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Not Only Economics: The Political Economy of Euro Adoption in Romania

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Abstract. *The multifaceted interplay of economic and political factors in the process of euro adoption suggests the opportunity to take a political economy perspective on this complex issue. In this sense, a number of key political-economy related issues can be distilled in relation to the process of euro adoption, which will structure the following analysis. What are the key national winners and losers of this possible event? What role has interest groups pressure played in this process? Under what circumstances may bureaucracies such as the central bank body of experts act as a deterrent for the political end that is the single currency adoption? How are internationally exposed companies expected to behave and to promote their interests in relation to this event? What is the relative importance of the internal politics dynamic for euro adoption? We rely on process tracing to approach these questions for the Romanian case. Policy documents, newspaper articles, academic articles, economic indicators, and elite interviews are used to create an analytical narrative based both on a one-point-in-time description of the situation and on a timeline that lists the sequence of some relevant events. We argue that a specific combination of economic and political factors led to the failed euro adoption in Romania.*

Keywords: *Euro; European Union; political economy; Euro adoption; Romania.*

Introduction and literature review

The process of monetary unification in the EU – i.e., the establishment of a single currency for all members of the EU – has been conceptualized, discussed and promoted mainly in economic terms. The economics of monetary unification analyze the (mainly economic) costs and benefits that member states draw from agreeing to replace multiple national currencies with a single currency. On practical grounds, a policy-related issue – the necessity to replace the abandoned exchange rate as a policy tool in the hands of national governments – has been usually stressed. The academic and popular debates about the practicability of fiscal policy instruments gained momentum, as did the discussions about the effects that the availability of these economic policy instruments may have on national sovereignty. However, the political factor has been habitually put aside as the benevolent despot view of the government was tacitly embraced with regard to the creation of the EMU. Political processes such as treaty negotiations, parliamentary ratifications, and popular referenda have been studied in relative disconnection from the economic arguments put forward in favor of this monetary arrangement.

Similarly, the process of euro adoption by countries that entered the EU later is usually described as being driven by economic factors. The process of nominal and real convergence with older members has been carefully analyzed. The implicit hypothesis here is that the national governments of outsiders will choose the optimum timing for the euro adoption, constrained only by a more or less Eurosceptic internal public. Much less weight has been put on the complex interaction of economic and political dimensions during preparations for euro adoption, such as the political interests of national governments and their relation with major internal economic players.

Theories inspired by the analysis of the OCAs emphasize the best conditions for a country to abandon an autonomous monetary policy (Mundell, 1961; Frankel & Rose, 1998). A floating exchange rate system may successfully be abandoned if the economy has certain mechanisms able to act as built-in adjustment tools, such as internationally flexible and mobile capital and labor markets. In this case, the national economies of a monetary bloc may draw advantages from having a single currency managed by a transnational authority rather than multiple national currencies issued by national monetary authorities.

The rigid theoretical construction of currency areas is unsuited to explain the monetary unification in the EU (Frieden, 2002). The EU is unlikely to meet all the conditions required for an OCA, as labor mobility and correlation among exogenous shocks in various member states are still low. Even the initial, eleven-country Eurozone may have not been the ideal area to form a monetary union. Similarly, it can be argued that the present-day drive for the enlargement of the Eurozone is far from being an economically motivated process. Therefore, the ongoing political interest in the move towards monetary unification must be explained on different grounds.

One way to extend the narrow economic view on European monetary integration is to look at the factors that influence the behavior of politicians who ultimately decide on a country's monetary institutions. Frieden (1998, p.26) argues that three principal factors contributed to the political attractiveness of the euro, given that a precise calculation of economic costs and benefit is impossible: the quest for anti-inflationary credibility, the links between the single currency and the European integration, and the support from the powerful business interests. Germany has been a champion of low inflation and monetary soundness and the countries with a weaker monetary record have tried to reinforce perceptions by committing to the rules of the single currency area. Fearing of becoming second-rate countries, the national political elites of the outsiders would face strong incentives to participating in the monetary unification. Similarly, large pan-European corporations would be attracted to the exchange rate stability and would pressure national government to become part of the euro bloc. Moreover, there are winners and losers of the European monetary integration and identifying these two groups may shed light on the forces at play in this process.

