas, in order to be easily accessed both by the Romanian and the foreign tourists. The second direction of action for the government should be, according to Lazea at al.(2012) increasing the pressure upon the local authorities, by all the available leverages (political support, financial support, etc.) to green the touristic areas. In parallel with the greening, a wide process of renovating the publicly-owned buildings located in the touristic areas, as well as the demolishing of the illegal constructions must be initiated.

The third direction of action for the government, according to Lazea at al. (2012) should be using a leverage to support the private tour operators, for increasing the quality of the offered services, namely adapting the education

programs so that in order to train skilled personnel in the touristic field, an intensive promotion of some refresher courses financed from European funds, in order to improve the personnel working in tourism, facilitating the participation in tourism fairs and exhibitions abroad with the help of Romania's diplomatic missions or facilitating bilateral meetings with important European tour operators if participating in specialized fairs is too expensive.

The forth direction of action for the government could be, according Lazea at al.(2012), organizing, on a regular basis, conferences, symposiums, international debates and sport events in order to promote Romania at a global level.

The fifth direction of action for the government in the field of tourism could be, according to Anghel (2012) - facility of thematic parks and entertainment areas. The sixth direction of action should be reviving the health and care tourism and re-introducing the Romanian spa resorts in the touristic map, according to Sinca (2013). The local authorities should provide extended support such as tax-exemption for a period of 50 years or leasing lands for 99 years, to any Romanian or foreign investor that invests in spa resorts that are currently in an advanced degradation process. Another step could be contacting important private operators in the health field that activate locally in the big cities and facilitating some private investments in private spa resorts, in order to provide complete treatment and healthcare packages to Romanian and foreign patients.

6. Improving Romania's image to the investors on the financial international market (portfolio investors) in order to ameliorate the country risk perception, decreasing the CDS and accessing some cheaper external loans. Romania should rapidly bring a set of credible major economic projects (successful privatization, highway construction, also in public-private partnership, airports modernization, announcing an important foreign investor in a field with potential for export, signing a contract with an important European tour operator, etc.), to draw the investors' attention away from the political environment to the economic one instead, according to Sinca (2013).

Also, Romania should increase the number of *road-shows* for presenting the country in the main world's financial centres (London, New York, Frankfurt, Hong Kong),in order to ameliorate the concerns related to the economic policies followed by Romania. Another direction of action in order to increase Romania's visibility at an international level is a tangible plan of joining the Organization for Economic Cooperation and Development on a

long term (OECD), starting from the example of Poland, the Czech Republic, Slovakia and Hungary, according to Lazea at al. (2012) Facilitating the *know-how* transfer towards the Romanian government and placing Romania under a more correct magnifying glass with respect to international analysis, by facilitating the access to macroeconomic data bases will, eventually, be translated into an intelligent and sustainable economic growth, with positive effects upon a wide category of population, according to the Europa 2020 agenda.

Last, but not least, some other issues should be considered. For instance, the accession to the Euro-zone could have an impact on the image of Europe amongst the Romanian citizens, as well as on the way they are empathizing with various European evolutions (Mihalcea, Vițelar & Anghel, 2014). The implications are not only financial or economic, therefore a complex political approach should be considered.

Conclusions

The adhesion process of one country to the Euro zone is an extremely complex one which, if not carefully prepared, may lead to a decrease of the development potential within the Euro zone, of the country taken into discussion. Getting the maximum benefit out of the advantages of joining the Euro zone cannot be accomplished if the member country joins it sooner than it should.

From other countries' examples, we noticed that joining the Euro zone did not improve their market share for exports, the economic performance nor did it improve the rhythm of recovering the gaps. This fact was absolutely normal to have happened. It is necessary that the country that wishes to join the Euro zone should solve its major structural problems, outside the Euro zone, by using adequate economic policies. Only this way, can the major vulnerabilities with an important negative effect be faded in the Euro zone once and for all.

