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## Article

# Romania's trade relationship with the European Union in the prospect of joining the euro area

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# ROMANIA'S TRADE RELATIONSHIP WITH THE EUROPEAN UNION IN THE PROSPECT OF JOINING THE EURO AREA

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## Abstract

The choice of the research topic is due to the national challenge, that the entry of our country into the euro area will have mainly positive consequences for the Romanian economy. The article<sup>1</sup> presents the evolution of the Romanian current account deficit in relation to the European Union. It can be seen that the degree of commercial integration of our country with the European Union is at a high level, and that the commercial relationship with the European Union countries is the main cause of Romania's trade deficit. Using qualitative and quantitative assessments, interpretations and comparative analyses, the article shows that Romania is not in a situation favourable to the economic convergence with the European Union countries in terms of the current account deficit. The analysis is performed for the period 2006-2018, in order to compare the current situation (from 2018) with that in the year before our country entered the European Union.

**Keywords:** trade relationships, trade deficit, risks, unfavourable situation

**JEL Classification:** F14, F15, F36, F45

## 1. Introduction

For Romania, a country which depends on imports, but also concerned with development, the consolidation of the convergence is imperative in order to avoid the deterioration of the equilibria in the

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perspective of the accession to the single currency area, the deficiencies of the euro area could not be corrected, by its architects, in a foreseeable term.

The entry into the euro area and initially in the ERM II must be correlated with the situation of the national economy, with the level of development of the production potential and with the resistance to asymmetric shocks, so that the entry into the euro area will bring to our country more advantages than disadvantages.

The adoption of the single currency can create problems in the context of the existence of imbalances in the Romanian economy. Thus, Romanian exports may suffer a shock generated by the loss of the exchange rate instrument and its support in maintaining the competitiveness of Romanian products, differentiated, however, for the trade with the European monetary area, for the trade with non-euro area member countries, and also for exchanges with countries outside the European Union. The magnitude of the shock depends on the degree of improvement of the exports' structure in the direction of the increase of the share of goods with a high processing level and high added value.

Consolidating the tendency to improve the structure of goods exports is dependent on supporting efficient activities, by attracting investments in sectors with high added value, respectively by increasing the capacity of the Romanian companies to adapt to the standards of the external markets and to cope with possible adverse developments. The large share of the multinational companies in the foreign trade of Romania imposes policies that should contribute to the improvement of the value chains.

The enhancement of Romania's trade relations with the euro area should entail increased investments and improved productivity associated with an inflow of new technologies.

The analysis will be carried out in the period 2006-2018, in order to compare the current situation (the year 2018) with that of the year previous to our country's joining the European Union.

## **2. The Evolution of the Trade Relation between Romania and the European Union**

In the case of our country, the external deficit is determined by the negative balance of the current account, which has as main cause the deficit of the goods balance (the trade balance).

Hereinafter, we shall analyse the evolution of the trade relation between Romania and the European Union, and its effects on the external deficit of our country.

Since 2007, the year of Romania's entry into the European Union, we can see an intensification of the trade relations between Romania and the countries of the European Union. As a result, the degree of commercial integration of Romania with the European Union is at a high level (see Table 1). Thus, the share of Romania's exports to the European Union in the total exports of our country has increased from 70.5% in 2006 to 76.7% in 2018, and the share of Romania's imports from the European Union in the total imports of our country has increased from 68.7% in 2006 to 74.7% in 2018.

Romania is experiencing a deficit in the trade relations with the European Union all over the analysed period. The deficit of our country's trade balance with the European Union has increased sharply between 2006 and 2008, then it has decreased in 2009, in the context of the economic-financial crisis, it has increased between 2010 and 2012, it has decreased in 2013, and it has resumed its increase between 2014 and 2018 (see Table 1).

Analysing the share of Romania's trade deficit with the European Union in the total trade deficit of our country, we find that the main cause of our country's trade deficit is the trade relationships with the countries of the European Union. Between 2009 and 2012, there was an increase in the importance of the trade deficit with the European Union in the total trade deficit of our country (128.7% in 2013). Starting with 2014, this indicator is on a downward slope, representing 65.4% in 2018.

