Romania, Poland. Two Countries, One Wish: Joining the Eurozone

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Abstract

The paper aims to present the efforts of the two Member States of the European Union regarding the criteria for accession in the „select club" of the Eurozone, in the current economic environment, which is characterized by uncertainty and profound turbulences. The study has pointed out that, even though the economic policies of the Romanian and Polish governments have generally implied similar measures in order to comply with the convergence criteria, the visions of the two governments are different. In short, Romania's exaggerated optimism, fuelled by the electoral "needs", (the only country in a hurry to enter the Eurozone), and not backed by the economic reality, is in a stark contrast with Poland's reserved attitude (taking into consideration the fact that the Poland has the highest rate of economic growth in Europe), which expresses the wish to join the Eurozone only after the national economy's problems as well as the Eurozone's troubles have been resolved.

Keywords: *Romania, Poland, convergence criteria, Eurozone, Economic and Monetary Union, economic crisis*

The opening of the European Union to the countries in the Central and Eastern European countries has profoundly affected not only the dynamics within Europe itself, but also within the countries themselves. These countries have come a long way in the process of accession and integration within the European Union. Their development and catching-up process has had an effect at the macroeconomic level, which has translated into improvements into the citizens' daily lives. As improvements automatically translate into changes, the gradual process of integration definitely has had an impact on people's lives, as accession to the European Union was not the final stop in the countries' catching-up process. Monetary integration is another step in this process, probably the most important step, which necessitates the most efforts, but is likely to have the most benefits.

As it was stated, the road to the Eurozone is not easy, but success is likely to be rewarded. This was the rhetoric dominant in the European Union in the early days of the monetary union when the Euro was considered to be the epitome of the European spirit, which would also help foster the European identity. For Central and Eastern European countries, like Romania and Poland, accession and integration into the monetary union meant the incredible opportunity of re-entering the European arena officially. This political event, the accession of Romania and Poland, inevitably triggered a series of economic efforts in order for these two countries to qualify to enter the Eurozone. Unfortunately, these efforts and the catching-up process were sidetracked due to the economic and financial crisis which has

[1] This paper was published in Stanislawa Sagana, Viktoriyi Serzhanovej (editors), *Relacje Polsko-Rumunskie. Historia, gospodarka, Unia Europejska,* Rzeszow, 2013, ISBN 978-83-7338-880-2, pp.20-41

swept all across the European Union. Suddenly, financial and economic stabilization were priorities for the newly-accepted countries instead of following the steps towards convergence. Even if they were not actually a part of the Eurozone, their dependence on trade with the Eurozone countries made them vulnerable to the problems of the Euro. Moreover, their statute as new members made them even more vulnerable to any cracks in the system.

Why Romania and Poland? As the two biggest countries from the Eastern bloc, which recently entered the EU, Romania and Poland have the potential of being one of the major European powers within the supranational system. Poland has emerged as the unofficial leader of the Central Eastern bloc, while Romania is a definite geopolitical win for the European Union. However, they have handled the road to the Euro as well as the economic crisis in different ways. This analysis will focus on Romania and Poland's efforts to join the Eurozone and meet the convergence criteria, while assessing the countries' performance and strategies to tackling the economic crisis. The purpose of this paper is to highlight the important steps in the process of monetary integration, using the European Union's point of view via the Convergence Reports and the countries' points of view established through reports and media declarations.

1. The Eurozone: the Economic and Monetary Union and Optimum Currency Area

1.1. The Economic and Monetary Union

An analysis upon the efforts of countries wishing to enter the Eurozone merits a retrospective look on the Economic and Monetary Union, as this helps with understanding the issues of convergence. When we discuss the Economic and Monetary Union we turn our attention to the 90s, but in reality, the idea of the current monetary union was conceived well before this decade. The idea of an economic and monetary union is a concept which is strictly related to the first instances of European integration, namely the creation of economic communities, the nuclei of the current European Union.

Numerous attempts and failures of the efforts to establish the first steps of such a monetary union have been registered over the decades. In the 70s, the European Monetary System was formed, based on the European Currency Unit and the Exchange Rate Mechanism. However, more ample efforts were necessary in order to properly prepare the monetary union. The Delors Report came out in 1989 and proposed three steps to create the economic and monetary union. The first stage meant the complete freedom of capital transaction, increased cooperation and economic convergence and the free use of the ECU. The second stage stipulated the establishment of the European Monetary Institute, increased coordination of monetary policies and the independence of national central banks with price stability as their main objective. The third and final stage stipulated the irrevocable fixing of currency rates, the foundation of the Eurosystem and the transfer of monetary policy to the European Central Bank as the first 11 states entered the Eurozone. Moreover, the intra-EU exchange rate mechanism and the Stability and Growth Pact entered into effect[2].