Consequently, for Romania's case, the authors tried to highlight several aspects and six economic policies meant to reduce Romania's economic vulnerabilities that can be an obstacle in the way of joining the Euro zone, to then act like a true brake in benefiting from the optimum development potential within the space of the single European currency. The six economic policies were selected based on the analyses that evidence the factors that are decisive for the real equilibrium exchange rate of the RON against the Euro.

Acknowledgement. The opinions presented in this work belong to the authors entirely and do not envolve any institution they are affiliated to, in any way. The authors especially thank Nicoleta Ciurilă, Elena Bojesteanu and Dorina Cobiscan for the support provided in elaborating The Study upon the Equilibrium Exchange Rate and Its Factors. The Romanian Case, 2012, a study that was capitalized on in the present work and elaborated within the Project for the Improvement of the Institutional Capacity, of evaluating and creating, etc. macroeconomic policies in the field of economic convergence with The European Union of The National Prognosis Commission, code SMIS 27153, beneficiary The National Prognosis Commission.

References

Adam, T. (2012). Models of Equilibrium Exchange Rates used at the CNB. CompNet Workshop, ECB. Retrieved from http://www.ecb.int/home/pdf/research/compnet/Adam-2012_04_02_ECB_general.pdf?d7a97e7167a572b40ae2103b18a4df9b.

Alberola, E. (2003). *Real Convergence, External Disequilibria and Equilibrium Exchange Rates in EU Acceding Countries*. Madrid: Bank of Spain.

Allard, C. (2009). *Competitiveness in Central-Europe: What Has Happened Since EU Accession?* IMF Working Paper WP/09/121.

Alonso-Gamo, P., Fabrizio, S., Kramarenko, V., and Wang, Q. (2002). *Lithuania: History and Future of the Currency Board Arrangement*. IMF Working Paper 02/127.

Altăr, M., Albu, L.L., Dumitru, I., and Necula, C. (2009). *The Estimation of the Real Equilibrium Exchange Rate and of the Deviations for Romania.* National Institute of Economic Research, Economics Studies 090706.

Anghel, L.C., (2013). *Economia pe intelesul tuturor [Economics for All]*. Bucharest. Tritonic.

Anghel, L.C., Ciurila, N., and Bojesteanu, E. (2012). *Rata de schimb de echilibru și factorii săi. Cazul României [The Equilibrium Exchange Rate and Its Factors. Romania's Case].* Bucharest: Economică Publishing House.

Anghel, L.C., Pînzaru, F.M., and Dinu, M. (2014). Aspects regarding the evolution of nominal and real convergence before and after adhesion to euro zone. In Roman, A., and Anton, S. G. (Eds.), *Monetary, Banking and Financial Issues in Central and Eastern EU Member Countries: How can Central and Eastern EU Members Overcome the Current Economic Crisis? (II)* (pp.40-48). Iași: "Alexandru Ioan Cuza" University Publishing House.

Anghel, L.C. Pînzaru, F.M., and Dinu, M. (2014). Aspects of price competitiveness in the contexts of preparing for accession to the Euro Zone. New challenges for entrepreneurs. Romania's case. *Management Dynamics in the Knowledge Economy*, 2(3), 525-536.

Anghel, L.C., Pînzaru, F.M., and Treapăt, L. (2014). The evaluation of the equilibrium exchange rate based on the purchase power, for Romania's case*. University of Economic Studies of Craiova, Finance. Challenges of the Future* XIV(16), 124-130.

Anghel, L., Pînzaru F.M., Dinu, M., and Treapăt, L.M. (2014). Fixing the Central Parity and the Evolution of the Currency within the Exchange Rate Mechanism II in the Countries that Joined the Euro Zone*, Management Dynamics in the Knowledge Economy,* 2(1), 21-40.

Anghel, L.C., and Dinu, M. (2014). *Globalizarea afacerilor [Business Globalisation]*. Bucharest: Tritonic.

Anghel, L.C., Ciurila, N., and Bojesteanu, E. (2012). *The Equilibrium Exchange Rate and Its Factors. Romania's Case.* Retrieved from http://www.psc.ro/wpcontent/uploads/2013/02/Prezentare_curs_de_echilibru_Lucian_ Anghel.ppt.

