Box 10. The activity of the National Committee for Substantiation of the National Euro Changeover Plan

Joining the euro area is a complex process whose success requires a good cooperation between the institutions involved. A first step towards ensuring the coherence of the initiative was taken in 2010, when the Committee for Preparing the Changeover to the Euro was set up at the NBR as an advisory body analysing the preparatory activities ahead of the euro adoption, for the substantiation of the decisions to be adopted for its adequate unfolding. So far, the Committee has held more than 50 meetings attended also by representatives of institutions such as the Ministry of Public Finance, the Ministry of Foreign Affairs, other ministries playing a significant part in the changeover to the euro or the Presidential Administration. During the meetings, among the relevant topics on the agenda were the benefits and risks arising from Romania's joining the euro area, the nominal and real convergence, aspects related to the adoption of the single currency in other countries.

In March 2018, a new important step was taken towards improving the interinstitutional cooperation for joining the euro area, by setting up the National Committee for Substantiation of the National Euro Changeover Plan, based on Government Emergency Ordinance No. 24/2018[1]. Headed by the Prime Minister and the President of the Romanian Academy, in their capacity as co-presidents, and the Governor of the National Bank of Romania and a Vice Prime Minister appointed by the Prime Minister, as vice-presidents, the forum comprises experts from the main institutions involved in the changeover to the euro: the Romanian Academy, the Government of Romania, the Presidential Administration, the National Bank of Romania, the National Commission for Strategy and Prognosis, the National Institute of Statistics, the Financial Supervisory Authority, the academia (universities and research institutes), the parliamentary political parties, representative employers' associations and trade unions, non-government organisations, associative structures and civil society.

The central goal of the National Committee is to identify and formulate the actions needed for preparing the Romanian economy to join the euro area, which are thereafter included in the National Euro Changeover Plan, based on a substantiation report. At the same time, among the National Committee's tasks count the regular assessment of the progress in complying with the convergence criteria and the resolution of the legislative aspects related to the introduction of the euro or the preparation of national systems (statistical system, payment system, etc.) for the changeover to the euro and of awareness raising campaigns for the general public concerning the implications of this process.

The Substantiation Report and the National Euro Changeover Plan were released in December 2018 as programme documents that identify the strategic goals to be fulfilled with a view to joining the euro area: the euro changeover must be preceded by the correction of macroeconomic imbalances and the narrowing of

[1] GEO No. 24/2018 was approved in November 2018 by Law No. 249/2018.

the real and structural convergence gap, alongside meeting structural conditions pertaining mainly to the consolidation of public finances, the development of infrastructure and the enhancement of competitiveness. The two documents underline that, prior to adopting the euro, it is necessary for Romania to participate in the European Exchange Rate Mechanism II (ERM II) for a mandatory period of at least two years – which allows for the assessment of the performance of the Romanian economy while maintaining the exchange rate within a fixed band –, as well as in the Single Supervisory Mechanism (SSM) and the Banking Union. These strategic goals are in line with a series of operational objectives, formulated as specific measures and targets.

The National Euro Changeover Plan proposes several stages as regards the sequence of steps to be taken during this process. Thus, the first stage refers to the preparation for the entry into ERM II, while the second stage involves the actual participation in ERM II, alongside the drafting of convergence reports, the setting of the conversion exchange rate and the decision to abrogate the derogation by the Council. The third stage must be aimed at providing an adequate amount of euro coins and banknotes to banks and putting them into circulation. The next stage is the mandatory display of prices both in the national currency and in euro, whereas the last stage is the changeover to the euro, followed by a dual circulation period.

The Substantiation Report and the National Euro Changeover Plan identify several scopes of action and preparatory steps categorised under central themes with a view to adopting the euro. For instance, monetary policy and macroprudential policy need to take an approach that supports price stability, financial stability and the control of external imbalances, while also seeking to sustainably bring inflation close to euro area levels and to adequately anchor inflation expectations. At the same time, public finances should pursue fiscal consolidation by reducing the structural deficit and enhancing the room for fiscal space, as well as by using fiscal policy in a countercyclical manner – alongside the income policy and the macroprudential policy – as a main stabilisation instrument. Furthermore, labour market, education and health care should draw on the experiences of other euro area countries.

The Substantiation Report includes an in-depth scan of the Romanian economy and provides solutions for shortening the period of preparation for joining the euro area. The document looks at three key aspects regarding the changeover to the euro: the desirability of a critical mass of robustness (which makes nominal convergence durable), the necessity to enter ERM II as a waiting room before joining the euro area, as well as the importance of assessing the efficacy of the euro area functioning and of the mechanisms for its adjustment. Relative to the last aspect, it is emphasised that not only the progress made by the Romanian economy should be monitored, but also the developments in the euro area, which currently undergoes a restructuring and consolidation process.

Thus, it is concluded that alongside the fulfilment of the nominal criteria, the level of development and real convergence are of the essence for a successful accession,

since, in the absence of structural and institutional compatibility, macroeconomic equilibria and of a robust economy, the position within the euro area would be precarious. The ERM II entry can be viewed as a "maturity test" for Romania's economy, which will be passed only when the country reaches an adequate level of robustness and real convergence. Moreover, although significant steps have been taken so far to establish risk-sharing instruments, additional reforms are necessary for supplementing the mechanisms of the euro area, where monetary policy can no longer be used as a correction instrument. The Substantiation Report emphasises the importance of creating and maintaining macroeconomic balances, reflected in a high real convergence level, as well as the need to implement structural and institutional reforms designed to enhance the robustness and growth potential of the economy, as main directions to be followed for a successful euro adoption.

As concerns the time horizon envisaged for euro area accession, according to the Convergence Programme for 2019-2022, the Government of Romania is committed to joining the euro area in 2024, a goal that calls for concerted actions for streamlining and boosting the robustness of the Romanian economy.