THE DEFICIT OF THE EU MEMBER STATES THAT HAVE NOT JOINED THE EURO AREA

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Abstract

The Treaty for Stability, Coordination and Governance was signed in 2012 by 25 European Union member states, including countries that have not yet joined the euro area. This means that when these countries join the euro area it will be required to comply with the provisions arising from the Treaty. Essentially, it can be said that the deficit countries that are not part of the eurozone are lower than those of the countries that joined the euro.

Key Words: Euro, Treaty on Stability, Coordination and Governance, member states, European Union, structural deficit.

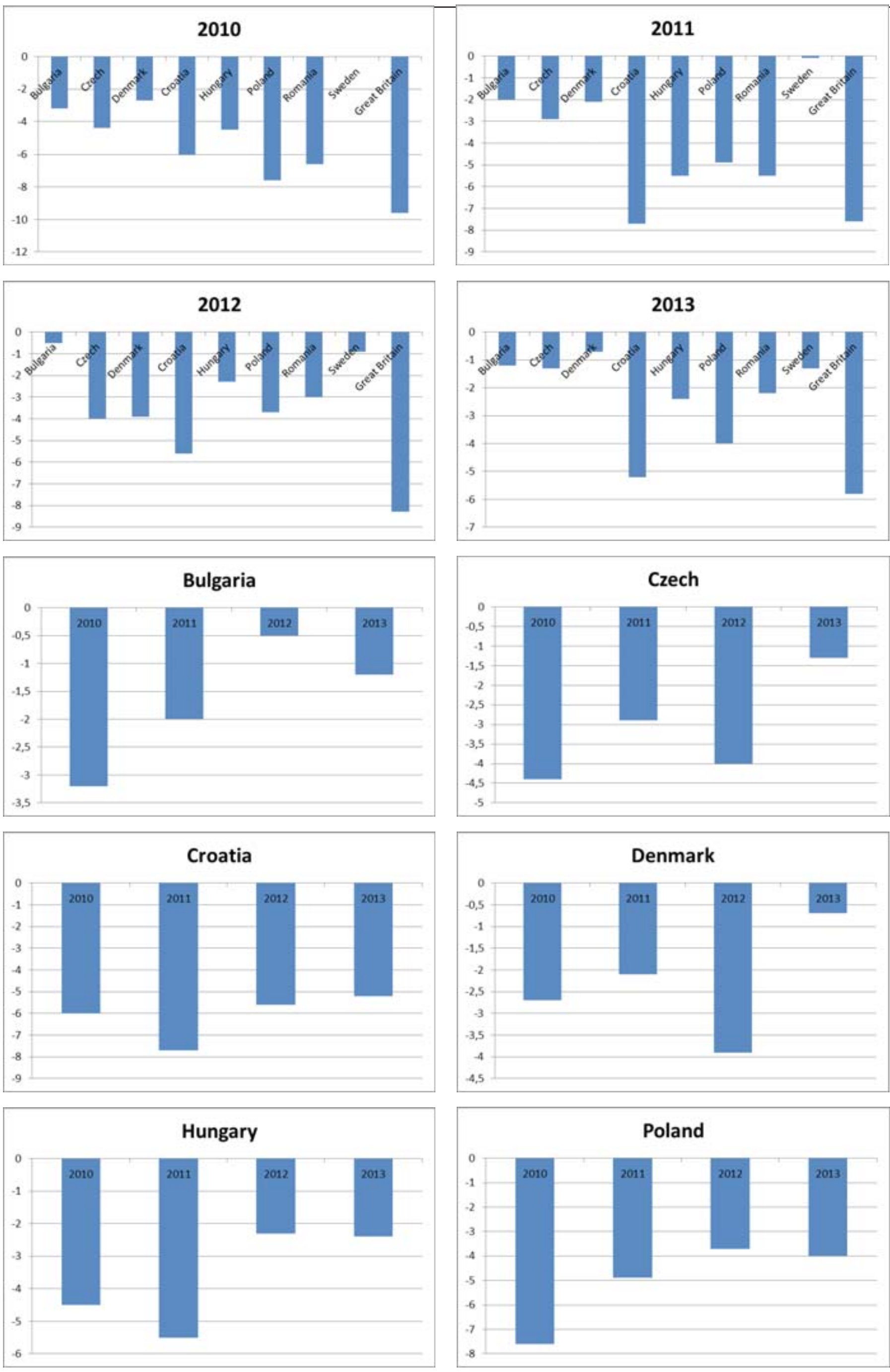
JEL Classification: F 15, F 33, H 62

The Treaty for Stability, Coordination and Governance was signed in 2012 by 25 European Union member states, including those that have not yet joined the euro. This means that when these countries join the euro area it will be required to comply with the provisions arising from the Treaty.

The present study aims to analyze deficit countries that are not part of the euro zone in the period 2010 - 2013 and the prospect of their future in relation to the Treaty provisions and taking into account penalties for exceeding the permissible deficit.

In the member states of the European Union that are not part of the euro the area deficit situation in the period 2010 - 2013 is as follows:

	2010	2011	2012	2013
Bulgaria	-3.2	-2	-0.5	-1.2
Czech	-4.4	-2.9	-4	-1.3
Denmark	-2.7	-2.1	-3.9	-0.7
Croatia	-6	-7.7	-5.6	-5.2
Hungary	-4.5	-5.5	-2.3	-2.4