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[2] European Central Bank, *Convergence Criteria*, http://www.ecb.int/ecb/orga/escb/html/convergence-criteria.en.html, accesed at 10.04.2012

Even if the Delors report set a precise guideline to follow in order to achieve economic and monetary integration, it needed a strong intervention and commitment from Member States. The Treaty establishing the European Union was signed in Maastricht in 1992 and entered into force from the 1st of November 1993 and it laid out the pillars of the newly established European Union, one of which being the Economic and Monetary Union. For a country to become member of the EMU, it had to follow and respect certain precise convergence criteria: high degree of price stability, sustainability of the government financial position, stable currency exchange rate for at least two years, stable long term exchange rate. In 1998, the European Council identified eleven countries that fulfilled the convergence criteria, namely: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal and Finland. Several other countries have joined the Eurozone since, Greece in 2011 for example. Denmark and the United Kingdom have obtained a special status from the EU and are not a part of the monetary union. But, most importantly for the purpose of this paper, there were also some new Member States who entered the Eurozone: Slovenia in January 2007, Slovakia in 2009 and Estonia on the 1st of January 2011. Their entrance into the Eurozone is a testament to their efforts to achieve convergence. The countries that are not a part of the Eurozone are called "members with derogation", as they have not met the criteria and therefore are subject to audit by the European Commission, which prepares Convergence Reports once every two years to check the countries' compatibility with the criteria.

Stability is the key concept when analyzing the trail of a particular country towards the new currency. In this unstable economic climate, this might seem as a given, as countries are struggling to achieve economic stability. But the context of the crisis has caused a shift from stability in the name of convergence to stability in the name of survival. For example, Romania was forced to ask for international financial assistance in the spring of 2009 to avoid a collapse of the economy, a measure which in turn, disrupted the road to convergence.

1.2. The Optimum Currency Area

The decades of the 70s and 80s offered two important lessons for the partners in the integration process. First of all, monetary instability can seriously affect the integration system. Secondly, the pursuit of monetary stability is actually a political problem[3]. These issues can still be observed today in the struggle of both the Eurozone countries and the non-Euro members to stay afloat. All these issues stem for an inconsistency in the theory on which the architects of the single currency in the EU based their system, namely the lack of a fiscal policy to complete united monetary policy. Measures to correct this issue have been implemented, the most important of which being the Fiscal Pact signed in 2012. In order to understand the difficulties surrounding the Eurozone and the candidate countries to the Eurozone, we have to point out the basic functioning of the monetary union, which will help understand the efforts that non-Euro area members have to pursue in order to become members. Moreover, the uniqueness of the Economic and Monetary Union can be explained theoretically, which will help shed a light on the problems facing the EU.

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[3] Grigore Silaşi, Philippe Rollet, Nicu Trandafir, Ioana Vădăsan, *Economia Uniunii Europene: O poveste de succes* [The Economy of the European Union: A Success Story?], West University Publishing, Timişoara, 2007, p. 279

"An optimum currency area can be defined as the optimal geographical area for a single currency, or for several currencies, whose exchange rates are irrevocably pegged. The single currency, or pegged currencies, fluctuate jointly vis-à-vis other currencies"[4]. The optimum currency area refers actually to an area in which the cost of giving up on a flexible currency exchange rate is lower than the benefits of a single currency. The advantages of monetary stability occur because the costs of establishing a monetary union are outweighed by the benefits.

Monetary unification has been a key problem for the European countries. The fact that they share a currency not only enstills a sense of Europeanness, but it also offers certain benefits, such as: avoiding the volatility of exchange rates, avoiding transaction costs or a decrease in local preference[5]. The benefits of a monetary union are widely felt at a microeconomic level. Before adopting the Euro, a number of economists lead by Michael Emerson issued an European Commission approved document called *One Market, One Money,* where the official position was that in a future monetary union, differential demand shocks are to be less likely. The experience of the first Exchange Rate Mechanism has taught the countries participating in the monetary union an important lesson, namely that keeping fixed exchanged rate among different currencies would lead to numerous tensions. That's why the creation of a new currency was seen as a solution to the dilemma of countries' monetary authorities which sought different goals[6].

How do the new Member States accommodate with this system? The efforts made by the initial members of the Eurozone have to mirrored in the efforts of the countries from Central and Eastern Europe, as their catching-up process has to be done in a significantly smaller timeframe than the three or four decades that the Western countries had at their disposal. Moreover, they have to pass through a severe crisis which has considerably shrunk the size of their economies. In the end, the European monetary system ended up to be an imperfect optimal currency area, as several important properties of such are implemented, while some are less used. For instance, "a high degree of openness and diversification in production and consumption, similar inflation rates and the acceptance of a joint governance structure" are important properties of the optimal currency area which could be reported only in the first years of the monetary union[7]. Conversely, the EMU suffers from a modest overall price and wage flexibility and low labor mobility[8].

2. Romania and Poland – steps towards monetary integration

One of the foremost important criteria for accession of candidate countries to the European Union is the existence of "a functioning market economy, as well as the ability to

[4] Francesco Paolo Mongelli, *European Economic and Monetary Integration and the Optimum Currency Theory,* Economic Paper 302, February 2008, p. 2
http://ec.europa.eu/economy_finance/publications/publication12081_en.pdf

[5] Jacques Pelkmans, *Integrare europeana. Metode şi analiză economică. Ediţia a II-a,* [European Integration. Methods and Economic Analysis], European Institute of Romania, Bucharest, 2003, p.344

[6] Francesco Paolo Mongelli, *op.cit,* p.14

[7] *Ibidem,* p.21

[8] Grigore Silaşi et al, *op.cit,* p.286

cope with the pressure and the market forces at work inside the Union"[9]. Before accession, Poland and Romania have made great progress towards the functional market economy, which is also an important premise for their monetary integration. As members with derogation, they have to forego additional reforms to achieve monetary stability and reach the standards set out by the European Central Bank.

