

# ROMANIA'S FOREIGN DEFICIT IN THE PERSPECTIVE OF JOINING THE EURO AREA

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## **Abstract :**

*The article<sup>22</sup> analyzes Romania's trade relations with the countries of the European Union. The study shows that the degree of trade integration of our country with the European Union is at a high level, and the trade relationship with the countries of the European Union is the main cause of the trade deficit of our country. There is an increase (although discontinuous) of Romania's trade relations with the countries of the European Union, after our country's joining the European Union. In addition, we note that Romania is one of the few member states of the European Union in which the current account deficit is worsening after 2015.*

**Keywords:** *trade, deficit, relations*

**JEL Classification:** *F14, F15*

## **Introduction**

The external deficit represents a macroeconomic imbalance caused by the relations of an economy with the rest of the world, generated by the way the resources for economic development and consolidation are used.

The external deficit refers to the deficit of the balance of payments, and is determined, from a behavioral point of view, by the state and structure of the national economy, by the external conditions and by the evolution of the currencies in which foreign trade takes place.

Thus, the analysis of the external deficit is a useful and necessary step both for understanding the realities of the economy, and especially for drawing up proposals for the improvement of the resources allocation.

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

The adoption of the single currency may create problems when there are some imbalances of the Romanian economy. Thus, Romania's exports may suffer a shock induced by the loss of the exchange rate instrument and its support to maintain 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 the trade with countries outside the European Union. The

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<sup>22</sup> The article is based on the research project "*Foreign deficit and foreign direct investments in Romania. Trends and challenges in the perspective of Euro adoption*" („Deficitul extern și investițiile străine directe în România. Tendințe și provocări în perspectiva aderării la zona euro”), elaborated in CFMR "Victor Slăvescu" in 2019, under the coordination of Camelia Milea.

magnitude of the shock depends on the degree of improvement of exports structure in terms of increasing the share of goods with a high degree of processing and high added value.

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

In the paper, it will be analyzed the period 2006-2020, in order to compare the situation from 2020 with that of the year before the integration of our country in the European Union.

### **Romania's trade relations with the countries of the European Union; effects on the external equilibrium**

Since 2007, the year of our country's joining the European Union, we have seen an intensification of Romania's trade relations with the countries of the European Union. As a result, Romania's degree of trade integration with the European Union is at a high level (see table below). Thus, the share of Romania's exports towards the European Union in the total exports of our country increases from 70.5% in 2006 to 76.7% in 2018, then decreases to 73.6% in 2020, due to the diminishment of Romania's exports to the European Union, as a result of the slowdown in the economic activity, at the national and international level, amid the measures taken by the authorities in order to prevent the spread of covid-19. The share of Romanian imports from the European Union in the total imports of our country increases from 68.7% in 2006 to 74.7% in 2018, reaching 73.5% in 2020.

Romania's trade balance with the European Union (the deficit) (see table no. 1) has increased sharply in 2006-2008, then decreased in 2009, in the context of the economic and financial crisis, increased between 2010 and 2012, diminished in 2013 and 2014, and has augmented between 2015 and 2020.

Analyzing the share of Romania's trade balance with the European Union in the total trade balance of our country, we find that the main cause of our country's trade deficit is the trade relationship with European Union countries. Between 2009 and 2012 there was an increase in the importance of the trade deficit with the EU in the total trade deficit of our country (128.7% in 2013). Since 2014, this indicator has been on a downward slope, representing 65.4% in 2018. In 2019 and 2020, the share of trade deficit with EU countries has increased to 73.2%, the significant increase taking place in 2020, as a result of the crisis caused by the measures taken to combat covid-19.

The countries in the European Union with which Romania has the largest trade deficits in 2020 are Hungary (2797 million euros), Poland (2642 million euros), Germany (2583 million euros), the Netherlands (1500 million euros), and Austria (1092 million euros).