Poland	-7.6	-4.9	-3.7	-4
Romania	-6.6	-5.5	-3	-2.2
Sweden	0	-0.1	-0.9	-1.3
Great Britain	-9.6	-7.6	-8.3	-5.8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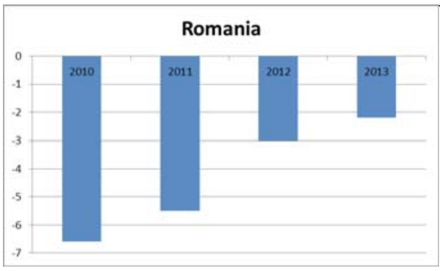
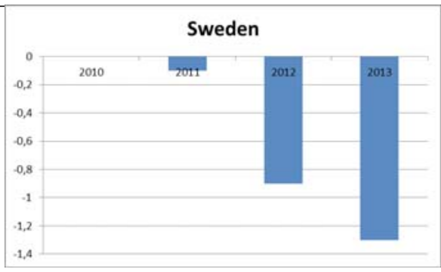
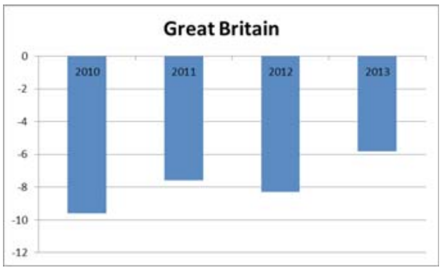






The data in the reference period 2010 - 2013, the situation of the EU member states that are not part of the euro area is as follows:

- **Bulgaria** reduced the deficit from - 3.2% in 2010 to - 2% in 2011; - 0.5% in 2012 and - 1.2% in 2013;

- the **Czech Republic** reduced its deficit from - 4.4% in 2010 to - 1.3% in 2013;

- **Croatia**'s deficit decreased from - 6% in 2010 to - 5.2% in 2013;

- **Denmark** has achieved a significant reduction in the deficit from - 2.7% in 2010 to - 0.7% in 2013, this state is now very close to the limit imposed by the Treaty for Stability, Coordination and Governance;

- In the **UK** the deficit decreased from - 9.6% in 2010 to - 5.8% in 2013, but the deficit is far from the scale established by the Treaty;

- In **Poland** the deficit decreased from - 7.6% in 2010 to - 4% in 2013;

- **Romania** has reduced its deficit from - 6.6% in 2010 to - 5.5% in 2011 - 3% in 2012 and - 2.2% in 2013; the way in which Romania has steadily reduced the deficit in a sustained pace is remarkable, so there are prerequisites that show that in a relatively short period of time our country will remain within the ceiling imposed by the Treaty;

- In **Sweden**, the deficit increased from 0% in 2010 to - 0.1% in 2011 - 0.9% in 2012 and - 1.3% in 2013, the state being close to the limit arranged by the treaty stipulations ;