Babecky, J., Bulir, A., and Smidkova, K. (2010). Sustainable Real Exchange Rates in the New EU Member States: What did the Great Recession Change?. *IMF Working Papers,* no. 198.

Balassa, B. (1964). *The Purchasing Power Parity Doctrine: A Reappraisal*. Journal of Political Economy, 72(6), 584-596.

Banka Slovenije, Vlada Republike Slovenije (2003). *Programme for ERM II Entry and Adoption of the Euro: Joint Report of the Slovenian government and the Bank of Slovenia*. Retrieved from http://www.bsi.si/en/publications.asp?MapaId=717.

Begg, D., Halpern, L., and Wyplosz, Ch. (1999). *Monetary and Exchange Rate Policies, EMU and Central and Eastern Europe*. Forum Report on the Economic Policy Initiative 5. London: CEPR and New York, Prague: EastWest Institute.

Beguna, A. (2002). *Competitiveness and the Equilibrium Exchange Rate in Latvia*. EuroFaculty Working Paper in Economics 16. August. Riga: University of Latvia and EuroFaculty.

Benkovskis, K., and Wortz, J. (2012). *Evaluation of Non-Price Competitiveness of Exports from Central, Eastern and South-Eastern Countries in the EU market*. Bank of Latvia Working Paper.

Beza-Bojanowska, J., and MacDonald, R. (2009). *The Behavioral Zloty/ Euro Equilibrium Exchange Rate.* National Bank of Poland Working Paper 55.

Bitans, M. (2002). Real Exchange Rate in Latvia: 1994–2001. Latvijas Banka Working Paper.

Bitans, M. and Tillers, I. (2003). *Estimates of Equilibrium Exchange Rate in Latvia. Latvijas Banka. Analysis of the Real Exchange Rate in Latvia: 1994–2001*. Latvijas Banka. Mimeo.

Boje̦şteanu, E. (2010). *Relaţii Monetar-Financiare Internaţionale [International Monetary and Financial Relations].* Bucharest: ASE Publishing House.

Boje̦şteanu, E., Iordache, Ş., Leonte, A., and Manu, A. S. (2012). *Ajustarea dezechilibrului extern în economiile emergente. Este experienţa României diferită? [The adjustment of external disequilibrium in emergent economies. Is the experience of Romania different?].* Colocviile BNR de Politică Monetară. Elemente ale cadrului de analiză şi prognoză al politicii monetare [The Monetary Politics Colloquies of NBR. Elements of analysis and prognosis of the monetary politics], Vth edition.

Buldorini, L., Makrydakis, S., and Thimann, C. (2002). *The effective exchange rates of the euro*. European Central Bank Occasional Paper Series no. 2.

Bulir, A., and Smidkova, K. (2005). *Exchange rates in the New EU accession countries: What have we learned from the forerunners?* Economic Systems 29(2), 163-186.

Burgess, R., Fabrizio, S., and Xiao, Y. (2003). *Competitiveness in the Baltics in the Run-Up to EU Accession*. IMF Country Report No. 114.

Ca'Zorzi, M., Chudik, A., and Dieppe, A. (2009). *Current account benchmarks for Central and Eastern Europe. A desperate search?* ECB Working Paper no. 995.

Central Bank of Malta (2006). *A Study of the Equilibrium Real Exchange Rate of the Maltese Lira*. Retrieved from:
http://www.centralbankmalta.org/updates/downloads/pdfs/A%20Study%20of%20the %20Equilibrium%20Real%20Exchange.pdf.

Clark, P., and MacDonald, R. (1998). *Exchange Rates and Economic Fundamentals: A Methodological Comparison of BEERs and FEERs*. IMF Working Paper No. 67.

Codirlaşu, A., and Chideşciuc, A. N. (2004). Estimarea efectului Balassa-Samuelson în România [*Estimating the "Balassa-Samuelson" Effect in Romania*. Paper presented during the conference *Young Economists* organized by NBR, 2004].

