Faculty of Science

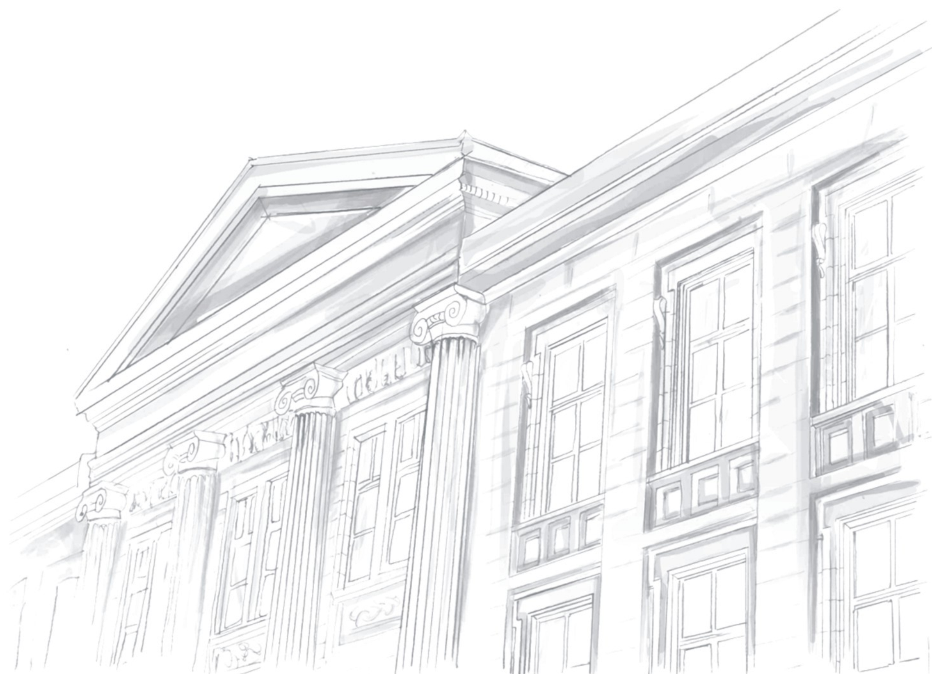
Romanian Academy
Institute of National Economy

„1 Decembrie 1918" University of Alba Iulia,
Faculty of Science
Romanian Academy - Institute of National Economy

Restructuring the economies: realities and perspectives given the current economic crisis

PROCEEDINGS

November 8-9, 2013,
Alba Iulia, Romania



The whole or partial reproduction of the book without editors' authorization and the authorization of the printing press is forbidden.

ISBN 978-606-613-081-3

© Authors, 2013
"1 Decembrie 1918" University of Alba Iulia
Aeternitas Publishing House
11-13, Nicolae Iorga Street
RO 510009 Alba Iulia
Phone: 004-0258-811412/106
Fax: 004-0258-812630
E-mail: editura_aeternitas@yahoo.com

Restructuring the economies: realities and perspectives given the current economic crisis

Proceedings

SCIENTIFIC COMMITTEE

International Conference President Gheorghe ZAMAN, PhD, Institute of National Economy, Bucharest, Romania

Hong Yuh Ching, ***Centro Universitario da FEI,*** Brazil;
Alexandru Minea, ***Ecole d'Economie et CERDI***, France ;
Nicholas Apergis, ***University of Piraeus***, Greece;
Leszek Cichobłaziński, Janusz K. Grabara, Anna Słocińska, ***Czestochowa University of Technology***, Poland;
Sebastian Stepien, ***Poznań University of Economics***, Poland
Moise Ioan Achim, Sorin Briciu, Vasile Burja, Iuliana Cenar, Larisa Dragolea, Iulia Iuga, Raluca Ivan, Maria Popa, Filimon Stremțan, Nicolae Todea, ***"1 Decembrie 1918" University of Alba Iulia, Romania***
Ana Ispas, ***Transilvania University of Braşov, Romania***
Iacob Catoiu, Dumitru Ciucur, Cosmin Dobrin, Nicolae Lupu, Florin Mihai, Pavel Năstase, Puiu Nistoreanu, Gheorghe Orzan, Cristian Păun, Ioana Cecilia Popescu, Aurelia Ștefănescu, Eugeniu Țurlea, Călin Vegheş, ***Academy of Economic Studies,Bucharest, Romania***
Emilian Dobrescu, ***Romanian Academy, Bucharest, Romania***
Steliana Sandu, Valentina Vasile, ***National Institute of Economy, Bucharest, Romania***
Sorin Domnişoru, Paul Rinderu, Constantin Roşca, Marian Siminică, ***University of Craiova, Romania***
Ioan Bătrâncea, Cristina Boța Avram, Adrian Groşanu, Maria Mortan, Ioan Plăiaş, Ioan Irimie Popa, Ramona Răchişan, Adriana Tiron Tudor, Ioan Trenca, ***"Babeş-Bolyai" University of Cluj-Napoca, Romania***
Ovidiu Stoica, ***"Alexandru Ioan Cuza" University of Iaşi, Romania***
Imola Drigă, Alin Monea, Roland Moraru, ***University of Petroşani, Romania***
George Bălan, Constantin Teleşpan, ***Romanian-German University of Sibiu, Romania***
Elena Hlaciuc, ***"Ștefan cel Mare" University of Suceava, Romania***
Radu Valentin, ***Valahia University of Târgovişte, Romania***
Tatiana Dănescu, Ramona Neag, Ioan Pastor, ***"Petru Maior" University of Târgu-Mureş, Romania***
Flavia Barna, Ovidiu Bunget, Bogdan Dima, Cosmin Enache, Florin Foltean, Mihai Mutascu, ***West University of Timişoara, Romania***
Rajmund Mirdala, ***Technical University of Košice, Slovakia***
Mark Webb, ***Texas Tech University, USA***
Sorinel Căpuşneanu,***"Dimitrie Cantemir" Christian University of Bucharest, Romania***