The academic literature dedicated to the Romanian case for euro adoption is fairly extensive. Unsurprisingly, the perspective taken in this literature is strictly economic– i.e., the one that deals with the conditions required for common currency areas to be optimal. Șimandan, Leuștean and Dobrescu (2017) synthesize this far-reaching body of literature and classify the competing frameworks used to analyze the adoption of the euro into the economic framework and the institutional-political framework. As these authors argue at length, the degree of fulfillment of the Maastricht criteria is a preferred topic among academics that deal with this subject. What these studies have in common is their conclusion that meeting the nominal convergence criteria is not enough for a successful euro adoption (Triandafil, 2011), a view that is also common in the popular press and political communication. The political economy perspective has not been applied with reference to the euro adoption in Romania – hence the novelty of the present study. However, unexpectedly to a certain degree, a few practitioners complement their public presentations on the matter with political economy considerations (e.g., Voinea, 2017). A surprising aspect that we came across during interviews was the prevalence of political economy and political considerations that academics and officials use in order to explain the euro adoption in the Romanian context.

The framework for analysis, research questions, and methodology

Once the limits of the strictly economic perspective have been acknowledged, the process of euro adoption in the NMSs has been analyzed by studying the economic and political institutions and other features of the domestic environment in which this enterprise occurs (Dandashly & Verdun, 2015, 2018; Johnson, 2006, 2008). Tools derived from the political economy and comparative politics traditions have been employed to explain the diverse strategies that these countries enacted.

A first theoretical base for these applied studies is found in the literature dedicated to the political economy of monetary institutions, which analyzes the monetary arrangements that individual countries choose in relation to certain political institutions. Given the time inconsistency and the inflationary bias of monetary policymakers, central bank independence and a predictable exchange rate regime (i.e., fixed exchange rates) evolved to insulate monetary issues from political pressures (Bernhard, Broz, & Clark, 2002). At the international level, strategic interactions among governments, compelled by national concerns and constrained by the international environment shape the international monetary system (Broz & Frieden, 2001). However, both the perspective that emphasizes the national preference formation for a certain monetary arrangement and the view that focuses on strategic interactions among national governments in international monetary matters fall short in explaining the dynamics of the EMU. The process of monetary unification in Europe has been an unprecedented endeavor that dramatically transformed economic policy and politics in Europe. Moreover, the sundry strategies of NMSs towards euro adoption must be explained taking into account some elements of their internal political dynamic.

Writing at a time when the process of monetary unification was in its early stages, Feldstein (1997) stresses the importance of political motivations behind this move, in the light of his assessment that the EMU had a negative net economic effect. The desire to promote cooperation and peace while closely guarding national interests, the prospects of increased cross-border bureaucracy, the willingness of the European political elite to bypass popular preferences related to a single currency have all been extra-economic catalysts for the European monetary unification process. Moving from political sources to political effects of monetary integration, Feldstein argues that if cyclical conditions differ among the member states, the uniform monetary and fiscal policies that a monetary union requires will likely result in political conflict rather than the desired political cooperation. Moreover, the economic consequences may well be contrary to those expected, since an "artificially contrived" monetary unification is expected to reduce the volume of trade among member states and to increase unemployment (Feldstein, 1992). Friedman's economic and political diagnosis is similar, given that the common market is not integrated well enough in terms of the freedom of circulation of goods and capital (Friedman, 1997).

The real factors of the EU's currency policy (as opposed to the monetary factors) have been found to be significant, as exporters and cross-border investors tend to favor a stable exchange rate. On the political economy of EMU, Eichengreen and Frieden (1993) are among the first to study the process of monetary unification in the EU simultaneously from an economic and a political perspective. The authors show that EMU is the outcome of a political enterprise and put forward three sets of political considerations as a point of departure in explaining the dynamics of EMU: interstate bargaining, issue linkage, and domestic distributional factors. The interests that the large economic sectors have in the monetary unification process have also been studied (Frieden, 2002).