The countries from the European Union with which Romania has the largest trade deficits in 2018 are: Poland (2500 mil. euro), Hungary (2400 mil. euro), Russia (2000 mil. euro), the Netherlands (1500 mil. euro), Germany (1400 mil. euro), Austria (1200 mil. euro).

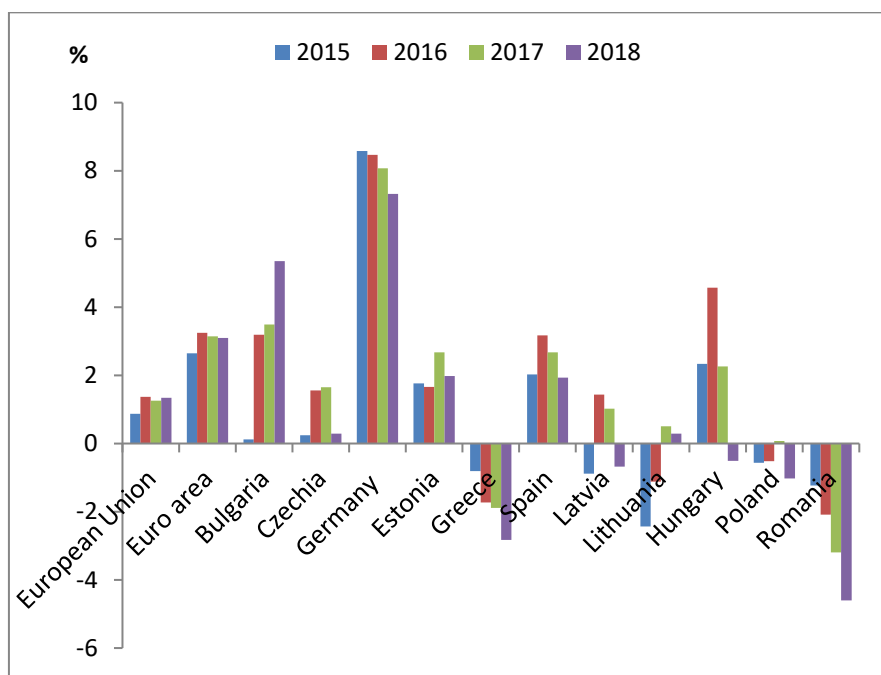
**Table 1**  
**Romania's trade relation with the European Union**

	Share of exports (%)	Share of imports (%)	Trade balance deficit Romania- EU (mil. Euro)	Share of trade balance deficit Romania- EU in Romania's total trade balance deficit (%)
<b>2006</b>	70.5	68.7	-9767	65.6
<b>2007</b>	72.0	71.3	-15318	70.4
<b>2008</b>	70.8	69.7	-16037	68.2
<b>2009</b>	74.6	73.2	-6849	69.4
<b>2010</b>	72.6	72.6	-6918	72.8
<b>2011</b>	71.3	72.8	-7736	80.1
<b>2012</b>	70.4	73.6	-8540	88.6
<b>2013</b>	69.6	75.8	-7408	128.7
<b>2014</b>	71.1	75.4	-6809	112.4
<b>2015</b>	73.7	77.2	-8341	99.8
<b>2016</b>	75.1	77.1	-8871	89.0
<b>2017</b>	75.8	75.8	-9797	75.6
<b>2018</b>	76.7	74.7	-9894	65.4

Source: author's calculations based on National Institute of Statistics data.

When we compare the situation of our country with regard to the current account balance with the situation in the other countries of the European Union, we observe that Romania is one of the few member states of the European Union where the current account deficit worsens from 2015 to 2018 (see Chart 1). We encounter this situation only in the case of Greece, Latvia, Poland and Hungary.