CONTENT

ACCOUNTING, AUDIT AND CORPORATE GOVERNANCE

FINANCIAL AND ACCOUNTING PECULIARITIES OF EXPORT AND LOHN OPERATIONS FOR GOODS FULLY RETURNING IN THE ECONOMIC CIRCUIT OF THE EXPORTER
Radu Nicolae Bălună, Maria Sandu *8*

PARTICULARITIES CONCERNING THE BENEFICIARIES OF AUDIT SERVICES PROVIDED BY THE BIG 4 COMPANIES: EVIDENCE FROM ROMANIA
Sorin Romulus Berinde, Adrian Groşanu *16*

ANALYSING THE SIMILARITIES BETWEEN OECD PRINCIPLES VERSUS EUROPEAN CORPORATE GOVERNANCE CODES – AN INTERNAL AUDIT PERSPECTIVE
Cristina Boţa-Avram, Paula Ramona Răchişan *26*

THE ROLE OF MANAGEMENT ACCOUNTING IN THE DECISION MAKING PROCESS: CASE STUDY CARAS SEVERIN COUNTY
Adela Breuer, Mihaela Lesconi Frumuşanu, Andra Manciu *35*

INTEGRATED METHODS FOR PERFORMANCE MEASUREMENT IN ENTITIES FROM THE WINE SECTOR IN ROMANIA
Sorin Briciu, Dan Ioan Topor, Sorinel Căpuşneanu *47*

STUDENTS ATTITUDES REGARDING THE ETHICS OF EARNINGS MANAGEMENT ACTIVITIES: AN EMPIRICAL INVESTIGATION
Dan Dacian Cuzdriorean *64*

MOST RECENT FINDINGS IN EARNINGS MANAGEMENT AREA: INTERESTING INSIGHTS FROM TRADITIONALLY TOP 5 LEADING ACCOUNTING JOURNALS
Dan Dacian Cuzdriorean *71*

THE INFORMATIONAL RISK – OPERATIONAL RESEARCH OVER THE NET ACCOUNTING RESULT
Tatiana Dănescu, Mihaela Prozan, Andreea Dănescu, Roxana Diana Prozan *86*

COMPARATIVE STUDY ON ACCOUNTING MODELS "CASH" AND "ACCRUAL"
Tatiana Dănescu, Luminiţa Rus *97*

TESTING OF FIXED ASSETS MANAGEMENT SYSTEM AND ESTIMATING RISK OF DISTORTION
Sorinel Domnişoru, Sorin-Sandu Vînătoru, Daniel Goagără *105*

AN EMIPRIC STUDY ON THE ROLE AND UTILITY OF THE FINANCIAL AUDIT IN ROMANIA AND SPAIN
Ioana Iuliana Pop (Grigorescu), Raluca Oana Ivan 113

PREDICTING EARNINGS USING COST ACCOUNTS RATIOS: EVIDENCE FROM MANUFACTURING LISTED FIRMS
John Sorros 125

THE AUDIT MISSION IN THE BASE OF THE ISRS – STEPS TO STRENGTHEN INDIVIDUAL FINANCIAL STATEMENTS OF THE CONTRACTING COMPANY
Attila Tamas Szora, Iulian Dobra, Ana Maria Udrea 137

IMPROVING HUMAN RESOURCES REPORTING IN NON FOR PROFIT ORGANIZATIONS
Nicolae Todea, Delia Corina Mihălţan 152