Bagus (2010) analyzes the quintessential political nature of the euro. He points out that the euro shares the same key feature with the rest of today's currencies: it is fiat money. A governmental agency – i.e., the European Central Bank – is entrusted with the power and responsibility to issue the euro for the benefit of the European state. From this perspective, replacing multiple national fiat currencies with one European fiat currency bears no important economic advantages. In fact, the opposite case seems to be unfolding, leading to the author's conclusion that the EMU is a self-destroying, conflict aggregating system since there is no externally enforced mechanism to restrict the money production and the cross-border wealth transfers that it requires.

The multifaceted interplay of economic and political factors suggests the opportunity to take a political economy perspective on this complex issue. In this sense, a number of key political-economy related issues can be distilled in relation to the process of euro adoption, which will structure the following analysis. What are the key national winners and losers of this possible event? What role has interest groups pressure played in this process? Under what circumstances may bureaucracies such as the central bank body of experts act as a deterrent for the political end that is the single currency adoption? How are internationally exposed companies expected to behave and to promote their interests in relation to this event? How did they in fact behave? What is the relative importance of the internal politics dynamic for euro adoption?

Our methodological approach relies on process tracing to look into these issues for the Romanian case. Policy documents, newspaper articles, academic articles, economic indicators and elite interviews with stakeholders in the euro adoption process are used to create an analytical narrative based both on a one-point-in-time description of the situation and on a timeline that lists the sequence of some relevant events. We conducted face-to-face, semi-structured interviews with eight academics and officials from the Ministry of Finance and the central bank between June and November 2018. The descriptive power of process tracing is completed by the analysis of some causal inferences that this technique enables (Collier, 2011). Given the fact that the Romanian authorities have only recently made public a calendar for adoption, the relative importance of the aforementioned factors for this failure is analyzed. Since process tracing is particularly suited for gaining insight into causal mechanisms, this methodology is used for the study of the hypothesis that a particular combination of the variables advanced above concurred to the failed adoption of the euro by Romania.

This article seeks to study the Romanian case of Eurozone accession. We classify the factors for euro adoption into three categories. The economic factors include those criteria derived from the OCA theory, such as the economic structure and trade relation, labor market flexibility and the business cycle synchronization. The political economy factors deal with the actions of national and supranational bodies, such as the convergence criteria negotiated during the Maastricht process, the later addition of real convergence criteria, the exchange rate regime, interest group pressure, and the symbolic factor. The third group has to do with internal political factors, such as the president, political parties and their relation with the central bank. The following section focuses on the analysis of some of these factors, while the third section concludes.

Money, politics, and policies. The political economy of euro adoption in Romania

Thus far, adopting the euro has proven to be a bumpy road for Romanian policy makers. A number of targets has been put forward and later abandoned as unrealistic (Table 1). The declarative support for euro adoption has been a common feature among all post-accession governments, an enthusiasm that was only marginally deterred by the sovereign debt crisis. However, only recently Romanian politicians agreed to an adoption calendar.

Table 1. Euro adoption targets, Romania (authors' own compilation)

Target date	Announced	Source	Abandoned
2014	2007	2006 – 2009 Convergence Program	2011
2015	2010	2011 – 2014 Convergence Program	2012
2019	2014	Political declaration at the ECOFIN meeting	2016
2024	2018	Decision at the PSD congress	ongoing

Interest group pressures: an apparent lack of interest

What role have interest group pressures played in the ongoing process of euro adoption in Romania? What groups can be identified that pushed for a rapid switch to the euro? First observation on this matter is that in general monetary policy is an area relatively isolated from interest group pressures. The lobbying groups have no means to exclude others from enjoying the benefits nor can they find an effective way to share the costs. Therefore, incentives to engage in this type of lobbying activity are weak (Broz & Frieden, 2001), at least compared to those situations in which the lobbying groups are able to exclude others from benefiting from the special treatment, such as the case of the trade policy. However, the lobbying activity of some groups has been identified and studied in relation to euro adoption in NMSs. Haughton (2010) and Dandashly and Verdun (2015) study the Slovak case, where the foreign business lobby, especially the automotive industry pushed hard in favor of euro adoption.