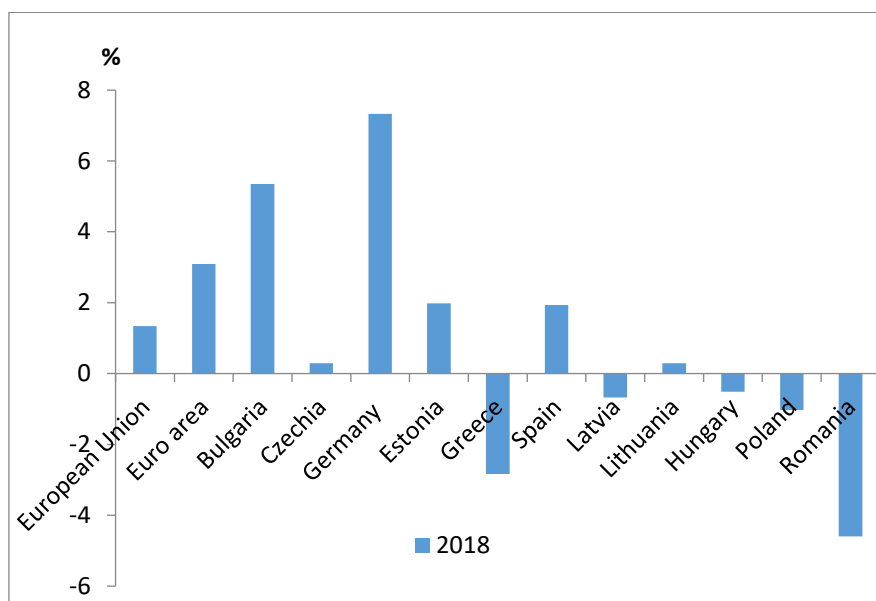
**Chart 1**  
**The current account balance in the European Union, the euro area and in some member states of the European Union in the period 2015-2018 (% in GDP)**



Source: AMECO data

Moreover, it can be noticed that in the last year of the analysed period (2018), Romania is on the most unfavourable position among the countries of the European Union, regarding the share of the current account deficit in GDP. Thus, our country has the largest current account deficit as a share of GDP among all the countries of the European Union, in 2018 (see Chart 2). This situation raises question marks regarding the economic policies implemented in the country, the consumption model, and the stage of the structural reforms.

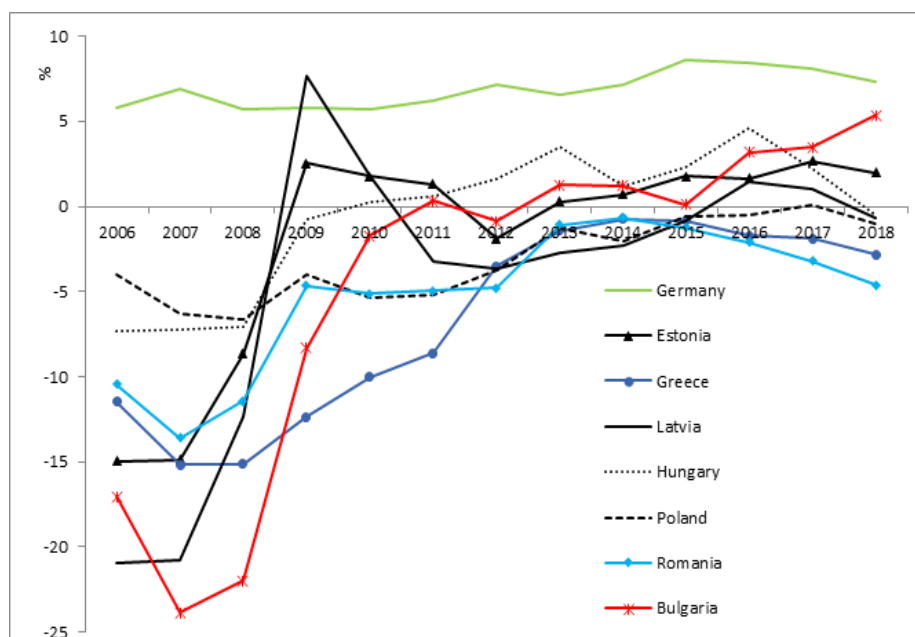
**Chart 2**  
**The current account balance in Romania, the European Union, the euro area and in some other member states of the European Union in 2018 (% in GDP)**