THE EFFECTS OF THE ADOPTION OF IAS / IFRS BY COMPANIES LISTED ON THE REGULATED MARKET (BUCHAREST STOCK EXCHANGE - CATEGORY III) ON THE AUDIT MISSION
Nicolae Todea, Ana Maria Udrea, Ionela Cornelia Cioca 159

MACHIAVELLIANISM AND SHORT-TERM EARNINGS MANAGEMENT PRACTICES
Alina Beattrice Vladu 169

SMOOTHING BEHAVIOR OF FIRMS IN TIMES OF CRISIS: EMPIRICAL EVIDENCE FROM THE SPANISH ECONOMIC ENVIRONMENT
Alina Beattrice Vladu 175

ECONOMICS AND SUSTAINABLE DEVELOPMENT

ECONOMIC – FINANCIAL AND SOCIAL CRISIS: BETWEEN THE FUNCTIONS OF THE STATE AND NATURE'S LAWS
Cristian – Marian Barbu 184

KNOWLEDGE ECONOMY AND ENTREPRENEURSHIP ENVIRONMENT IN ROMANIA
Vasile Burja, Camelia Burja 196

ANALYSIS OF THE RESULTS IN IMPLEMENTING THE OPERATIONAL PROGRAM FOR HUMAN RESOURCES DEVELOPMENT 2007-2013 FOR CENTER REGION, ROMANIA
Ionela Gavrilă-Paven, Iulian Bogdan Dobra, Lucian Docea 205

THE REMITTANCES AS A POTENTIAL ECONOMIC GROWTH RESOURCE FOR ROMANIA
Zizi Goschin 219

FRACTAL CHARACTERISTICS OF WORLD MARKET COMMODITY DERIVATIVES
Mihajlovsky Oksana 226

ENTREPRENEURIAL MINDSETS IN ROMANIA AND BULGARIA
Nelu Eugen Popescu 235

THE DEVELOPMENT OF REGIONAL DEVELOPMENT AGENCIES: TURKEY CASE
Yılmaz Toktaş, Haktan Sevinç, Eda Bozkurt 244

FINANCE AND FINANCIAL ANALYSIS

FINANCIAL ANALYSIS BY USING FINANCIAL INDICATORS
Murad Abdoulmola, Vaclav Dufala 256

USING THE CAPM MODEL TO ESTIMATE THE PROFITABILITY OF A FINANCIAL INSTRUMENT PORTFOLIO
Mădălina – Gabriela Anghel 264

MACROECONOMIC CHALLENGES AND EXPERIENCE ON THE ROAD TO EU
Tatjana Boshkov, Risto Fotov 275

UNDERINVESTMENT PROBLEM: ROMANIAN EVIDENCE
Claudiu Boţoc, Cosmin Enache 287

ENTREPRENEURIAL RISK AND PERFORMANCE: EMPIRICAL EVIDENCE OF ROMANIAN AGRICULTURAL HOLDINGS
Camelia Burja, Vasile Burja 295

THE BALANCE SHEET, INFORMATION SOURCE FOR DETERMINING THE FINANCIAL POSITION OF ENTITIES LISTED AT THE STOCK EXCHANGE IN BUCHAREST
Teodor Hada, Maria Teodora Avram 304

IMPLICATIONS OF VAT UPON COLLECTION ON ECONOMIC AGENTS FISCALITY IN ROMANIA
Teodor Hada, Ramona Adriana Bălău 314

THE EFFECT OF FINANCING HOSPITAL HEALTH CARE PROVIDERS THROUGH UPDATED DRG. CASE STUDY THE MUNICIPAL HOSPITALS IN ROMANIA DURING 2010-2012
Emil Olteanu, Iulian Bogdan Dobra, Attila Tamaş Szora 322

AN EMPIRICAL ANALYSIS OF THE DETERMINANTS OF BANK PROFITABILITY IN ROMANIA
Angela Roman, Adina Elena Dănuleţiu 336

ANALYSIS OF THE ROMANIAN BANKS' PERFORMANCE THROUGH ROA, ROE AND NON-PERFORMING LOANS MODELS

MACROECONOMIC CHALLENGES AND EXPERIENCE ON THE ROAD TO EU

Tatjana Boshkov[1]
Risto Fotov[2]

ABSTRACT: During the past decade, the ten new EU member states reached a high degree of market integration and macroeconomic stabilization as part of their accession process. The main challenge for these countries is to deal with large and potential volatile capital inflows and to achieve nominal convergence needed for adopting the euro. These challenges must be addressed within the scope of the limited fiscal policy - there is little room for public sectors to grow up. In the context of macroeconomic adjustment, macrofiscal policies will be in the focus of macroeconomic policies in the years that follow. They need to focus on meeting the requirements for sustainability of EMU, and to assist in absorbing the effects of aggregate demand of large capital inflows. So in terms of macroeconomic convergence and the case of Macedonia, EU membership requires convergence of the Macedonian economy with that of the EU in realistic conditions, indicating income per capita and economic structure, and nominal terms, meaning convergence of prices, inflation and interest rates.