Like Slovakia, Romania too benefitted from an increased inflow of FDI, with the automotive industry being one of the main beneficiaries. As one of the key growth drivers for the economy, the local auto industry accounted for 47% of the country's exports in 2016, with Dacia (part of the Renault group), Ford and Volkswagen being the main car manufacturers (Romania Insider, 2017). However, the lobbying activity of this foreign-dominated industry appears to be quasi absent (interview with BNR official, June 2018).

Money as a symbolic factor: a case of monetary realism

Identities, ideas and the symbolic value that people attach to their national currency are important factors that influence popular attitudes towards euro adoption. The different degree of attachment that people have towards national currency has been studied as an explanatory variable for the diverse speeds and strategies of euro adoption in the NMSs (Dandashly & Verdun, 2015).

How much does the symbolic factor explain the Romanian strategy of euro adoption? First, trying to assess the degree of symbolic value that Romanians attach to the leu, one should look at the polls that address this specific problem in relation to euro adoption. The Flash Barometer results for 2018 reveal that in Romania a slight majority of the population (47% vs. 44%) disagree that adopting the euro will mean that their country will lose a part of its identity. The trend, however, is descendant, (with fewer Romanian disagreeing with the idea of a lost identity due to euro adoption) after reaching a maximum in May 2010 – 66% (EC, 2018). Second, the quality of the national currency may be taken as a proxy for the degree of attachment felt by the people. Romania has seen one of the highest inflation among the countries in the region in the first decade of transition. The inflation rate reached 295.5% in 1993, fell in 1995 to 27.8%, only to increase in 1997 to 151.4%, staying at high levels until the late 2000s. As a result, the degree of currency substitution has been among the highest in the region: in 2001, 42.8% of the M2 money supply was comprised of deposits in foreign currencies.

In sum, the Romanian public does not seem to see many advantages in using the national currency and turns to the single currency to save and to make current transactions, a fact confirmed by the high percentage of the public that has used the euro within their country (around eight out of ten of the group of respondents who have already used euro banknotes or coins have done so in Romania or both in Romania and abroad) (EC, 2018).

To conclude, it is safe to assume that the majority of the Romanian public tends to think of their national currency mainly in pragmatic terms and does not attribute great symbolic value to the leu. Therefore, the symbolic factor has not been an impediment for euro adoption in Romania.

We shall now analyze the internal politics dimension of euro adoption in Romania following the structure of factors of influence used by Dandashly & Verdun (2018) to examine the cases of the Czech Republic, Hungary, and Poland. In this view, the first set of factors includes electoral cycles and the role of the elites such as the presidency and political leadership along with the constitutional and legal constraints that they face, seeking to assess the degree of influence that these factors have on the euro adoption process. The second set of factors has to do with the central bank independence to assess how the preferences of the central bank elite affect the process. The last set deals with public opinion as we try to evaluate how the Romanian electorate may have influenced the monetary choice of the government.

Electoral cycles and the role of the elites: the declarative political support for the euro

In an unprecedented collaborative political effort, all major Romanian parties supported the country's accession to NATO and the EU. To this day, Romania's membership of the EU has remained virtually undisputed by major political players. Similarly, the perspective to adopt the single currency seems to have benefitted from across-the-board political support. However, given that Romania has not yet adopted the euro and a clear-cut political decision has only recently been taken, this statement needs clarification.