Source: AMECO data

Although Romania's current account deficit in 2006 was large by international standards (see Chart 3), our country was on an average position compared to other new EU member states. In the following years, Romania has had the same trend as the other analysed countries, recording a decrease of the current account deficit. This evolution has continued until 2014. Since 2015, the current account deficit of our country (as a share of GDP) has increased continuously and the most from the analysed countries, reaching the value of -4.6% in GDP in 2018, under the conditions in which most of the other countries of the European Union have had current account surpluses that year. We can conclude that Romania has failed to solve the economic problems, to restructure its economy in a way that should ensure sustainable economic development.

**Chart 3**  
**The current account balance in Romania and in some other member states of the European Union in 2006-2018 (% in GDP)**



Source: AMECO data

If we analyse the average of the current account deficit in GDP over the last 3 years (indicator in the scoreboard of the procedure for macroeconomic imbalances within the alert mechanism of the European Commission), we can notice that in 2018 only Germany exceeds the upper admitted threshold with the value of 7.96% of GDP, Romania being the only country approaching the lower admitted threshold of the indicator, with the value of -3.3% of GDP<sup>2</sup> (Table 2).

<sup>2</sup> According to the procedure for macroeconomic imbalances within the alert mechanism of the European Commission (2018), it is estimated that an imbalance between - 4% and 6% of GDP is acceptable, provided that it does not become permanent.



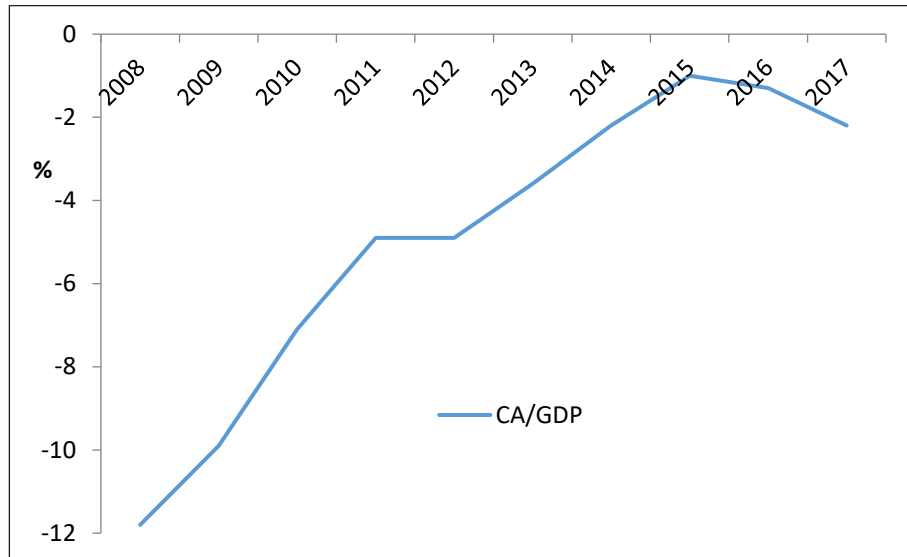
**Table 2**  
**The evolution of the current account balance in Romania and in some other member states of the European Union in 2006-2018 (% in GDP)**