Keywords: EU, macroeconomic convergence, macroeconomy, new EU member states, South-Eastern Europe, Macedonia

JEL Codes: E31, E42, F41, F43, F62

Introduction

According to literature, the macroeconomic policy of the new EU member states, is facing with two main challenges. The first is to manage the continued and rapid process of future real economic convergence, which will come with high real GDP and productivity growth rates and large capital inflows. The second challenge is to achieve the degree of nominal convergence required to enter into European Monetary Union (EMU). These two challenges are not unrelated, such as rapid growth and large capital inflows can make it difficult to realize nominal convergence, i.e., there are good reasons to think that the real convergence would be easier to manage for some countries, if they were allowed to adopt the euro immediately. Both challenges are mainly associated with fiscal policy: managing capital inflows, because fiscal policy can absorb some of their demand effects, nominal convergence, because the sustainability of public finances is part of the requirements for entering EMU.

Macroeconomis adjustment of EU member states

The New Member States have made significant macroeconomic stabilization in the last decade. The Central and Eastern Europe, passed through the transition from central planning to market economies, which began with a few recessions, high inflation and financial instability. Public debt has been stabilized, and high and persistent deficits and the need for further fiscal adjustments are still critical issues in some cases. The ten new member states are "derogations"

[1] *MSc., Assistant on Faculty of Tourism and Business Logistic– Gevgelija, "Goce Delcev" University – Stip, Macedonia, e-mail: tatjana.dzaleva@ugd.edu.mk*
[2] *PhD., Proffesor on Faculty of Economics–Stip, "Goce Delcev" University – Stip, Macedonia, e-mail: risto.fotov@ugd.edu.mk*

from adopting the euro. Like Sweden, unlike Denmark and England, they can not formally withdraw from the euro indefinitely, but they are expected to become full members of EMU sooner or later.

Table no .1.

Intended EMU membership dates

Country	Reference time for the adoption of the euro	ERM II membership
Cyprus	2007	No[1)]
Czech Republic	2009-10 provided the Maastricht criteria are met and there is sufficient real converegence	No
Estonia	As soon as possible	Since 28 june 2004
Hungary	2010 (2009 if economic conditions better than expected)	No
Latvia	2008	No[1)]
Lithuania	No explicit reference	Since 28 june 2004
Malta	As soon as convergence criteria are met	No[1)]
Poland	No explicit reference	No
Slovac Republic	No later than 2008-09	No
Slovenia	2007	Since 28 june 2004

*Source:*Convergence Programmes, May 2004

1) Joined ERM II on 2 May 2005.

When is considering the real and nominal convergence in the new member States, or by starting first with real convergence, are considered economic indicators. The analysis express statistics for average real GDP growth rates per capita for the period 1996-2003, together with the initial level of per capita GDP in 1996 according to the "convergence hypothesis" that in terms of free international trade and capital flows, poor countries should grow faster with in wealthier countries. From this perspective, the Baltic countries and Poland, which had the lowest per capita income in this group should continue to maintain the strongest growth rate among the new member States in the foreseeable future. Considering the fact that productivity is defined as real GDP per employed person, literature express that during the second half of 1990, annual productivity rate was almost three times bigger than that existing in the EU, for the group as a whole.

As with existing members, productive growth began to decline in 2001, but it started to rise again soon in 2002 and 2003, while remaining low in the older countries. This indicates that the new member states as a group began to move in the growth direction which is robust when it is compared with slowdown in the older EU countries. Again, the highest growth rates can be illustrated in the three Baltic countries and Poland. It is evident The tendency of convergence of productivity is evident, as countries with low initial levels enjoy higher growth rates than those with higher initial levels. Economic transition from socialist to market economies in eight of the new Member States, and the rapid economic growth that accompanying it, have caused deep structural changes in their economies. Quite often in this context is made analyze about the changes in sectoral structures. Usually are considering four sectors - economy, agriculture, industry, construction and services. Various index measure the differences in the sectoral structure in each of the new member states and the average of European economic area. Large values of the index indicate higher levels of structural diversity, i.e., low similarity. Based on the four-sector classification, is observed that Cyprus, Malta and Hungary experienced relatively little structural change during the period in review. For Hungary, this is possible because the country before starting its process of transition was relatively open and market-oriented economy. For other

countries, are recognized indications of structural convergence, i.e., their sectoral structures became more similar to that of the euro area. Adopting the euro requires nominal convergence of the economies of all the new member states to the euro economy. The nominal convergence will be achieved on the basis of the five Maastricht criteria, low inflation, low long-term interest rates, a stable exchange rate against the euro, and adjustment with two reference values for the general government debt and deficit related to GDP.