Indeed, on the one hand, the declarative support for an early euro adoption has been abundant among key political figures. Initially, the Romanian government had planned to adopt the euro in 2014, Prime Minister Emil Boc being so optimistic as to declare that even this date should be brought forward, stating that the government was working at a strategy for early adoption (Mediafax, 2009). However, this plan never came to fruition, 2014, 2015 and 2019 have all been abandoned as target dates. The first Convergence Program issued by the government in January 2007 contained a commitment to enter the ERM II in 2012, while through the 2014 – 2017 Convergence Program the authorities committed to adopting the euro in January 2019. The rest of the programs contained no clear date for adoption, the government declaring in general terms its intentions to adopt the euro at some point in the future. The abandonment of the target was usually disclosed in public statements through the voice of the prime minister (or the finance minister), who emphasized the still unsatisfactory "readiness of the economy" as a key factor for the missed target (e.g., Gheorghe, 2017).

However, on the other hand, a clear timetable for euro adoption has only recently been made public. Coupled with the reserved attitude of the BNR with regard to early euro adoption, this speaks to the duplicitous stance of the political elite towards euro adoption. Offering a rationale for euro adoption, the Romanian political discourse began to included elements specific to EU politics, such as the importance for Romania "to join the [Eurozone] club" or "to have a seat at the decision table" (Șimandan, Leuștean, & Dobrescu, 2017).

The 2014 and 2019 European Parliament election campaigns have constituted good opportunities for Romanian political parties to declare their adherence to European values. Although the campaign themes were concerned mainly with internal politics, all major parties regarded the accession to the Eurozone as a prime political objective (Europuls, 2019).

In March 2018, the ruling PSD voted at an extraordinary congress to back a 2024 target date for joining the Eurozone (Marinas, 2018). This political move is worth mentioning because it is for the first time that a party in power commits to a firm target date for adoption, while all the other targets set and later dropped originated in the executive branch. As a result of this decision, a national commission in charge of drafting the timetable for adoption was set up and began its activity. In an attempt to build a large national consensus, the commission is comprised of representatives of various academic, political, governmental and civil society organizations. The commission presented its report to the public in April 2019 (National Commission for the Development of the National Plan to Adopt the Euro Currency, 2018). In this document, five strategic objectives are stated, which are meant to increase the real and structural convergence with the Eurozone. Perhaps unsurprisingly, absent from the document is a clear target date, which is left to political decision. Daniel Dăianu, a prominent member of the commission and a member of the BNR board, recommended the year 2026 as the horizon for adoption so as to avoid "a too tight calendar" (Actmedia, 2018).

The optimistic scenario to adopt the euro in 2024 has little credibility given that Romania's economic conditions deteriorated in 2018 to the point that only one (i.e., the public debt) of the four nominal convergence criteria were met (EC, 2018). Moreover, the recent expansionary fiscal policy implemented by the PSD government is incompatible with such an ambitious timetable for Eurozone accession.

As for the role of the presidency, according to the Romanian constitution, any law must be promulgated by the president, who is able to send bills back to the parliament for reexamination or to challenge them to the constitutional court. However, the president may do so only ones since promulgating a reexamined bill is compulsory. Therefore, the president has no veto power in the Romanian constitutional architecture. In addition, the president has no specific economic role. In practice, the president may try to use public communication to influence the political agenda, a strategy brought into play by president Traian Băsescu during his ten-year office holding.

Since 2004, both president Traian Băsescu and president Klaus Iohannis publicly expressed their support for the adoption of the single currency. President Băsescu has been an enthusiast supporter both of the EU integration and of the Eurozone adherence throughout his presidency. "I believe it should be firmly stated in our documents a target date, and an optimum time can't be other than 2017", he stated in an interview in 2013 (Caleaeuropeana, 2013). In 2011, Băsescu insisted that Romania was still committed to joining the common currency area by 2015 despite the economic turmoil in the Eurozone. "Don't laugh", he said speaking in Berlin after a meeting with German Chancellor Angela Merkel, "We want to join the Eurozone in 2015 if all the preconditions are satisfied" (Journal.ie, 2011). Similarly, President Iohannis took every opportunity to affirm the country's attachment to all European values, including the single currency project. In his view, joining the Eurozone should become a "country project", a condition for achieving this goal, however, being a broad political consensus (Chiriac, 2015).

