

## Mugur Isărescu: Convergence towards euro enlargement

Opening speech by Mr Mugur Isărescu, Governor of the National Bank of Romania, at the European League for Economic Cooperation's (ELEC) Monetary Conference, National Bank of Romania, Bucharest, 4 June 2019.

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*As prepared for delivery*

Your Excellency Baron Snoy,

Dear members of ELEC,

Ladies and gentlemen,

It is a pleasure for me to open this ELEC Conference, which is the 9th taking place in Romania and hosted by the National Bank. It all started in 2011 with “Renewable energy and transport infrastructure in the Black Sea Region”. One year later we talked about “Eastern Europe and the EMU: finding the optimal path for introducing the euro”. In 2013, there was the 3rd edition of the Danube Financing Dialogue. The following year the dialogue focused on “Agriculture and environmental protection in Central and Eastern Europe and their contribution to growth and employment”. In 2016, we discussed “How the EU can generate a virtuous circle in the Black Sea Region – the case of food and energy security” and in 2017 we debated on “the challenges for Eastern Europe in the present turmoil in the EU and EMU – persevering in the reforms and investing for the future”. The topic of the last year, “Convergence towards euro enlargement”, is approached again today, which is more than welcome, given the importance attached to this issue.

The debate on convergence and euro adoption is broad-based and complex. The topic has been addressed in yesterday's dinner speech by Academician Daniel Daianu. You will discuss it extensively today in two panels, moderated by Wim Boonstra and Servaas Deroose. I am looking forward to listening to your views on the matter. However, I would briefly refer to three ideas.

First of all, the NBR's approach to euro adoption is a balanced one. On the one hand, we are fully aware that a higher degree of real convergence is needed – at least 70–75 percent of the Eurozone average in terms of GDP per capita at PPP. Otherwise, we would be insufficiently developed and, therefore, vulnerable to asymmetric shocks and unable to synchronise our business cycle with that of other euro area economies. On the other hand, however, a high enough level does not mean that we are so ambitious as to aim for a convergence level of 90% of the Eurozone average or a level equal to that of Germany (as is the case with certain approaches in Hungary or Poland).

And, equally important, regardless of how high one sets its targets, it is essential to preserve the pace of this process: once steps forward have been made, we may not stop or go back. In order to successfully adopt the euro, one should be a *marathoner* rather than a *sprinter*. I would like to say that the Latin saying *festina lente* is perfectly suitable in the case of the NBR's approach: hurrying in a slow manner on the convergence path means achieving a sustainable pace in the medium and long run. Moreover, we should be aware that convergence is a continuous process, which will last even after the accession to the Eurozone; this is a lesson we should learn from the failed experience of other countries which considered that joining the euro is the end of the line.

Second, while the nominal convergence criteria are deeply rooted in the minds of policymakers, the Maastricht Treaty explicitly stipulates that “a high degree of sustainable convergence” is needed. Yet, this requirement seems to have been overlooked sometimes. In this context, I want

to highlight that there are *four types of convergence* that must be taken into account: nominal, real, institutional and structural.

Nominal convergence is easily quantifiable, as the specific criteria are clearly defined in the Maastricht Treaty. But we also have to ensure the compatibility of our institutions with those in the euro area and this is the essence of institutional convergence, a process where the central bank and its independence are particularly important. While structural convergence focuses on adapting the structure of our economy to that of the euro area, real convergence, measured by GDP per capita (at PPS) as a percentage of euro area/EU average, is the best proxy for the development level of a nation. So, when talking about convergence towards euro area enlargement, it is important to keep in mind all these valences of convergence.

Third, we are very interested in learning the experience of our Bulgarian colleagues, and I am looking forward to their presentations. These two countries have much in common, yet some things (and not only the Danube!) still separate us. As I have already mentioned on previous occasions, to a certain extent, the speed of convergence was, in the case of Romania, fuelled by the flexibility of our exchange rate regime. By contrast, adopting a currency board more than two decades ago, during a crisis, Bulgaria shifted to a fixed exchange rate regime, out of which the only exit strategy is joining the euro area.

What we need in order to move forward on the convergence path towards euro adoption is, first of all, to understand there is no substitute for a coherent economic policy mix, which should remain so even in election years. We need economic convergence, but the process should be a balanced one, so as to preserve macroeconomic equilibria and safeguard competitiveness.

It is important that Europe remains united. Therefore, I want to pay homage to Baron Snoy, who has been instrumental in promoting Romania's and Bulgaria's further integration into the Economic and Monetary Union. I have known him since the first event we hosted in June 2011, and have always found in him not only a wise man, dedicated to the European Project, but also a friend of Romania, with a vast knowledge of our history and culture.

He has also played an important role in bringing together Europhile experts that are trying to find solutions to the daunting issues facing Europe nowadays. Allow me to also extend a word of gratitude to Radu Deac, the Chairman of ELEC Romania since its establishment, for his steady contribution to promote Romania in Europe and Europe in Romania.

It is not that the Eurozone does not have its own problems, yet the strengthening of its governance framework is what one may call "work in progress". It is our duty, I think, to keep believing in the European project, as the only valid one for securing peace and prosperity on our continent. As I have previously stated, whenever obstacles emerge, I cannot help recalling the words of Jean Monnet, one of the EU founding fathers: "Europe will be forged in crises and will be the sum of the solutions adopted for those crises".

I trust that this Conference, which has a lot of outstanding panellists, will address those problems as well. Among the speakers, I am particularly pleased to see Jeffrey Franks, another old friend of Romania, with whom we had a fruitful co-operation in the past. On this note, allow me to finish and wish every success to the works of this conference.

Thank you.