The catching-up process with reference to the European Union was influenced by such factors, such as: the rhythm and quality of internal reforms, the liberalization and amplification of commercial trade, the role of foreign direct investments at both economic levels and the countries' strategy of development on short and medium term[10]. This section will refer to the steps taken by Poland and Romania in the direction of monetary integration, starting with basic reforms for real convergence and including specific progress they have made regarding nominal convergence.

As two of the biggest countries from the new wave of Member States, Romania and Poland offer and benefit from the new perspectives as member states of the European Union. Their accession to the Eurozone would be even more beneficial, according to the rhetoric that dominated the booming years of the Eurozone. Nowadays, the rhetoric has changed as a result of the Euro debt crisis as well as the financial crisis that has greatly affected the emerging economies of Europe. The analysis upon the steps taken by Romania and Poland towards monetary integration can shed a light on the costs which sacrificed as a result of adhering to a single currency and consequential benefits. Generally speaking, the benefits of entering a monetary union clearly outweigh the costs, but the current situation of the Eurozone offers a totally different perspective regarding the costs and benefits analysis. On the one hand, the debt crisis has clearly triggered an alarm regarding the statute of the integration process within the European Union[11].

Currently, out of the two countries, only Romania has set a specific date for entrance in the Eurozone, namely January 2015. According to some economists and the actual Convergence Report issued by the European Commission, this target is not easy to reach. Regarding Poland, the last target for entering the Eurozone had been January 2011, but the deterioration of the economic situation both within Poland and in the European Union caused the country to fail this target[12]. The official documents regarding convergence, both from the Commission's and the national authorities point of view are interesting to analyze, as, if combined, they paint the picture of what needs to be done and how to get to the convergence target. Both these points of view are filled with references to the economic and debt crisis and

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[9] European Commission, *Conditions for Enlargement,* http://ec.europa.eu/enlargement/the-policy/conditions-for-enlargement/index_en.htm, accessed at 10.04.2012

[10] Virginia Câmpeanu, „Drumul României spre vest. Reducerea decalajelor economice față de Uniunea Europeană și alte state candidate în pregătirea aderării la Uniunea Europeană", [Romania's Road towards West. Reducing Disparities regarding the European Union and Other Candidate Countries in Preparation for Accession to the European Union] în Maria Mureșan, coord., *Procesul de integrare a României în econmia europeană,* [Romania's Process of Integration in the European Economy. Historical and Contemporary Dimensions], ASE Publishing House, Bucharest, 2008, p.421

[11] The Fiscal Pact signed in March 2012 is a testament to the growing efforts to increase and enhance the integration process within the European Union. The Fiscal Pact calls for new strict rules on deficits and debts

[12] Adam Carr, *Poland survey the Eurozone turmoil: eager to join, but perhaps not yet,* in The Guardian, 19.02.2012, http://www.guardian.co.uk/business/2012/feb/19/poland-eurozone-turmoil-join

issue cautious forecasts as well as call for prudent action within the economic turmoil. Moreover, what also brings these two countries together is their commitment to support the troubled Eurozone, as they adhered and signed both the Euro-Plus Pact and the Fiscal Pact or the so-called Treaty on Stability, Coordination and Governance within the Economic and Monetary Union. These actions emphasize their commitment to go on with the catching-up process, as well as a support for an increased monetary and fiscal integration.

Extensive preparation and a cautious approach is necessary for a successful convergence process, hence the countries' efforts have been also conveyed at an institutional level. Both Romania and Poland have created an institutional framework compiled out of a series of official documents and several committees, which serve the sole purpose of pursuing the road to the Euro Area. Poland's preparatory work is pursued by the National Euro Coordination Committee, the Coordinating Council and eight Working Committees, which was set up in December of 2009. The main institution in charge is the Government Plenipotentiary for Euro Adoption in Poland, which chairs the above-mentioned committees. In total, more than 30 institutions are involved, including the Ministry of Finance and the National Bank of Poland[13].

Romania's commitment is supported by the Inter-ministerial Committee composed of the National Bank of Romania, the Ministry of Public Finance under the coordination of the Prime Minister[14]. In February 2010 the Committee for Preparing the Changeover to Euro was created within the National Bank of Romania. Its objective is to create the technical and legislative support for the central bank's responsibilities within the process of adopting the Euro[15]. The committee's efforts are focused on analyzing the experience of other countries which went through the same process, on analyzing the country's progress, and on mechanisms and new concepts developed at the European Union level after the financial crisis[16].

The two countries' Convergence Programmes focus on core objectives and targets that are to be reached in the short and medium term. Romania's efforts regarding the adoption of the new currency are outlined in the Convergence Programme issued in 2011 for the medium term where the country's monetary policy and economic policy are emphasized. The document stresses the fact that the Maastricht criteria already impose a rigorous framework for the country's macroeconomic policies. However, the necessity of adopting structural measures and policies must be completed, in the national administration's opinion, with structural measures which can help ensure the well-being and competitiveness of the Romanian economy after adopting the Euro currency[17]. The palpable actions taken by the institutional framework in charge with the Euro adoption process were proposals regarding the national laws involving the currency change, the study of the institutional structure created

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[13] Republic of Poland, *Convergence Programme. 2011 Update,* Warsaw, April 2011, http://ec.europa.eu/europe2020/pdf/nrp/cp_poland_en.pdf, p.5, accessed at 10.04.2011

[14] Government of Romania, *Programul de Convergenţă. 2011-2014,* [Convergence Programme.2011-2014], 29th of April 2011, p.1

[15] *Ibidem*

[16] National Bank of Romania, *The NBR's Role in the Preparation for Joining the Eurosystem,* http://www.bnro.ro/The-NBR's-role-in-the-preparation-for-joining-the-Eurosystem-1584.aspx

[17] Government of Romania, *op.cit.,* pp.4-5

by other Central and Eastern European countries in their preparation and other analyses regarding the degree in which Romania fulfills the nominal and real convergence criteria[18].