Related to the broader legal context for euro adoption, it is safe to assume that the Romanian Constitution does not amount to an impediment for euro adoption. In fact, the opposite seems to be the case, since Article 137 of the Constitution was amended in 2003 to state, "The national currency is the leu, with its subdivision, the ban. Under the terms of Romania's accession to the European Union, national currency circulation and replacement by that of the European Union may be acknowledged by an organic law" (Constitution of Romania, 1991).

To summarize, we advance the idea that the political support for euro adoption has been a common feature of all the post-accession governments. However, the lack of concrete steps towards euro adoption coupled with the absence of a commitment to a calendar for adoption led us to assume that this political support has been mainly declarative.

The role of the central bank: a cautious stance

In post-communist Romania, the central bank gained relative independence in 1991 as a result of the adoption of the Law regarding the Statute of the BNR (no. 34/1991). The degree of independence further increased with the adoption of a new law (no. 314/2004) which defines the central bank as an independent public institution. The members of the board, including the governor, are appointed by the parliament on the proposal of the competent standing committees for a five-year term, with the possibility of unlimited renewals. The parliament may revoke the members of the board only if found guilty of serious misconduct. As for the goal independence, the primary objective of the BNR set by law is to maintain price stability. In 2005, the BNR assumed a direct inflation-targeting framework in an attempt to curb the high inflation characteristic to the first decade of transition in Romania. The central bank has a high degree of freedom to establish the targeted inflation rate.

In its Converge reports, the EC assessed the independence of the BNR as insufficient, pointing to a number of imperfections and incompatibilities with EU norms (EC, 2018, pp.105-106). The legal right of the Finance Minister (or one of the State Secretaries in the Ministry of Finance) to participate in the meetings of the board (without voting rights) may put these politicians in a position to influence the central bank's decisions and is incompatible with the provisions of Article 130 of the TFEU. Moreover, according to the BNR Law, the Court of Auditors is empowered to control the establishment, management and use of the public sector's financial resources (BNR included) and to audit the performance in the management of the funds of the BNR. This provision is deemed as an imperfection since the relation with independent external auditors is not clarified. In addition, the legal provision that the BNR must transfer to the state budget 80% of net revenues on a monthly basis may affect its financial independence. Thus far, the EC's recommendations have not been translated into legislative initiatives although they have been routinely discussed in the popular press.

Overall, the degree of independence of the central bank can be said to have increased steadily, with a limited number of points remaining to be addressed through the political process. The members of the board are politically appointed, with the major parties cooperating in passing the appointments. A large majority of parliamentarians reappointed Governor Mugur Isărescu in 2014 for his fifth term in office, while vice-governor positions were filled by high-profile politicians, both from parties in power and in opposition (Business Review, 2014).

Across time, the BNR has had a cautious approach towards euro adoption. Officials from the central bank have routinely emphasized the role of the real economy and political factors in addition to monetary factors for successful euro adoption. Governor Isărescu has long championed putting the process of euro adoption in the framework of the real convergence set of arguments (Isărescu, 2007, 2008, 2013, 2015). Unlike nominal convergence, which enjoys a clear-cut legal definition, real convergence lacks definitional precision. Among the criteria used to assess real convergence, per capita GDP has been analyzed in many documents originating from the BNR. The crucial contribution of the fiscal policy to meeting the criteria for euro adoption has been habitually emphasized (e.g., Isărescu, 2008).

In Romanian context, a number of indicators have been put forward to assess the degree of the economy's real convergence, such as the openness of the economy, the share of the EU in foreign trade, the productive structure of the economy, and the per capita GDP (Isărescu, 2007). Considered the most important criterion to assess the real convergence, this last indicator has been analyzed in many documents originating from the BNR. From this viewpoint, Isărescu (2007) advances a discouraging 60-year horizon for the Romanian economy to catch up with the EU average, given a 4 pp growth differential. The crucial contribution of the fiscal policy to meeting the criteria for euro adoption has been habitually emphasized (e.g., Isărescu, 2008, p.3).