	2006	2008	2009	2012	2013	2014	2015	2018	Average for the last 3 years
<b>European Union</b>	-1,25	-2,23	-0,64	0,52	0,96	0,83	0,87	1,34	1,32
<b>Euro area</b>	-0,17	-1,84	-0,47	0,95	2,11	2,33	2,64	3,10	3,16
<b>Bulgaria</b>	-17,04	-21,97	-8,30	-0,85	1,28	1,24	0,12	5,35	4,01
<b>Czechia</b>	-2,47	-1,87	-2,27	-1,56	-0,53	0,18	0,25	0,29	1,17
<b>Germany</b>	5,77	5,69	5,84	7,13	6,55	7,20	8,58	7,33	7,96
<b>Estonia</b>	-14,94	-8,64	2,54	-1,88	0,29	0,71	1,76	1,98	2,10
<b>Greece</b>	-11,49	-15,11	-12,34	-3,49	-1,43	-0,74	-0,81	-2,83	-2,15
<b>Spain</b>	-8,85	-8,90	-4,09	0,09	2,04	1,70	2,03	1,94	2,60
<b>Latvia</b>	-20,90	-12,33	7,70	-3,64	-2,75	-2,27	-0,88	-0,68	0,59
<b>Lithuania</b>	-10,62	-13,19	2,11	-1,57	1,69	3,47	-2,44	0,29	-0,11
<b>Hungary</b>	-7,28	-7,07	-0,73	1,58	3,45	1,17	2,33	-0,51	2,11
<b>Poland</b>	-4,00	-6,67	-3,95	-3,71	-1,26	-2,07	-0,56	-1,03	-0,49
<b>Romania</b>	-10,46	-11,44	-4,66	-4,80	-1,08	-0,66	-1,23	-4,60	-3,29

Source: AMECO data

From Chart 4, we can see that Romania exceeds the lower threshold (of -4% of GDP) of the indicator "current account balance, share in GDP (3-year average)" (from the scoreboard of the procedure on macroeconomic imbalances within the alert mechanism of the European Commission) in 2008-2012. Between 2013 and 2017, the indicator is within the allowed limits.

**Chart 4**  
**The current account balance in 2008-2017, as share in GDP, 3-year average<sup>1</sup>**



Note: <sup>1)</sup> According to the scoreboard of the procedure on macroeconomic imbalances within the alert mechanism of the European Commission.

Source: European Commission data

### 3. Conclusions

Romania has an economy dependent on imports. The improvement of the current account balance, as well as the long-term economic perspectives of Romania, depend on the economy's ability to move from the production of relatively low technology goods to high technology products and services, with higher value-added. This requires an increase in the financing of research and innovation activities. In addition, in order to reduce the current account deficit, we consider that it is useful and necessary to promote the consumption of national products through a campaign that should motivate the population and lead it towards Romanian goods.

Romania's economic growth model, based on consumer spending, affects the country's ability to sustainably reach the standard of living in the European Union. The need to put the economy on a sustainable path towards convergence with the standard of living in the

European Union, requires ensuring the continuity of reforms and the transition to a growth model based on investments.

From the analysis it can be seen that the degree of commercial integration of our country with the European Union is at a high level, and the commercial relationships with the countries of the European Union represent the main cause of the trade deficit of our country. There is an intensification (albeit discontinuous) of Romania's trade relations with the countries of the European Union, after our country's accession to the European Union.

The analysis shows that Romania is not in a favourable situation for the economic convergence with the European Union countries in terms of the current account deficit. This is due, on the one hand, to the fact that the current account deficit of our country (% of GDP, 3-year average) risks again to exceed the lower limit admitted in the procedure for macroeconomic imbalances within the alert mechanism of the European Commission (after exceeding the lower threshold (of -4% of GDP) in the period 2008-2012), in other words, Romania may become ineligible for the adoption of the euro. On the other hand, the evolution of the current account deficit of our country compared to that of the other members of the European Union places Romania on one of the most unfavourable positions, in the sense of having a current account deficit throughout the analysed period, a deficit that increases since 2015, unlike most European Union countries where the current account deficit shrinks, or even turns to surplus. Moreover, our country has the largest current account deficit as a share of GDP of all European Union countries, in 2018. This situation raises question marks regarding the economic policies implemented in our country, the consumption model, and the stage of the structural reforms. It seems that Romania has failed to solve the economic problems, to restructure its economy in a way that should ensure sustainable economic development.

In addition, the persistence of these trends may reduce the ability of the economy to adapt to shocks that may occur domestically or may spread from abroad and may affect the growing needs of the economy for external financing, generated by the high and increasing external deficit, through worsening lending conditions, and even reducing loans obtained and long-term investments.

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