Apart from the National Convergence Programmes, the steps toward the Euro are outlined in the Polish government's official documents, the *Prerequisites for Implementation of the Next Stages of the Road Map for Euro Adoption in Poland* and the *Strategic Guidelines for the National Euro Changeover Plan*. The Prerequisites, approved in April 2009, are focused on the monetary integration strategy which has to support exchange rate stability in order to enter the ERM II framework. Moreover, it proposes a number of conditions which are to be met before entering the Exchange Rate Mechanism framework, namely: "the level of the central parity should reflect macroeconomic fundamentals, the declared duration of ERM II membership should be as short as possible, the fulfillment of all the formal requirements at the time of assessing Poland's readiness for euro adoption should be ensure and a political consensus over the necessary formal adjustments to adopt the common currency is indispensable"[19]. Since 2009, Poland has not entered the ERM II framework due to the zloty's volatility and developments on the international markets. However, what is interesting about Poland's efforts is the fact that they haven't set a new date for entry, as the Polish authorities have committed to a cautious and serious program in order to be fully prepared, because a reform of such a magnitude should be done properly in order to achieve a "secure Euro area membership". This point is emphasized in the *Strategic Guidelines for the National Euro Changeover Plan,* where the numerous benefits of Euro adoption in the long term are stressed.

These institutional efforts and objectives have to be supported by a series of economic indicators which can help the two countries move forward. Neither Romania, nor Poland is yet a member of the Exchange Rate Mechanism, but they are focused on stabilizing their economies. Their strategic documents, namely the Convergence Programmes, can offer insights into where these two countries are in the process of nominal and real convergence and, moreover, their medium-term estimates can offer an estimate into the actual moment of convergence. The following section addresses this issue while corroborating information regarding the impact of the financial crisis on the economy and will also follow the European Commission's assessment of Romania and Poland's progress.

3. Romania and Poland: Economic Crisis and Convergence

When the Economic and Monetary Union was envisioned, the goal was to achieve the convergence of economic performances. Thus, real convergence can be seen as the similarity or uniform outlook of the main important economic variables of Member States, namely production, income, employment or productivity[20]. In the process of creating the monetary

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[18] *Ibidem,*

[19] Ministry of Finance, Government Plenipotentiary for the Introduction of the Euro in Poland, *Prerequisites for Implementation of the Next Stages of the Road Map for Euro Adoption in Poland. Executive Summary,* Warsaw, April 2009, http://www.mf.gov.pl/_files_/unia_europejska/finanse_ue/06_05_mapa_ang.pdf

[20] Enrico Marelli, Marcello Signorelli, *Institutional, Nominal and Real Convergence in Europe,* in the 27th AISSEC Scientific Conference "Growth and Development Patterns: the Role of Institutions in a Comparative Perspectives", Perugia, 25-27 June 2009, available online

union, several nominal criteria have been established in order to quantify the candidate countries' progress towards convergence. These criteria sum up the concept of nominal convergence. Several economic specialists claim that the achievement of the nominal convergence will eventually lead to the real convergence, "thanks to the advantages of macroeconomic stability (price stability and fiscal discipline), the removal of the exchange-rate risk, the reduction of uncertainty concerning inflation and interest rates, the spur of investment and international trade"[21]. As a result, nominal and real convergence and caught into an interdependent relation, but candidate countries are monitoring the nominal criteria in order to quantify progress.

While the achievement of nominal convergence is quantified with the help of the Maastricht criteria, real convergence doesn't have clear measurable standards. The governor of the National Bank of Romania has issued an opinion in this sense, stating that no real convergence criteria were put in place because the EMU was composed in the beginning of well-developed economies with similar economies[22]. The acknowledgement of real convergence has become more popular, as the successful integration of the new Central and East European members is more and more dependent on the achievement of real convergence with the older members of the EMU.

Even if there are no fixed criteria for real convergence, the Governor considers that the most important factors influencing real convergence are:

- The opening level of the economy, namely the percentage of imports and exports in the GDP
- The percentage of bilateral trade with the EU members in the total foreign trade
- The structure of the economy
- The GDP per capita[23]

3.1. Romania, Poland: real convergence

The opening level of Romania's economy conveys the integration of the economy within the international markets. Romania's Convergence Programme, issued in April 2011, stresses the very good evolution of exterior commerce in 2010. According to the Programme, exports have an important contribution to the reduction of the economic decline[24]. Exports added up to a total of 37.3 billion Euros, compared to 29 billion Euros in 2009. More importantly, imports registered an important decline, and they contributed to a decrease of commercial deficit to only 9.5 billion Euros. As a result, the Programme concludes that exports will continue to be an important support for the development of the Romanian economy. In 2011, the most recent statistics regarding exports favors an important development, as they

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http://www.stat.unipg.it/aissec2009/Documents/papers/70_Marelli_Signorelli.pdf, p.4

[21] *Ibidem,* p.11

[22] Luminița Șoproni, „Romania on its Way to Euro”, in Jaroslaw Kundera, *Economic integration in the EU enlarged: from free trade towards monetary union,* Wroclaw, Poland, 2009, ISBN 978-83-61370-08-6, pp.229-244, http://www.bibliotekacyfrowa.pl/publication/19436

[23] Mugur Isărescu, *Romania: The Way to Euro*, 2007, p.6, http://www.ugir-1903.ro/download/BNR_Drumul_catre_euro.pdf

[24] Government of Romania, *op.cit.,* p.18

increased with 22,5%[25]. Regarding imports, however, they have registered an increase by 18%[26]. The percentage of imports and exports within the GDP has fluctuated in the troubled years of the crisis.