Studies show that the new member states have already realized significant degree of nominal convergence. The critical value for inflation rates is an average of the three lowest inflation rates in the EU plus 1.5%. In 2003, this amounted to an annual rate of 2.7%. Cyprus, Hungary, Slovakia and Slovenia have violated this criterion significantly in 2003. Considering the projections of inflation for 2004, the critical rate falls to 2.4%, which is filled only by inflation projections for Cyprus, Lithuania and Poland (European Commission, 2004). Fall of the critical rate is very low because of inflationary rate expected in Finland (0.4%), Sweden (1.2%) and Lithuania (0.4%) for 2004.The difference in the results for 2003 and 2004 show that in 25 EU countries, critical rate of inflation becomes quite unstable, because this rate is subject to asymmetric shocks to the smallest EU economies. So it is clear that the average of the three lowest inflation rates in the EU provides a good criteria for recognized countries in EMU. When countries join the EMU to cooperate with inflation rate of the euro area, the most sensitive thing to do is to change the criteria for inflation 1.5% above the rate of inflation in the European area. When it comes to new EU member states and conditions for exchange rate stability, ie the largest difference of the exchange rate between the national currency and the euro than the average exchange rate for the period 2002-2003 that experienced the same, it is known that only Cyprus, Lithuania experienced movements of the exchange rate with some changes ± 2.25%. The biggest changes which have experienced the other countries, suggest that ERM II with relatively wide ranges, it would be more appropriate. Another way to consider this question is an analysis of inflation trends, nominal and real exchange rates for the past years. Trends in the nominal exchange rates are stable at this time for Cyprus, Estonia, Malta and the small extent, Hungary. Other countries have experienced rather pronounced exchange rate trends. The Czech Republic and Slovakia and Lithuania, they resulted in a nominal appreciation of their currencies, while the currencies of the other countries depreciated on the average for the past five years.

The fact is that the economic developments of the new members is their catching up in terms of GDP per capita and the associated price level convergence. In this way, countries experiencing high growth rates, such as most of the NMS, are unlikely to achieve simultaneously a stable nominal exchange rate and a low level of inflation, at least until a certain level of price convergence has already been reached.

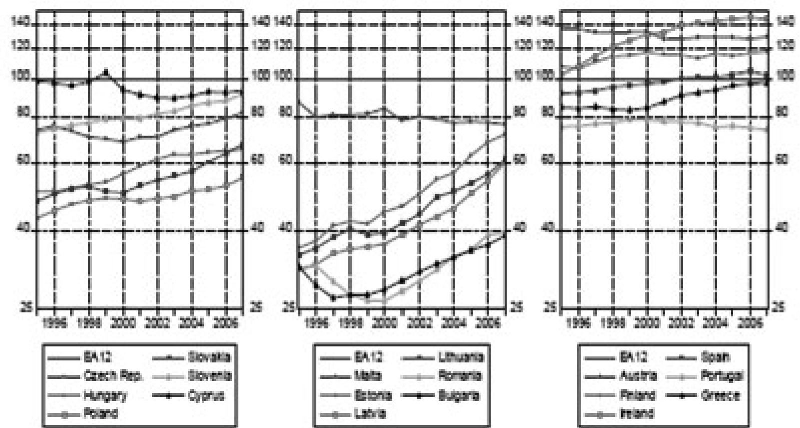


Figure no. 1. - GDP per capita in purchasing power standards (EA1=100), 1995-2007

*Source:*Eurostat.

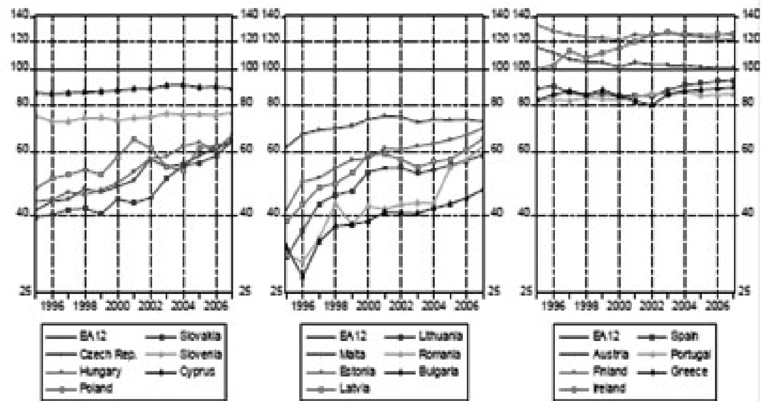


Figure no. 2. - Price level of consumption (EA1=100), 1995-2007

*Source:*Eurostat.