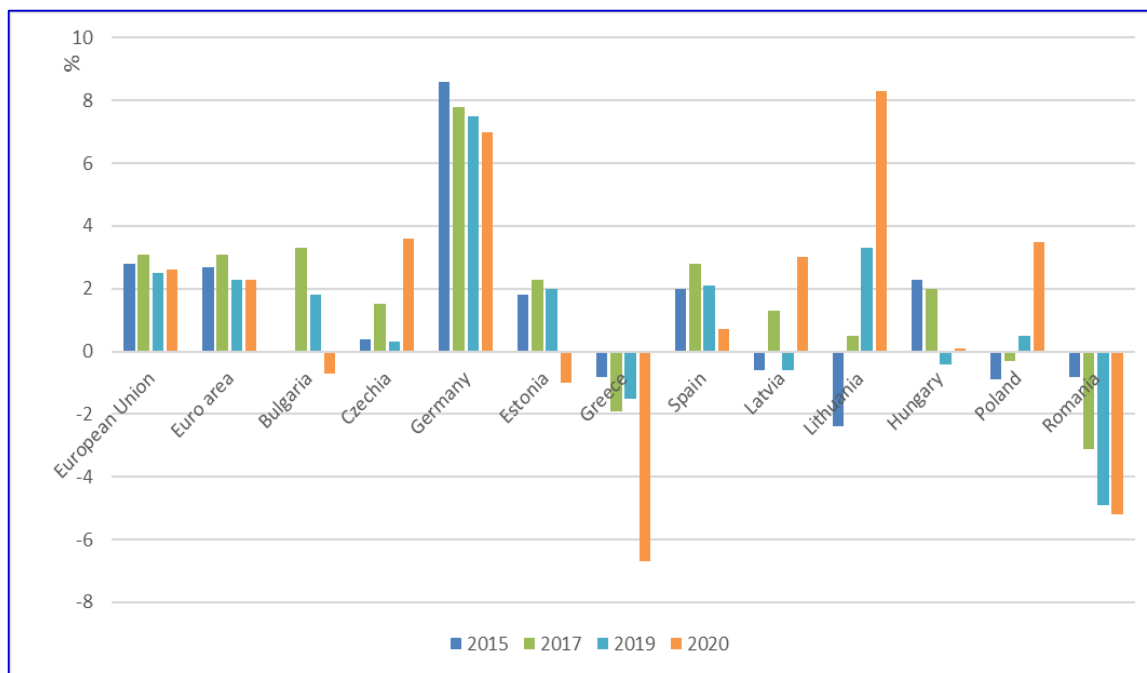
Table 1

## Romania's trade relation with the countries of the European Union

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Share of exports (%)	70.5	72.0	70.8	74.6	72.6	71.3	70.4	69.6	71.1	73.7	75.1	75.8	76.7	76.6	73.6
Share of imports (%)	68.7	71.3	69.7	73.2	72.6	72.8	73.6	75.8	75.4	77.2	77.1	75.8	74.7	74.6	73.5
Romania- EU trade balance (mil. euro)	-9767	-15318	-16037	-6849	-6918	-7736	-8540	-7408	-6809	-8341	-8871	-9797	-9894	-11566	-13466
Share of Romania-EU trade balance in the total trade balance of Romania (%)	65.6	70.4	68.2	69.4	72.8	80.1	88.6	128.7	112.4	99.8	89.0	75.6	65.4	66.9	73.2

Source: own calculations based on NIS data.

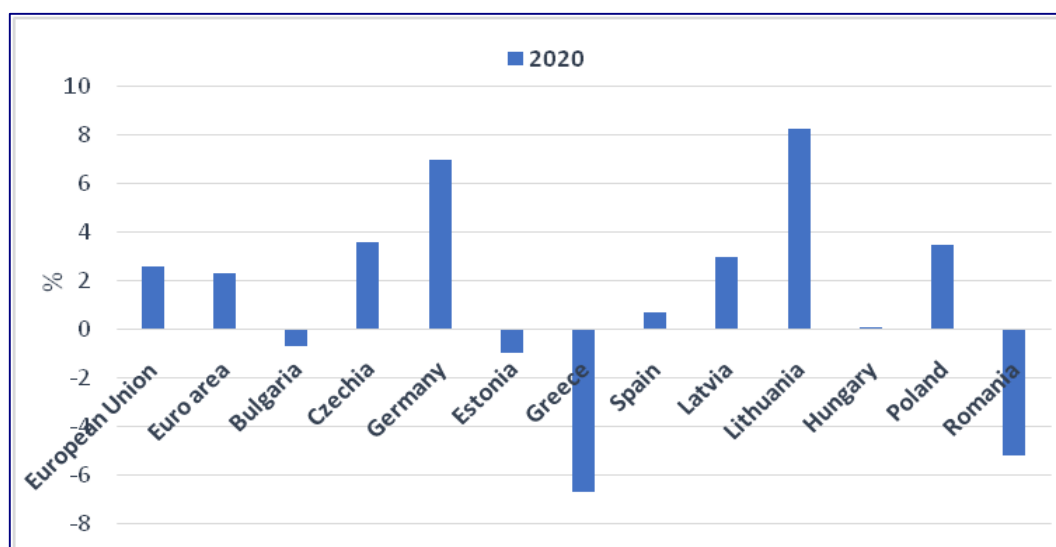
When we compare the situation of our country in terms of current account balance with the situation from the other EU countries, we notice that Romania is one of the few Member States of the European Union in which the current account deficit worsens from 2015 to 2020 (see chart no.1). We encounter this situation only in the case of Greece and Bulgaria.