Table 1. The contribution of the imports of goods and services in the GDP (%GDP)

Year	2007	2008	2009	2010
Romania	**43**	**44**	**40**	**30**
Poland	**44**	**44**	**39**	**43**

Source: The World Bank, http://data.worldbank.org/indicator/NE.IMP.GNFS.ZS

Table 2. The contribution of the exports of goods and services in the GDP (%GDP)

Year	2007	2008	2009	2010
Romania	**31**	**31**	**33**	**23**
Poland	**41**	**40**	**39**	**42**

Source: The World Bank, http://data.worldbank.org/indicator/NE.IMP.GNFS.ZS

The recovery of the export level in Poland was fuelled by the economic recovery of Poland's major trade partners. Poland's imports grew in 2011 by about 14.6% over the same period the previous year, while exports also increased with 15.3% compared to 2010[27]. Exports have had a higher exponential increase over imports, thus confirming the growth trend registered in the main economic partners of Poland, namely Germany.

The second criterion or determinant factor of real convergence, as it was conveyed by the Governor of the National Bank of Romania, refers to the level of bilateral trade with the members of the European Union. The EU is Romania's main trade partner, summing up 71.4% of the country's exports and exports to the EU countries increased with 20.3%[28]. The main partners during January-November of 2011 were Germany, Italy, France, Turkey, Hungary, Bulgaria, The United Kingdom, the Netherlands, Spain and Poland[29]. With regards to imports, they sum up 72,4% of the total imports in Romania and the main trade partners were Germany, Italy, Hungary, France, China, Kazakhstan, Poland, Austria, Russia and Turkey.

The EU absorbs 80% of Polish exports, thus making the Polish economy highly dependent on the developments in the European Union. Germany by far is the biggest trading partner of Poland, as imports from Germany sum up to 36,8% of the total, while exports to Germany add up to 33% of the total. The biggest export EU countries for Poland, besides Germany, are France (8,6%), United Kingdom (7,9%), Czech Republic (7,6%), Italy (7,5%), Netherlands (5,5%), Hungary (3,6%), Slovakia (3,4%) and Spain (3,4%). With regards to imports, the

[25] National Institute of Statistics, *International Trade Statistics,* no.11/2011, http://www.insse.ro/cms/files/arhiva_buletine2011/bsci_11.pdf, accesed at 11.04.2012, p. 5

[26] *Ibidem,* p.8

[27] OECD. StatExtracts, *Key Short Term Economic Indicators,* http://stats.oecd.org/index.aspx?queryid=21763#, 11.04.2011

[28] National Institute of Statistics, *op.cit,* p. 7

[29] *Ibidem*

most important imports came from Germany, Italy (9,6%), France (7,3%), Netherlands (6,2%), United Kingdom (4,6%), Belgium (4%) and Slovakia (3,5%)[30].

The structure of the economies of Poland and Romania is represented by the contribution of different fields to the GDP. Productivity is an important factor in real convergence and studies have shown that productivity is highest in business and financial service, slightly above average in industry and low in agriculture[31].

Table 3. The structure of Romanian economy

%	**2008**	**2009**	**2010**	**2011**	**2012**
GDP	**100**	**100**	**100**	**100**	**100**
Industry	23,0	24,1	25,8	26,3	26,7
Agriculture	6,6	6,4	6,0	6,5	6,5
Constructions	10,9	10,5	10,0	9,8	10,2
Services	48,6	48,9	48,6	45,4	44,8

Source: National Commission for Prognosis, Preliminary Spring Prognosis 2012. The Projection of the Main Macroeconomic Indicators,
http://www.cnp.ro/user/repository/prognoza_preliminara_primavara_12.pdf

Poland's economy is mostly dominated by the services sector, but industry still holds an important sport in the country's revenues. The 2009 numbers put agriculture at 4.6% of GDP, while industry summed up to 28.1% and services 67.3%[32]. Industrial production grew in Poland, thanks to the recovery in external demand, especially in manufacturing. In 2010, industrial production grew by 9.8%, against a drop of 4.5% in 2009[33]. The figures from 2011 put the contribution of the industry to the GDP at 33.6%, while the services industry summed up 63% of the economy and the agricultural sector 3.4%[34]. If we compare the two countries' structures, we can see a pattern emerging. Both countries' industrial production has improved over the two years, but Poland's industry has soared over the last few years. Agriculture has a higher contribution in Romania's economy, summing up to almost double the size of the agricultural sector in Poland. Services, the biggest driver of productivity and promoter of real convergence, play the most important role in both the two countries' economies.