The trends of the real exchange rate, calculated as the difference between the average changes in the nominal exchange rate and average inflation, in contrast, was stable only in Malta and Slovenia. Poland and Latvia have experienced significant real depreciation for the period, while other countries suffered significant real appreciation of their currencies. Some of these real appreciations can be attributed to the Balassa-Samuelson effect of relatively high productivity growth in the tradable sector. However, measurements of the magnitude of this effect indicates that its contribution is moderate at best. The bulk of the real appreciation is likely due to large capital inflows of recent years. Most of the new member states comply with the 60 percent threshold for the public debt ratio, the exceptions being Cyprus and Malta. However, only the Baltic countries and Slovenia comply with the 3 percent threshold for the deficit ratio.

In the end, when the focus is on new member states and their macroeconomic challenges, it could be summarized the basic indicators (table no.2).

Table no.2.

Summary of key economic indicators

	GDP per capita at PPS		Cred t. GDP	Ex.Deb. / GDP	Δ PROD	Δ GDP	ΔPriv. Cons.	ΔI	ΔX	ΔM	CA / GDP	Real interbank IR	Δ Credit	ΔER (euro)	Δ REER CPI	Δ REER ULC	Buget /GDP	Δ WAGE	ΔHICP	ER
	1995	2007	2007	2008	Averige in 2004-2007															regime
Cyprus	99.3	93.	178.5	81.5	-0.4	3.9	4.7	6.4	4.0	4.6	-5.6	2.0	11.8	0.1	0.0	0.4	-2.2	5.7	2.1	fixed
Malta	87.0	76.3	143.2	n.a.	1.7	2.4	2.5	10.8	2.2	3.4	-8.3	1.3	7.4	-0.2	1.1	-0.9	-3.1	-0.9	2.1	fixed
Czech R.	73.7	81.9	54.0	40.8	7.9	5.3	3.7	6.6	14.8	12.0	-3.3	0.1	11.6	3.5	3.0	2.9	-3.2	8.3	2.3	float
Slovenia	72.7	91.6	76.3	82.9	6.2	4.5	3.2	6.8	10.5	9.9	-2.8	0.9	23.8	-0.6	-0.2	0.5	-1.4	6.2	3.1	managd
Hungary	50.7	65.3	69.3	108.6	11.2	3.8	1.9	0.5	14.7	10.9	-6.6	2.7	13.4	0.3	3.2	3.6	-7.3	7.1	5.6	float
Slovakia	47.8	67.5	54.8	58.5	7.0	7.1	6.0	12.0	15.3	14.8	-6.1	0.0	17.1	5.3	6.8	6.8	-2.9	9.9	4.1	float
Poland	43.1	56.1	41.0	49.4	8.7	5.3	4.3	11.9	11.6	12.3	-3.3	2.6	17.5	4.0	3.4	3.7	-4.1	8.4	2.4	float
Estonia	36.0	71.7	95.1	101.2	7.6	9.7	11.5	14.6	14.3	14.8	-13.1	-1.4	35.6	0.0	2.0	4.2	2.6	15.4	4.6	fixed
Lithuania	34.5	61.5	55.4	63.7	9.3	7.4	12.0	7.7	11.1	15.3	-9.9	-0.1	42.7	0.0	0.1	4.5	-0.9	13.6	3.4	fixed
Bulgria	32.0	38.7	56.0	84.1	9.4	6.3	6.8	18.9	10.1	13.7	-13.1	-2.7	32.2	-0.1	3.4	1.8	2.6	12.7	6.8	fixed
Romania	31.6	39.3	37.8	42.4	8.9	6.8	12.5	14.1	10.5	20.8	-10.3	2.3	47.2	3.3	9.1	13.9	-1.9	15.2	8.1	float
Latvia	31.5	60.6	110.1	118.2	4.0	10.2	13.2	16.0	10.9	15.4	-17.9	-2.4	52.9	-2.2	2.3	8.4	-0.2	20.3	7.5	fixed
EA12	100.0	100.0	134.5	171.6	3.7	2.2	1.7	4.0	6.5	6.6	0.2	0.7	4.0	0.0	0.6	1.0	-1.9	1.9	2.1	fixed
Austria	136.0	129.4	122.7	199.7	5.9	2.6	2.0	2.1	7.3	6.2	2.3	0.9	5.2	0.0	-0.1	0.7	-1.3	3.3	2.0	fixed
Finland	108.0	118.2	85.2	124.1	4.0	3.8	3.5	5.3	8.2	8.6	5.8	1.9	11.8	0.0	-1.0	1.2	3.4	3.7	1.0	fixed
Ireland	103.1	143.7	193.4	730.7	4.9	5.2	5.8	6.2	5.4	6.6	-3.2	0.4	23.0	0.0	1.4	4.6	1.6	3.7	2.5	fixed
Spain	92.0	102.5	194.6	146.6	2.7	3.6	3.9	6.1	4.4	8.1	-7.7	-0.3	18.8	0.0	1.3	2.3	1.1	3.0	3.2	fixed
Portugal	75.2	73.8	170.1	195.9	3.9	1.2	1.8	-0.6	5.3	4.1	-9.0	0.4	8.9	0.0	0.6	0.6	-4.1	0.1	2.5	fixed
Greece	84.5	96.3	105.9	122.9	-0.1	4.1	4.0	5.9	6.7	6.1	-10.1	-0.3	11.0	0.0	0.8	3.7	-4.5	2.7	3.2	fixed