In the aftermath of the sovereign debt crisis, Isărescu (2013) argues that putting off euro adoption, at least temporarily, seems justified. Trying to rationalize this wait-and-see attitude of the BNR, he offers the following arguments: the single currency has gradually lost its appeal; the advantages of the euro have become less noticeable, while the disadvantages more clear; the reduction in financing costs (as a result of decreased interest rates brought about by the single currency) may no longer be considered a clear-cut benefit; the sluggish economic growth in the euro area makes further commercial integration less appealing (pp.11-15). Therefore, a "sustainable" meeting of the Maastricht criteria is needed (p.19). Moreover, the recent experience is depicted in BNR's documents as unfriendly to euro adoption, substantially "altering the approach to euro adoption" as policymakers enjoy "limited room for maneuver due to past pro-cyclical behavior" (Isărescu, 2015, pp.13,15).

Deputy Governor Florin Georgescu has also laid emphasis on real convergence criteria, arguing that in an unreformed environment for doing business, the adoption of the euro would make things worse (Georgescu, 2017). Deputy Governor Liviu Voinea has put forward a more optimistic view, contending that adopting the euro may be a catalyst for structural reforms that Romania needs and pointing to the opportunity cost for postponing the adoption in the shape of increased economic discrepancies and lack of participation in the EU's decision-making process (Voinea, 2017). However, on practical grounds, his optimism seems to fade since the decision to initiate the switch to the euro must be based on a large (perhaps unrealistic) political and popular support (Voinea, 2017).

In sum, we hypothesize that the cautious stance of the BNR – grounded in the slow advance of the real convergence – is a key variable to explain the sluggish move towards the single currency in Romania.

The public opinion: an unfulfilled enthusiasm

The public opinion factor may be taken as a proxy for the voice of the electorate that may influence the entire political process (Dandashly & Verdun, 2016, p.6). Romanians have constantly been among the most enthusiastic supporters of the single currency. As shown in Table 2, the most recent data show that 69% of the Romanian population is in favor of euro adoption (the highest share, as in the previous year), compared with 27% that is against. The favorable opinion to euro adoption peaked in 2014, with 74% of respondents backing up euro adoption (with only 24% being against). The effect of the financial crisis on the positive perceptions of the euro has been modest: 62% of the population was favorable to the euro in 2008, declining only to 59%, 55% and 51% in 2009, 2010 and 2011 respectively, gradually increasing afterward. The proportion of respondents who think that the country is ready for the euro is also among the highest in the EU (26%), second only to Sweden (27%). Moreover, the share of the population who believes that the consequences of euro introduction would be positive considerably outweighs those with negative opinions (54% versus 40%). However, the proportion of those who want euro adoption to be as late as possible is 28%, steadily increasing from 17% in 2010 (and 12% in 2008).

Table 2. The Evolution of Public Opinion Regarding the Euro, Romania, 2010–2018 (%) (European Commission, Flash Eurobarometer, various reports from 2011 to 2018)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
In favor of introducing the euro*	55	51	64	67	74	68	64	64	69
Against introducing the euro**	28	29	30	28	24	26	33	30	27
Want euro accession as late as possible	17	21	27	29	24	22	32	32	28
Want euro accession as soon as possible	43	38	36	36	44	40	37	37	34
Well informed about the euro	45	41	34	37	36	41	40	41	46
Not well informed about the euro	54	57	65	62	63	58	59	58	52
Think the euro will have positive consequences for the country	57	54	49	51	57	54	51	49	54
Think the euro will have negative consequences for the country	26	30	44	42	37	39	44	43	40

For the years 2010 and 2011, data refer to respondents' personal satisfaction with euro adoption.
**For the years 2010 and 2011, data refer to respondents' personal dissatisfaction with euro adoption.*

Several factors may help explain the constant support for the single currency, notwithstanding the euro crisis. Firstly, given the constantly high rate of inflation during the 1990s and the 2000s, which resulted in a soaring degree of currency substitution, Romanians are not particularly attached to the national currency. Secondly, unlike other countries outside of the Eurozone, Romania did not see the protective qualities of a flexible exchange rate regime. Although the real exchange rate of the leu depreciated by 19% between 2007 and 2009, the real GDP dropped by 7.1% in 2009. Romanians could learn that having an internally managed currency is not an effective shield against external economic shocks. Thirdly, given the countless corruption scandals that the public has witnessed since the mid-2000s and the ensuing general disappointment with the internal political class, it is not hazardous to assume that Romanians – laymen and elite alike – would see with good eyes the introduction of an externally managed currency, out of reach of national politicians.