**Figure 1: Current account balance in the European Union, the euro area and some Member States of the European Union in the period 2015-2020 (% of GDP)**

Source: AMECO data

Moreover, it can be noticed that in the last year of the analyzed period (2020), Romania is in the most unfavorable position among the European Union countries, after Greece, in terms of the share of the current account deficit in GDP, registering the second most high value (see chart no. 2). This situation raises questions about the economic policies implemented in the country, the consumption pattern, and the stage of structural reforms.

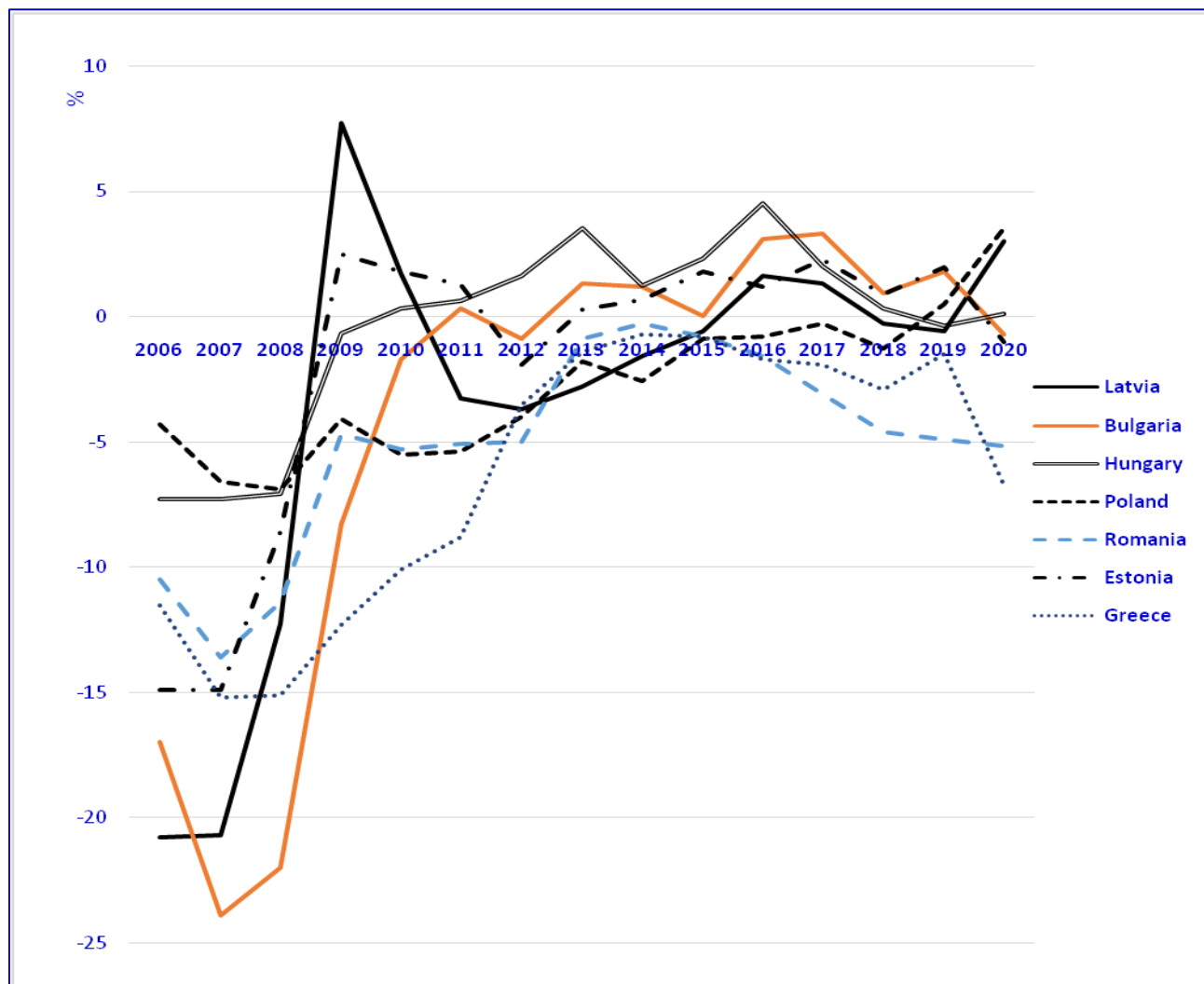


**Figure 2: Current account balance in the European Union, the euro area and some Member States of the European Union in 2020 (% of GDP)**

Source: AMECO data

Although Romania's current account deficit in 2006 was high according to international standards (see chart below), our country was on an average position compared to other new Member States

of the European Union. In the following years, Romania followed a trend similar to the other analyzed states, registering a decrease of the current account deficit. This evolution continued until 2014. Since 2015, the current account deficit of our country (as a share in GDP) has been constantly increasing, reaching the