*Source:*Eurostat

Another challenge is also trade integration and business cycle synchronization. Figure 3 shows the share of exports to the euro area of Czech Republic, Hungary, Poland, Slovakia, Romania and Slovenia is high and even exceeds the share of a number of euro area members. On the other side, the share of the Baltic countries is relatively low. However, if we look at the EU27, the share of the Baltic countries increases significantly, reaching a level close to the other NMS. There is by now a large body of work on the comovement of business cycles in the NMS. Some authors in a survey have done a meta analysis of the findings of 35 published empirical research works on the topic (Fidrmuc, J. and I. Korhonen, 2006). Their survey of the literature reveals that the economic cycles of Hungary, Poland and Slovenia are highly correlated with the euro area cycle.

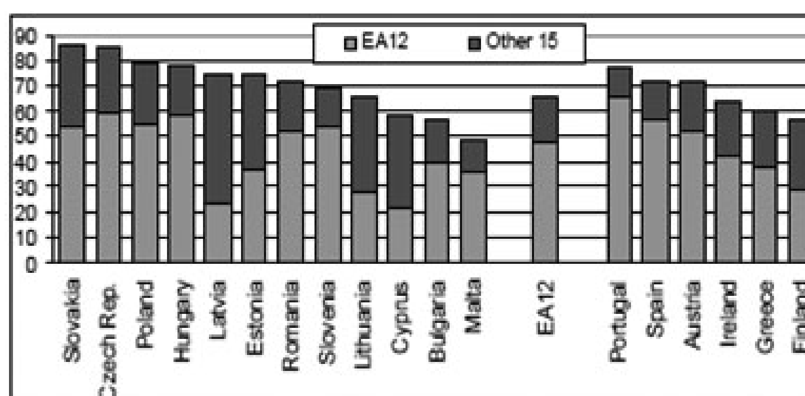


Figure no 3. - Share of exports to EA12 and EU27 (in percent), average of 2004-2006

*Source:*IMF

In order to analyze the fulfillment of Maastricht criteria, Table 3 shows how the new members stand vis-à-vis the Maastricht criteria. Regarding inflation, only in Poland and Slovakia was the rate of inflation below the reference value during the 12 months ending in December 2007. In euro area members Cyprus and Malta, the inflation was also below the reference value. In all countries except Hungary and Romania, the 10-year interest rate was below the reference rate in December 2007. The fiscal deficit exceeded the reference value in the Czech Republic (forecast) and Hungary (estimate) in 2007. As to the government debt, only Cyprus, Hungary and Malta do not meet the relevant criterion. Four countries, the three Baltic States and Slovakia are members of ERMII. These Maastricht criteria are therefore not a mere test to pass or "fee" to pay in order to gain admission to euro area, but should be regarded as an acceptance of stability oriented policy preferences.

Table no 3.

Fulfilment of Maastricht criteria (2007)

Harmonized Indices of Consumer Prices		**Long term goverment bond yields**		**General government surplus (+) or deficit (-)**		**General government gross debt**	
December 2007: 12-Month average of change		**December 2007**		**2007 (EC economic forecast autumn 2007)**		**2007 (EC economic forecast autumn 2007)**	
Average of three lowest EU member	1.3	Average of three lowest EU member	4.28				
Reference value	2.8	Reference value	6.28	Reference value	-3.0	Reference value	60.0
Malta	0.7	Euro area	4.36	Estonia	3.0	Estonia	2.8
Slovakia	1.90	Slovenia	4.55	Bulgaria	3.0	Latvia	10.2
Euro area	2.10	Cyprus	4.60	Latvia	0.9	Romania	12.5
Cyprus	2.20	Slovakia	4.61	Slovenia	-0.7	Lithuania	17.7
Poland	2.60	Czech Republic	4.65	Euro area	-0.8	Bulgaria	19.3
Czech Republic	3.00	Malta	4.81	Lithuania	-0.9	Slovenia	25.6
Slovenia	3.80	Lithuania	4.94	Cyprus	-1.0	Czech Republic	30.2
Romania	4.90	Bulgaria	5.08	Malta	-1.8	Slovakia	30.8
Lithuania	5.80	Latvia	5.10	Slovakia	-2.7	Poland	46.8
Estonia	6.70	Poland	5.86	Romania	-2.7	Cyprus	60.5
Bulgaria	7.60	Hungary	6.93	Poland	-2.7	Malta	63.1
Hungary	7.90	Romania	6.93	Czech Republic	-3.4	Hungary	66.1
Latvia	10.1	Estonia	n.a.	Hungary	-5.7	Euro area	66.5

Source: Eurostat.