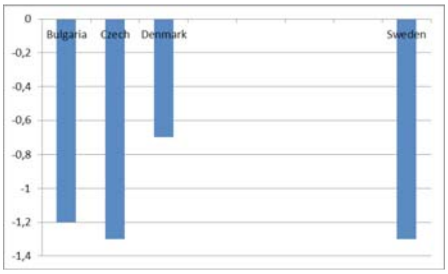
- **Hungary** reduced its deficit from - 4.5% in 2010 to - 2.4% in 2013 and by reducing it by nearly half of the deficit which was in 2010 , it creates prerequisites for compliance with the provisions of the Treaty in a very short period of time.

Overall, we can say that deficits in the countries that are not part of the eurozone are lower than those of the countries that joined the eurozone. According to the classification used for the euro area, none of the states that have not joined the euro so far are outside the first group (deficit less than or equal to - 0.5%), but the states of this area, through sustained economic effort, can align to the limit established by the Treaty for which no penalties are imposed.

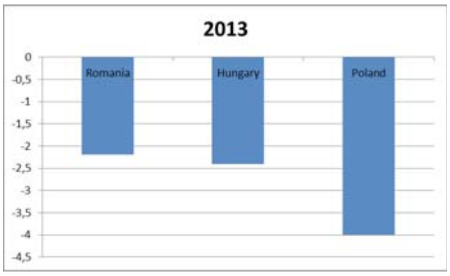
Ranking of countries that have not joined the euro, according to criteria previously used are as follows:

a) States which fall within the limit imposed by the Treaty provisions (- 0.5%) Out of the members of any state which are not party of the euro has fallen into this group;

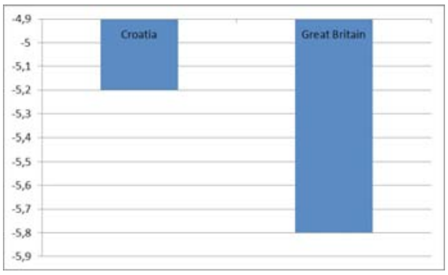
b) deficient states up to - 2%: Denmark - 0.7%, Bulgaria - 1.2%, the Czech Republic - 1.3%, Sweden - 1.3%



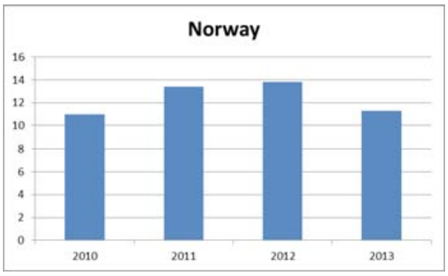
c) countries with deficit between - 2% - 5%: Romania - 2.2%, Hungary - 2.4%, Poland - 4%



d) states with higher than – 5% deficit: Croatia - 5.2%, the United Kingdom - 5.8%



It should be noted that Norway, which is not a member state has a relevant surplus during 2010 - 2013, significantly higher than all countries in the European Union: + 11% in 2010, + 13.4% in 2011, + 13.8 % in 2010 and + 11.3% in 2013.



I believe that all European Union member states which faced the effects of economic and political crisis should develop appropriate strategies for recovery action that negatively influence growth factors. We can also appreciate that an economic analysis of Member States and non EU which have achieved economic growth under the global crisis may help establish ways to streamline the economies that have experienced significant deficits in the current circumstances.

Daniel Daianu's article published in the "Adevarul" newspaper dated 03/14/2014 entitled "To be or not to be in the eurozone - the return of "geopolitics " discusses the impact of the Treaty for Stability, Coordination and Governance on member states of the European Union.