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[30] Central Statistical Office, *Yearbook of Foreign Trade Statistics of Poland,* http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL_sy_yearbook_of_foreign_trade_statistics_2011.pdf, accessed 11.04.2012, p. 57

[31] European Commission, *Factors determining real convergence,* available online http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/p141_en.pdf, 12.04.2011

[32] EconomyWatch, *Poland Economic Structure,* 8.04.2010, available online, http://www.economywatch.com/world_economy/poland/structure-of-economy.html

[33] Republic of Poland, *op.cit.,* p.7

[34] Central Intelligence Agency, *The World Factbook. Poland,* available online https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html, accessed at 12.04.2012

GDP per capita is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products[35]. The table below shows the evolution of the Polish and Romanian GDP per capita over the past four years.

Table 4. Romania and Poland – GDP per capita (US$)

	2007	2008	2009	2010
Romania	**7856**	**9300**	**7500**	**7538**
Poland	**11157**	**13886**	**11285**	**12293**

Reported to the overall EU-27 members, GDP per capita in PPS in Romania is situated well below the average at 47% of the EU27 levels. The sharp increased registered in the boom years, from 38% to 42% between 2007 and 2008 was followed by a steady path and a decrease in 2010 to 46%. Poland's figures are better, but still below the European average. The boom years determined an important increase of the GDP per capita in PPS of 5%, from 56% in 2008 to 61% in 2009. The crisis years affected this increase, but Poland managed to keep GDP per capita in PPS on the rise at 63% of the EU27 levels[36].

3.2. Romania, Poland: compliance with the Maastricht Criteria

The progress regarding the compliance with the nominal criteria was abruptly challenged because of the economic crisis, which took its toll on Romania and Poland. Romania has struggled with soaring inflation after 2009, reaching 7,96% in December 2010[37], while Poland dealt with an excessive deficit, which reached 7,9% and which triggered a response from the European authorities, as the Commission issued a high deficit forecast for Poland in 2011 and asked the Polish authorities to outline "measures ensuring the correction of the excessive deficit"[38].

The price stability criterion is measured with the help of the consumer price inflation rate, which is not allowed to reach more than 1.5% point above the rate of the three best performing Member States, which is currently at a reference value of 1%, according to the Convergence Report issued by the Commission in 2010. The consumer price inflation rate in Romania reached a maximum of 6.1% in the same year, according to Eurostat[39]. Poland's consumer price inflation rate was situated at a 2.7% value in 2010, with a sharp increase to 3.9% in 2011. Poland's high HICP inflation rate over the period of 2009-2010 can be blamed

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35 The World Bank, *GDP per capita (current US$),* available online http://data.worldbank.org/indicator/NY.GDP.PCAP.CD, accessed at 12.04.2012

36 Eurostat, *GDP per capita in PPS,* available online http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00114, accessed 12.04.2012

37 *Ibidem*

38 Republic of Poland, *op.cit.,* p.4

39 Eurostat Report, *HICP rate. Annual average rate of change,* available online, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tsieb060

mostly on the increase of prices of food and energy, as well as the increase in administered prices and indirection taxes[40].

Romania's high rate was decreasing in 2011, as it dropped 0.3% to 5.8%. Poland's moderate evolution of the inflation rate was characterized by a weaker volatility than Romania. The sudden economic deceleration due to the shocks in the international markets for raw materials, combined with the decrease of investments and decline in exports, created the conditions of the decline of the index[41]. If we take into consideration developments of the HICP from in 2011, available from Eurostat, we surely observe the fact that the HICP inflation rate is on a fluctuating path in both Poland and Romania. In Poland's case, last year, the HICP rate fluctuated around 3,5%, with a maximum of 3,9% in December 2011, compared to the same month in 2010. Romania's numbers are a bit higher, but they improved by the end of 2011. The maximum value of HICP inflation rate was 7,8%, while the December 2011 saw an important decrease to 5.8%[42], with respect to the corresponding month of the previous year.

Public finance is the second Euroindicator important in achieving nominal convergence with the Eurozone. It is measured with the help of the government deficit as a percentage of the GDP and the reference value mustn't be higher than 3%. Romania's Convergence Programme, issued in 2011, acknowledges the high government deficit in 2010, which was 6,5%, much higher than the reference value, but which was situated under the 6,8% target agreed upon with the IMF[43]. The strict control of spending and a slight increase of budget income were the main driving factors of this decrease. The medium term objective regarding government deficit is included in the priorities of the Romanian government regarding the consolidation of the public finance sustainability, which aims for a 4,4% government deficit.

Poland also struggles with a high government deficit from 2008 to the present, due to „the reduction of social contribution, an increase in personal income tax reliefs for families, a generous indexation of pensions and of social benefits"[44]. According to the Convergence Programme, the general government deficit reached 7.9% GDP in 2010, 0.6% higher than in 2009. Predictions put the general government deficit of 5,6% GDP in 2011 with a subsequent decrease to 2,9% in 2012, 2,5% in 2013 and reaching 2% in 2014[45].