For these reasons, we theorize that the public opinion favorable to euro adoption has not been translated into an effective pressure on politicians to speed up the euro area accession. The freedom to use the euro for price quotations, savings, and borrowing, coupled with the fact that euro adoption has not been a salient issue, acted as a substitute for the necessity to officially adopt the single currency.

Conclusions

A strictly economic perspective on the adoption of the single currency in the NMSs falls short in explaining the widely diverse strategies that these countries embraced. A political economy standpoint, with its emphasis on the features of the internal institutional players and the expected behavior of national and supranational political actors, is in a better position to offer a more realistic view on this ultimately monetary phenomenon. In addition, the view that stresses internal politics factors is well suited to help complete the picture on the political conditions necessary for the (quintessentially political) decision to renounce an economic policy tool and to switch to an externally issued currency.

We have analyzed a number of economic and political factors that could aid explain the sluggish advancement towards euro adoption in Romania (a synthesis of our findings is provided in Table 3). Even with the economic factors improving – the economic structure, trade relations, labor market flexibility, and business cycle synchronization have all moved towards greater compatibility with the euro area core – the political economy factors have not been particularly favorable to early euro adoption. On the one hand, the real convergence of the Romanian economy has shown slow but steady progress and the public is not particularly attached to the national currency. On the other, however, there are no identifiable forces pushing hard for euro adoption. Although Romania has been the recipient of increasing foreign investment in industries well integrated with the rest of the EU's economy, pressures from interest groups that were supposed to gain from monetary unification were almost nonexistent. Finally, in spite of a euro-enthusiast internal public, the factors that relate to the domestic political life have not played effectively in favor of euro adoption. Even though political leaders from across the political spectrum have routinely declared their support for adopting the euro, concrete steps in this direction were at best timid. The latest target date for adoption that the ruling party assumed is endangered by the unfavorable economic context of the last year brought about by unsustainable fiscal policies. Once again, representatives of the BNR seem to favor a more prudent approach and delay the adoption date.

Table 3. Summary of economic and political factors for euro adoption in Romania (authors' own compilation)

Factor	Specifics
Economic factors	
Economic structure and trade relation	Improvement of the current and capital accounts; high degree of integration with the euro area through trade and investment
Economic cycle synchronization	Rapidly increasing since 2008
Political economy factors	
Nominal convergence	Maastricht criteria met only in 2015, 2016 and 2017
Real convergence	A slow advancing real convergence
Exchange rate regime	Managed float; a relatively stable real exchange rate
Interest-group pressure	Weak pressure for adoption
The symbolic factor	Not a deterrent for euro adoption
Internal politics factors	
Presidency	Highly supportive; lack of economic responsibilities; no veto power
The priority of consecutive governments	Euro has been presented as a priority; lack of concrete steps towards euro adoption
Elites' support for euro adoption	Highly supportive
Central bank independence	Goal, instrument and financial independence; members of the board politically appointed
Government vs. central bank	Political cooperation until 2016; more conflict since 2016; BNR has had a cautious approach to euro adoption
Public opinion	Highly supportive; slightly declining with the euro crisis

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Appendix

List of acronyms

BNR – National Bank of Romania *(Banca Naţională a României)*
EC – European Commission
ECB – European Central Bank
EMU – Economic and Monetary Unification
ERM II – Exchange Rate Mechanism II
EU – European Union

FDI – Foreign Direct Investment
GDP – Gross Domestic Product
NMS – New Member State of the EU
OCA – Optimal Currency Area
PSD – Social Democratic Party *(Partidul Social Democrat)*
TFEU – Treaty on the Functioning of the European Union

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