The author makes an analysis on joining the euro area, where the "geopolitics" may be in the spotlight. The analysis disregards the statement "we will do whatever it takes to save the euro" (Mario Draghi, London, July 2012) and the European Central Bank's shares and is based on the desire to form a more integrated core of the European Union. Eurozone metamorphosis is a difficult process that can leave them outside the member states, irrespective of their control. This process updates on the importance of "geopolitics" in the new circumstances, in a similar manner when the euro was introduced. The advent of the euro has not prevented states that were not ready for accession to the euro area have access to it. Joining the euro area required a process of convergence in terms of income, but generated external imbalances, particularly between northern and southern European states, gaps that have widened further and have profound implications in the economic performance. Daianu emphasizes the idea that the current crisis is “the revenge of economics over politics.” Regarding the intentions of accession, the author opines that small countries such as Lithuania and Latvia can adhere more easily to the euro zone, given that monetary policy regime greatly reduced risk, given the small size of the economies and relatively small debt. An important role in this respect is the fact that almost all states that have recently joined the European Union banking sectors are heavily controlled by foreign groups.

The author believes that the provisions of the Maastricht Treaty does not provide a stable eurozone and its crisis is determined by the degree of indebtedness of the private sector. In this context, the European Commission imposed an excessive external deficit procedure which results in the procedure relating to the size of the budget deficit. The external imbalance of the member states resulting from the public budget developments and the private sector has intrinsic effect on the budget deficit. Countries such as Spain and Ireland, which have had relatively low public debt and budget deficits within normal limits, faced with a deep economic crisis because their private indebtedness was very high. The causes of indebtedness were both excessive lending and poor competitiveness. In this respect, Romania must take effective steps towards a reform of SOEs, which may take the form of privatization. Competitiveness of an economy should be based on increased productivity of the entire economic system and private budget and it should not be surpassed by the employees’ income. Increased productivity and flexibility requires allocation of resources, so that it is reflected in the flexibility of markets. The role of the exchange rate is correcting imbalances and clearing stiffness, difficulties in adaptation and tensions accumulated over time.

The article points out that Romania’s accession to the eurozone is not possible in 2015, as they currently haven’t reached the conditions necessary to achieve this target. A condition which favors joining the euro area is the strengthening of the euro zone, which would favor the ordination of economic policy and would signal that the Treaty provisions can become a reality. An important factor is the nominal convergence criteria and real convergence. Regarding the criteria of nominal public debt, budget deficit can be met, but we have to take effective measures for a favorable impact of regionalization in order to avoid complications regarding central government budget. Economic analysis on inflation and differentiated interest aims to examine rapid convergence to the reference levels in the euro area. An important aspect is the substantial increase in productivity, which is meant to ensure the exchange rate stability.

The Eurozone crisis has shown that economic performance is in line with the quality of institutions, which is reflected in imposing budget discipline without causing economic imbalances in tax receipts in relation to the production of public goods and in a relationship of balance between the public budget and business.

One element that must be considered is Romania's ability to have the same flexibility as the eurozone developed countries in the coming years.

If there were a banking union, as it has been evoked by Herman van Rompuy, which had a fiscal capacity to allow member states of the European Union to withstand asymmetric shocks through insurance schemes or fiscal transfers, accession to the euro area would be perfectly feasible. This goal is conditioned by a relevant budget eurozone.

A handicap for Romania is that it has not joined the Schengen area, but this will be removed because there are favorable conditions in this regard. However, entry into the Schengen area is not a strong pillar, as long as EU member states do not receive relevant evidence on economic growth in our country.

The author believes that the main elements that can contribute to Romania's accession to the euro area are:

- intense absorption of European funds;
- modernization of agriculture;
- gross fixed capital formation;
- attracting large investments in strategic sectors;
- reforming the social security system;
- correlation of the banking system with the development needs of local production;
- reform of state companies and public sector.

An important factor for the accession to the eurozone is the general climate in Europe, predominantly policies in the euro area must be based on the difference between the economic cycles of the states that make up the European Union. Also, a detailed analysis in terms of citizens' expectations and their confidence in government is a sine qua non for achieving the target in the euro area of the member states. If the recession continues in the southern euro zone and the unemployment rate is still high in countries like Spain, Portugal or Greece, there is a risk of destabilizing the member states. One way of correcting these circumstances is the readjustment in fiscal consolidation programs.

The authors conclude that: “Although “geopolitical” aspects come back to the fore, economic logic can not be set aside; it may once again have a boomerang effect if neglected. “

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