Both countries are subject of an EU Council decision regarding excessive deficit, triggered by the breach of the reference value. The European Commission issued the report regarding Poland's excessive deficit, as the first step of the „excessive deficit procedure" in order to analyze the reasons for the breach of the reference value. The report doesn't qualify

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[40] European Commission, *Convergence Report,* May 2010, p. 51

[41] European Central Bank, *Convergence Report. May 2010,* available online http://www.ecb.int/pub/pdf/conrep/cr201005ro.pdf, p. 33, accessed at 12.04.2012

[42] Eurostat, *HICP- all items. Percentage Change – 12 Months Average,* available online http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&pcode=teicp000&language=en, 12.04.2012

[43] Government of Romania, *op.cit.,* p.52

[44] Commission of the European Communities, *Report from the Commission. Poland. Report prepared in accordance with Article 104(3) of the Treaty,* Brussels, 13.5.2009, available online http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/104-03/2009-05-13_pl_104-3_en.pdf

[45] Republic of Poland, *op.cit.,* p.16

the excessive deficit as „exceptional" according to the standards of the Growth and Stability Pact and was sent to the EU Council who issued a recommendation for the Polish government to take all the necessary action to end the excessive deficit by 2012 „in a credible and sustainable manner". Poland's Convergence Programme focuses on measures implemented in order to correct the excessive deficit, limit its growth and it targets these objectives as challenges. On the basis of the Council Recommendation, Poland has implemented measures to reduce deficit, which were acknowledged as appropriate and sufficient to decrease government deficit by 2012. The most important step taken was the coming into force, as of January 1 2011, of the Public Finance Act with introduces a temporary expenditure rule, which limits the growth rate of discretionary expenditure and legally mandated expernditure. Moreover, due to the excessive deficit procedure the Polish Council of Ministers „cannot adopt any draft acts" which may result in decreases in revenues of the general government units in relation to their level under current legislation or increases in some categories of expenditures, the principle of a balanced current budget for local governments or an mechanism for the introduction conditional VAT rises if the state public debt exceeds 55% in 2011[46]. Poland also has reformed the functioning of the social insurance system.

The Council Recommendation regarding Romania's excessive deficit was issued in July 2009 and it features the same deadline for the correction of the deficit as Poland, namely 2012, while setting a deadline of January 2010 to take effective action. According to the Council, „Romania is to implement measures planned in its 2010 budget, whilst avoiding any further deterioration, and to ensure an annual fiscal effort of 1 ¾% of GDP over the 2010-2012 period"[47]. The measures recommended by the Council were created in the light of the exceptional circumstances created by the request of multilateral financial assistance in March 2009. The government's medium term objectives regarding fiscal consolidation are focused on the reform of public spending, the improvement of the investment policies, the reduction of prevention of overdue debts and improvement of corporate governance[48]. Based on the recommendation, Romania has implemented several helpful measures, such as the Law for Fiscal Responsibility, that modifies substantially the way in which budget policy is implemented, pension reform and restructuring etc.

Government debt is another indicator of sound and sustainable public finances, as they are stipulated in the Maastricht criteria. The reference value is no more than 60% GDP for the government debt. The two countries are in compliance with this criterion, as, according to Eurostat, government debt in Romania was situated in 2010 at a level of 31%. However, this is a significant increase with respect with the boom years, when government debt was 13,4% in 2008 and 12.8% in 2007. However, the multilateral financial assistance necessary for Romania and the negative evolutions from 2009 caused a sharp increase of the debt, almost doubling it to 23,6%[49]. However, the Commission's Convergence Report from 2010 quotes

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[46] *Ibidem,* p.12

[47] Council of the European Union, *Press Release. 2994th Council meeting. Economic and Financial Affairs,* Brussels, 16 February 2010, http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/11_council_press_releases/2010-02-16_council_press_release_en.pdf, 12.04.2012, p.9

[48] Government of Romania, *op.cit.,* p.27

[49] Eurostat, *General government gross debt, Percentage of GDP,* available online

the Sustainability Report from 2009, which states that Romania is confronted with high risks regarding the sustainability of public finance. Poland's similar assessment concluded that it is confronted with moderate risks[50]. Romania's Convergence Programme tackles some measures with are to be implemented in order to refinance the debt, such as the creation of a foreign currency financial buffer. The issue of government bonds in Lei, treasury certificates with a discount and state bond certificates from the internal market with a medium term maturity are some of the most important measures which were implemented.

With regards to Poland, its general government debt is much higher and it approaches the maximum level of 60%. In 2010, it stood at 54,9%, while in the boom years it was situated at 45% (2007 levels). The debt is on an increasing path, as it grew 4% with respect to 2009. Poland's Convergence Programme refers to changes in the debt to GDP ratio in the medium term, which will result from state budget borrowing requirements, GDP growth and the zloty exchange rate in relation to the Euro[51].

The long term interest rate measures the durability of convergence and it is not allowed to be more than 2% higher than the rate of the three best performing Member States in terms of price stability. The Commission's Convergence Report states that between March 2009 and February 2010 the long term interest rate was an average of 6,1%, slightly over the reference value. The reference value calculated for the report was 6%, calculated by adding 2% at the long term harmonized interest rate of Belgium (3,8%) and Portugal (4,2%)[52]. The European Central Bank assessment of the long term interest rates for Poland and Romania shows some interesting developments, as Romania's rates have fluctuated as 2011 progressed. Romania started 2011 with an interest rate of 7,31%, with a maximum level of 7,72% in October, but the year ended with a rate of 7,02%. This is much higher than the current reference value. The numbers from the European Central Bank show an improvement compared to the value analyzed in the Convergence Report. In 2011, in Poland the maximum level of the long term interest rate was 6,27% in January 2011 and it fluctuated until it reached 5,84% in December 2011. The current trends for Poland show an even bigger decrease, as the estimates for March 2012 put the long term interest rate at 5,37%. Regarding Romania, the current trends are also on a decreasing path, as the estimates for March 2012 put the long term interest rate at 6,48%[53].