European Comision (2012). *Scoreboard for the surveillance of macroeconomic imbalances*. Occasional Papers no. 92.

Coricelli, F., and Jazbec, B. (2001). Real Exchange Rate Dynamics in Transition Economies. *CEPR Discussion Papers Series,* No. 2869.

Csajbók, A. (2003). *The Equilibrium Real Exchange Rate in Hungary: Results from Alternative Approaches.*Paper presented at the 2nd Workshop on Macroecomic Policy Research, Magyar Nemzeti Bank.

Darvas, Zs. (2001). *Exchange Rate Pass-Through and Real Exchange Rate in EU Candidate Countries.* Economic Research Centre of the Deutsche Bundesbank Discussion Paper No. 10.

De Broeck, M., and Sløk, T. (2001). Interpreting Real Exchange Rate Movements in Transition Countries. *IMF Working Papers,* no. 56.

Dumitru, I., (2008). The Balassa-Samuelson effect in Romania-The Role of the Regulated Prices*. MPRA Working Paper,* no. 18611.

Egert, B., Drine, I., Lommatzsch, K., and Rault, C. (2002). The Balassa-Samuelson effect in Central and Eastern Europe: Myth or reality?. *William Davidson Institute Working Paper,* no. 483.

Erlandsson. M., and Markowski, A. (2006). The Effective Exchange Rate Index KIX – Theory and Practice. *Swedish National Institute of Economic Research Working Paper,* no. 95. European Central Bank (2012). *The Convergence Report, 2012*. Retrieved from http://www.ecb.int/pub/convergence/html/index.en.html.

Genorio, H., and Kozarmenik, D. (2004). *FEER estimates – the Slovenian case*. Prikazi in analize XII/1, Banka Slovenije.

Hinosaar, M., Kaadu, H., and Uskula, L. (2005). Estimating the Equilibrium Exchange Rate of the Estonian Kroon. *Working Papers of Eesti Pank*, no 2.

International Monetary Fund (2002). *Assessing Sustainability*. Retrieved from: http://www.imf.org/external/np/pdr/sus/2002/eng/052802.htm.

International Monetary Fund (2010). Romania-Staff Report for the 2010 Article IV Consultation, Fourth Review under the Stand-By Arrangement, and Requests for Modification and Waiver of Nonobservance of Performance Criteria*.* Retrieved from:
http://www.imf.org/external/pubs/ft/scr/2010/cr10227.pdf.

International Monetary Fund (2012). Romania-Fifth Review under the Stand-By Arrangement, and Requests for Modification and Waiver of Non-observance of

Performance Criteria. Retrieved from: http://www.imf.org/external/pubs/ft/scr/2012/cr12157.pdfs.

Isărescu, M. (2008). *Problems of the Monetary Policy in an Emergent Economy. Romania's Case*. Speech sustained at the Royal Academy of Economic and Financial Sciences.

Isard, P., Faruquee, H., Kincaid, G.R., and Fetherston, M. (2001). Methodology for Current Account and Exchange Rate Assessements. *IMF Occasional Paper,* no. 209.

Isard, P. (2007). Equilibrium Exchange Rates: Assessement Methodologies. *IMF Working Papers,* 07/296.

Klau, M., and Fung, S.S. (2006). *The new BIS effective exchange rate indices. BIS Quarterly Review*, March 2006, 51-65.

Krugman, P.R., and Obstfeld, M. (2006). *International Economics. Theory and Policy* (7th edition). Boston: Pearson Addison Wesley.

Lee, J., Milesi-Ferretti, G.M., and Ricci, R.A. (2008). Real Exchange Rates and Fundamentals: A Cross-Country Perspective. *IMF Working Papers,* 08/13.

Komerek, L., and Melecky, M. (2004). The Behavioural Equilibrium Exchange Rate of the Czech Koruna. *Czech National Bank Project*, A2/04.

