10 Years of Romania's EU Membership: Looking to the future

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- Ten years after Romania's EU accession, the world has changed dramatically: the global financial crisis of 2008-09 led to the revision of rules in the international banking system, to growing social discontent with major consequences in terms of flourishing populism and protectionism, as well as to a reshuffle of maps – be they geopolitical, military or economic.
- Uncertainty is running higher today than prior to the crisis and the room for quantitative easing policies based on stimulating demand has narrowed considerably.
- Looking ahead, both the European Union and Romania need structural reforms.

As regards the EU:

- Many steps have been taken so far at institutional level: Stability and Growth Pact, CRD IV (Capital Requirements Directive), Banking Union, SRB (Single Resolution Board), SSM (Single Supervisory Mechanism), ESRB (European Systemic Risk Board). When needed, monetary policy undertook – in Europe as well, similarly to the US, UK or Japan – to escape recession and deflation and to foster renewed economic impetus.
- A challenge to the EU is to maintain the pace of economic growth as the ECB gradually exits from quantitative easing.
- Another challenge facing the EU is to manage Brexit properly and avoid other exits, which would question the very essence of European identity.

- The EU should continue and complete institutional reforms, by finalising the Banking Union, the aspects regarding the operationalisation of EDIS (European Deposit Insurance Scheme), by setting MREL (minimum requirement for own funds and eligible liabilities) for banking groups; moreover, the EU should move towards a fiscal union without debt mutualisation, should leave less room for discretion and comply with rules once they have been adopted, it should clarify the fine balance between the consolidated microprudential supervision of banks and national accountability in terms of resolution.
- But maybe the most important factor for the cohesion and coherence of the European project is the success in safeguarding the four fundamental freedoms: the free movement of capital, goods, services, and above all persons within the Union. A Union that would waive these principles would no longer be the Union that was established in 1957 and that Romania joined 10 years ago.

As regards Romania:

- Romania has accomplished a lot in the past ten years: nominal convergence, real convergence in part, financial stability, it has gained market confidence and has implemented structural reforms.
- In order to carry on with real convergence, Romania has to exploit its growth potential and to get as close as possible to full employment.
- With a view to achieving these goals, we should focus on a number of issues related to real convergence which were less debated in the first ten years.
- The demographic problem: the equivalent of approximately 30 percent of the labour force in Romania and of 13 percent of the total population work abroad (from 3 percent in 2005). This is Romania’s lost GDP.

- Moreover, even now, when Romania's economy reports above potential growth rates, the country continues to record negative birth rates. The ageing of the population affects potential GDP; and it is not only about ageing – ageing is doubled by a high rate of people at risk of poverty (around 40 percent in 2016).
- According to in-house studies that refer to a panel of 6 Central and Eastern European countries and cover the period from 2005 to 2016, a 1 percent increase in the share of population aged 65 and above triggers a 1.3 percent decline in potential GDP.
- Real convergence is measured not only in quantitative terms, in cold figures, but also in qualitative terms. For instance, over 90 percent of the population owns a house, but housing quality is the lowest in Europe (about 30 percent of the individuals have no access to basic sanitary facilities and around 70 percent live in overcrowded dwellings).
- The living standards and the wage differential further account for emigration waves even amid the high economic growth. This is a deeply uneven growth at both interregional and intergenerational levels, which is unbalanced in terms of structure and which reinforces inequalities within the society (the Gini coefficient stood at 38 percent in 2015).
- The growth potential should be enhanced also by an increase in capital flows and stock, the absorption of EU funds and a better allocation of resources via investment prioritisation.
- Achieving convergence is not enough, as convergence should be sustainable, balanced and equitably distributed.
- Real convergence should be pursued not only in terms of income, but also in terms of output structure, by means of the level and composition of budget revenues and expenditures.

- Good European practices should be used to fight tax evasion and strengthen financial discipline.
- In the medium run, a balanced primary budget should be ensured and the MTO (medium-term objective) should be again pursued; public debt should be maintained at sustainable levels and inappropriate incentives leading to over-indebtedness of private sector and households should be avoided.
- It is necessary to improve the access to financing. 83% of households have 6% of deposits, whereas 0.3% of households hold 25% of deposits. Housing loans have been accessed by only 1% of very low income earners (the 1st quintile) and by only 4% of relatively high income earners (the 4th quintile). 12% of the highest income earners (the 5th quintile) have accessed housing loans.
- A roadmap is necessary for joining the euro area.
- The public goods that should be preserved and even strengthened include: the country's security, financial stability, investors' confidence.

<u>European Union – Romania joint agenda for 2019</u>

- Conclusion of Brexit negotiations.
- Completion of important files, such as the prudential treatment of banks' exposures to sovereign risk (the bank-sovereign link), EDIS (European Deposit Insurance Scheme), euro area reforms.
- 2020 budget – better use of resources.
- Aligning the budgetary provisions of the NATO with those of the EU. Exemption of the rise in military expenditure, for NATO countries that are EU Member States, from the EDP (excessive deficit procedure) rule and from the MTO (medium-term objective).
- Monetary policy normalisation and fiscal policy sustainability.