value of -5.2% of GDP in 2020, when most of the other European Union countries have been recorded current account surpluses. We can conclude that Romania has failed to solve its economic problems, to restructure its economy in a way that should ensure sustainable economic development.



**Figure 3: Current account balance in Romania and in some Member States of the European Union in the period 2006-2020 (% of GDP)**

*Source: AMECO data*

If we analyze the average current account deficit in GDP over the last 3 years analyzed (indicator in the scoreboard of the macroeconomic imbalances procedure under the alert mechanism of the European Commission), we find that in 2020 only Germany exceeds the upper threshold allowed, with a value of 7.47% of GDP. Romania has been the only country that has had a value of the indicator below the lower limit allowed (-4.9% of GDP<sup>23</sup>) (see table 2).

<sup>23</sup> According to the procedure on macroeconomic imbalances under the European Commission's alert mechanism (2021), it is estimated that an imbalance between - 4% and 6% of GDP is acceptable, provided it does not become permanent.

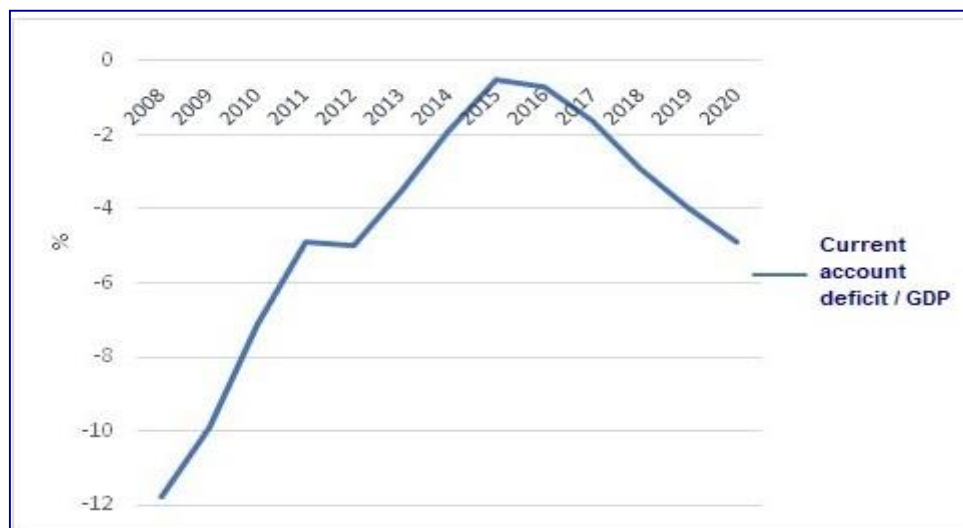
Table 2

**The evolution of the current account balance in Romania and in other Member States of the European Union in the period 2006-2020 (% in GDP)**