Kyriacou, G., and Papageourghiu, M. (2010). Assessing the Equilibrium Exchange Rate of the Cyprus Pound at the time of Euro Adoption. *Central Bank of Cyprus Working Paper,* 2010-6.

Lazea, V., Anghel, L.C., and Biriș, G. (2012). *Prioritizarea politicilor Uniunii Europene prin prisma avantajelor produse de acestea pentru România, în perspectiva participării la negocierile desfășurate în cadrul procesului de revizuire a bugetului comunitar [The Prioritization of the European Union Policies Through the Created Advantages for Romania, in the Perspective of Participating in the Negociations Within the Process of Revising the Communitary Budget]*. Bucharest: Economică Publishing House.

Maeso-Fernandez F., Osbat C., and Schatz, B. (2004). Towards the estimation of equilibrium exchange rates for CEE acceding countries: methodological issues and a panel cointegration perspective. *ECB Working Paper Series,* no. 353.

Mihalcea, A., Vițelar, A., and Anghel, L.C. (2014). For or Against the Eurozone? Romanian Students' Perspective on the Economic Crisis and Their Future as European Citizens, *Management Dynamics in the Knowledge Economy*, 2(2), 355-375.

Milesi-Ferretti, G.M., and Lane, P.R. (2004). International Investment Patterns. *IMF Working Papers*, 04/134.

National Bank of Romania (2011). Report upon the Financial Stability. Retrieved from: www.bnr.ro.

National Bank of Romania (2012). Report upon the Financial Stability. Retrieved from: www.bnr.ro.

Obstfeld, M., and Rogoff, K.S. (2000). The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?. *NBER Working Paper,* no. 7777.

Oomes, N. (2005). Maintaing Competitiveness under Equilibrium Real Appreciation: The Case of Slovakia. *IMF Working Papers*, 05/65.

Penkova-Pearson, E. (2011). Trade, Convergence and Exchange Rate Regime: Evidence from Bulgaria and Romania. *National Bank of Bulgaria Discussion Papers*, 85/2011.

Rodriguez, A., Perez-Quiros, G., and Seguera Cayuela, R. (2012). *Competitiveness Indicators: the Importance of an Efficient Allocation of Resources*. Banco de Espana, Economic Bulletin (January).

Rogoff, K. (1996). The Purchasing Power Parity Puzzle. *Journal of Economic Literature*, 34(2), 647-668.

Rubaszek, M., and Rawdanowicz, L. (2009). Economic convergence and the fundamental equilibrium exchange rate in central and Eastern Europe. *International Review of Financial Analysis,* 18(5), 277-284.

Sinca, E., and Anghel, L.C. (2012). *Agricultura in Romania [Agriculture in Romania]*. Bucharest: BCR.

Sinca, E. (2013). *Romania's Attractivity in the Respect of the Direct Foreign Investments and the Portfolio Investments].* Bucharest: BCR Research.

Schmitz, M., De Clercq, M., Fidora, M., Lauro, B., and Pinheiro, C. (2012). Revisiting the Exchange Rates of the Euro. *ECB Occasional Paper*, no. 134/ June 2012.

Treapăt, L.M., and Anghel, L.C. (2014). Possible Ways and Means for an Enhanced Partnership between the Finance Resources Owners and Their Local Beneficiaries in Romania, *Management Dynamics in the Knowledge Economy*, 2(3), 510-524.

Turner, P. and Van't dack, J. (1993). Measuring international price and cost Competitiveness. *BIS Economic Papers*, no. 39.

Williamson, J. (1994). *Estimating Equilibrium Exchange Rates*. Washington: Peterson Institute Press: All Books.

Zakaria, M., and Ghauri, A.B. (2011). Trade Openness and Real Exchange Rate: Some Evidence from Pakistan. *Romanian Economic Journal*, XVI(39), 201-229.

Zumer, T. (2002). Estimation of the Balassa-Samuelson effect in Slovenia. *Prikazi in analize,* X/1, Banka Slovenije.