Exchange rate stability is the last convergence criteria important in the assessment of candidate countries. It is measured by assessing the deviation from a central rate. For this, participation in the Exchange Rate Mechanism II is necessary for at least 2 years without severe tensions. This mechanism has been created to ensure that the participating Member State issue policies aimed at stability and convergence. The stable exchange rate should have a standard fluctuation band of 15% above or below the rate.

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http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=teina225&tableSelection=1, 13.04.2012

[50] European Central Bank, *op.cit.,* pp.51-52

[51] Republic of Poland, *op.cit.,* p.18

[52] European Central Bank, *op.cit.,* p. 37

[53] European Central Bank, *Harmonized long-term interest rates for convergenve assessment purposes*, http://www.ecb.int/stats/money/long/html/index.en.html, accessed at 13.04.2012

Neither Romania, nor Poland is a part of the ERM II. The zloty and leu follow a flexible exchange rate regime. The country' convergence report remarks that the PLN/EUR exchange rate was quite volatile in 2010, due to the global economic crisis. The first quarter of 2010 saw a steady appreciation of the zloty due to "the drop in risk aversion on the global financial markets and the positive assessment of the fundamentals of the Polish economy by foreign inverstors"[54]. However, in the second quarter the zloty dropped in value because the difficult situation of Greece and the worsening situation on the international financial markets. Further drops of the zloty by the end of 2010 were caused by the volatile financial markets and the growing concerns that other peripheral members of the Euro zone are struggling with fiscal problems. The forecast of the Convergence Programme states that "the appreciation trend for the Polish zloty will be maintained", supported by the sound Polish economy which is on a recovering trend. However, the risk factor of the global financial market still looms over the zloty exchange rate. The projections from the Convergence Programme put the annual average for the zloty/euro exchange rate at 3,87 zloty/Euro in 2011 and 3,69 zloty/Euro in 2012[55]. However, the results do not corroborate with the projection, as the reports from European Central Bank put the annual average of the zloty/euro for 2010 at 3,99 and 4,12 for 2011[56]

The Romanian currency's exchange rate regime is flexible, which is in line with using inflation targets as an anchor for monetary policy. During 2010, the Romanian currency was on an appreciation path in nominal terms with regards to the 2009 levels. According to the Commission's Convergence Report, the EUR/LEU exchange rate had a high degree of volatility in the first months of 2009, after a substantial depreciation in the last months of 2008. The multilateral financial assistance package requested by Romania in March 2009 was a factor of stability for the LEU exchange rate. Moreover, in the following year, the exchange rates reached historical maximum levels for the previous 10 years. The Convergence Programme notes that the prognosis for 2011 reflects a reduced volatility and that the annual average will be below the 2010 levels, 4,18lei/euro[57]. Since 2009, however, the Leu has been on a volatile path, as the average value for 2009 was 4,23 lei/EUR, which decreased in 2010 reaching 4,20 lei/euro. Interestingly, the prognosis from the Convergence Programme for 2011 was not reached, as the annual average was 4,23lei/Euro[58]. The exchange rate stability for both countries has not been achieved yet, as developments on the global financial markets and the influence of the European debt crisis have an effect on the currencies of the two countries.

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[54] Republic of Poland, *op.cit.,* p.18
[55] *Ibidem,* p.34
[56] European Central Bank, *Statistical Data Warehouse. ECB reference exchange rate, Polish zloty/Euro,* available online
http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=120.EXR.A.PLN.EUR.SP00.A, 13.04.2012
[57] Government of Romania, *op.cit.,* p. 20
[58] National Bank of Romania, *Statistic Report. Exchange rate – Annual Series,* http://bnr.ro/Raport-statistic-606.aspx, 13.04.2012

4. Conclusions

Romania and Poland have come a long way since their accession in the European Union in 2004 and 2007. Their "catching-up" process was affected by the economic crisis, because their economies are highly integrated into the international markets. The challenges they face are creating policies to achieve sustainable public finance and achieve stability and convergence, while limiting their expenses.

Joining the Eurozone is an inevitable result both for Poland and Romania, but the actual moment cannot be seen in clear sight yet. Even if Romania has a clear date for entrance in the Euro area, it will not be easy to achieve, as inflationary pressures and the volatility of the exchange rate can't be contained due to the instability of the international financial markets, the difficult situation from Greece, Portugal, Spain and the contagion effect which could sweep other members of the Eurozone. Poland was one of the few countries of the European Union which didn't slip into a recession during the financial crisis from 2008 and 2009, whereas Romania slipped into a deep recession, which caused the economy to shrink.

However, they have committed to go ahead with the process, when both Romania and Poland have signed the Fiscal Pact, thus offering a much needed support for the members of the Eurozone and supporting increased monetary and fiscal integration. Poland's initial target for adopting the Euro was 2012 or 2013, but the Finance Minister, Jacek Rostowski, admitted that this goal assumed in September 2008 won't be achieved as they "had no idea that the Eurozone will find it so hard to function effectively to prevent the kind of contagion that we've been seeing". The government's discourse is focused on the fact the Poland will adopt the Euro online when it is safe[59]. Romania's leadership remains dedicated to their objective of joining the Eurozone in 2015, as president Băsescu has stated that this objective will only stimulate both the Parliament and Government to follow policies which will accelerate integration.[60]

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