	2006	2008	2009	2012	2013	2014	2015	2018	2019	2020	3-year average (2018-2020)
<b>European Union</b>	-1.25	-2.23	-0.64	0.52	0.96	0.83	0.87	1.34	2.5	2.6	2.63
<b>Euro area</b>	-0.17	-1.84	-0.47	0.95	2.11	2.33	2.64	3.10	2.3	2.3	2.50
<b>Bulgaria</b>	-17.04	-21.97	-8.30	-0.85	1.28	1.24	0.12	5.35	1.8	-0.7	0.67
<b>Czechia</b>	-2.47	-1.87	-2.27	-1.56	-0.53	0.18	0.25	0.29	0.3	3.6	1.43
<b>Germany</b>	5.77	5.69	5.84	7.13	6.55	7.20	8.58	7.33	7.5	7	7.47
<b>Estonia</b>	-14.94	-8.64	2.54	-1.88	0.29	0.71	1.76	1.98	2	-1	0.63
<b>Greece</b>	-11.49	-15.11	-12.34	-3.49	-1.43	-0.74	-0.81	-2.83	-1.5	-6.7	-3.70
<b>Spain</b>	-8.85	-8.90	-4.09	0.09	2.04	1.70	2.03	1.94	2.1	0.7	1.57
<b>Latvia</b>	-20.90	-12.33	7.70	-3.64	-2.75	-2.27	-0.88	-0.68	-0.6	3	0.70
<b>Lithuania</b>	-10.62	-13.19	2.11	-1.57	1.69	3.47	-2.44	0.29	3.3	8.3	3.97
<b>Hungary</b>	-7.28	-7.07	-0.73	1.58	3.45	1.17	2.33	-0.51	-0.4	0.1	0.00
<b>Poland</b>	-4.00	-6.67	-3.95	-3.71	-1.26	-2.07	-0.56	-1.03	0.5	3.5	0.90
<b>Romania</b>	-10.46	-11.44	-4.66	-4.80	-1.08	-0.66	-1.23	-4.60	-4.9	-5.2	-4.90

*Source: AMECO data*

From chart no. 4, it is found that Romania exceeds the lower threshold (-4% of GDP) of the indicator Current account balance, % of GDP (3-year average) in the scoreboard of the procedure on macroeconomic imbalances within the alert mechanism of the European Commission in the period 2008-2012. Between 2013 and 2018, the indicator is within the allowed limits, in 2019 and 2020 being again below the lower limit set by the European Commission.



**Figure 4 - Current account balance, % of GDP (3-year average) within the scoreboard of the procedure on macroeconomic imbalances within the alert mechanism of the European Commission in Romania in the period 2008-2020**

*Source: European Commission and own calculations*

We can say that Romania is not in a favorable situation for economic convergence with the countries of the European Union in terms of current account deficit.

## Conclusions

*In Romania, the external deficit is determined by the negative balance of the current account, and within it, it is mainly generated by the goods balance.*

*It can be seen that the main cause of our country's trade deficit is the trade relationship with the members of the European Union, and the degree of trade integration of our country with the European Union is at a high level. There is an intensification (although discontinuous) of Romania's trade relations with the states of the European Union, after our country's joining the European Union.*

*When we compare the situation of our country, in terms of current account balance, with that of the other European Union states we notice that Romania is one of the few Member States of the European Union in which the current account deficit has worsened from 2015 to 2020. In addition, our country has the second largest current account deficit as a share of GDP of all European Union members, after Greece, in 2020. This situation raises questions about the economic policies implemented in the country, the consumption pattern, and the stage of structural reforms.*

*Romania has exceeded the lower threshold (-4% of GDP) of the Current Account Balance indicator, as a percentage of GDP (3-year average) in the scoreboard of the macroeconomic imbalances procedure under the European Commission's alert mechanism in 2008-2012 . Between 2013 and 2018, the indicator has been within the allowed limits, but in 2019 and 2020, the values of the indicator have increased, again violating the lower limit set by the European Commission. We can say that Romania is not in a favorable situation for economic convergence with the European Union countries in terms of current account deficit.*

*In addition, the persistence of these trends may reduce the ability of the economy to adapt to shocks (domestical or external) and may affect the growing external financing needs of the economy, caused by the high and widening external deficit, by worsening borrowing conditions, and even reducing the credits obtained and long-term investment.*

*We can say that the trend in the evolution of our country's current account deficit since 2015 represents a source of vulnerabilities for the sustainable development of the economy (a growing external deficit requires additional sources of financing), but also for the prospect of joining the euro area (the limits allowed under the macroeconomic imbalances procedure of the European Commission's alert mechanism being exceeded).*

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