EU and macroeconomic challenge for countries of South-Eastern Europe

A survey provides an interesting overview of progress with real and nominal convergence in Central and South-Eastern Europe and the macroeconomic challenges that they face on their path to the EU (Schadler et al., 2005). Namely, referring to the macroeconomic stability and progress in transition are closely related and both are important for sustainable growth and progress towards a functioning market economy. Progress with structural reforms can help for macroeconomic stability, for example, by reducing the structural external deficits. Also it helps nominal convergence, as the productivity realizes the improvement of competitiveness and helps disinflation by maintaining low unit cost.

In a study for experience about the development in the newest EU members, Feldman and Watson, (2002) show that the development in more successful transition countries reflects higher

total factor of productivity than the growth in relative levels of capital and labor. This underlines the importance of market-established reforms for development. Various indicators show that the most of the Southeastern countries require continual progress in transition reforms to become functional market economies. As regards structural reforms, if they remain slow, positive growth rates seen in the last five years in many South-eastern European countries may not be sustainable (fig. no. 4). This would slow down real convergence. Initial reforms-like trade and price liberalization, privatization in many countries, and relative macroeconomic stability-facilitated development since 2000 in many countries in the region.

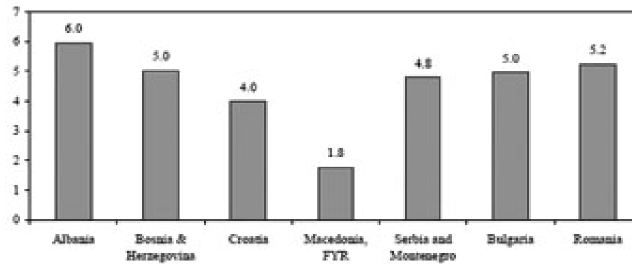


Figure no. 4. - SEE : GDP Growth, average 2000-05 in percent

Source: World Economic Outlook

Like many countries in the early stages of transition, South-eastern European countries rely mainly on exchange rates to reduce the inflation. In many countries, exchange rate helps to reduce the inflation to lower single digits since 2004. Albania's managed float and informal inflation targeting were also successful in keeping inflation low, while in Romania, inflation, although declining under the managed float, remains close to double digits. Since 2000 Serbia has shifted between nominal and close to real exchange rate targeting (with important regime shifts in early 2003 and 2005).

Inflation first declined with the exchange rate anchor, but an increasing external deficit prompted a shift to a managed float in 2003. However, inflation resurged, as suppressed administrative prices were readjusted and growing euroization contributed to an increased pass-through from the exchange rate to prices. The regime shifts may also have adversely affected monetary policy credibility, as indicated by the growing euroization. The exchange rate anchors and sluggish structural reform put pressure on competitiveness. Fixed or nearly fixed exchange rates can lead to unsustainable real appreciation and loss of competitiveness, unless fiscal and incomes policies remain tight and structural reforms boost productivity. For example, in Serbia, the exchange rate anchor in 2002 became unsustainable as large real wage increases and slow structural reforms eroded competitiveness and increased the external deficit. Pressures for real appreciation in the region also arise from the large inflows of foreign currency. Remittances are around 10–20 percent of GDP, and FDI and private foreign borrowing have increased in recent years in some countries. This makes faster structural reforms and tight demand management even more important to maintain competitiveness.

Available indicators show, at most, a mixed picture of competitiveness in the region. Wage and productivity data for 2004, which is subject to many measurement problems, point to potential competitiveness problems in Croatia and Macedonia. The evolution of EU export market shares also suggests that Macedonia may have lost competitiveness, while most others have increased their share in the EU market. The real effective exchange rates data (REER) show a large appreciation in Bulgaria, Romania, and Albania in recent years, which at least in the former two is likely to reflect changes in market fundamentals in terms of increased productivity. In the remainder of the SEE,

there is no clear trend with real appreciation and the REERs have remained relatively flat in the past few years.

South-eastern Europe can draw experience from recent new EU member states with monetary framework during accession. Exchange rate regimes during accession had shown different variations, which indicate the importance of fundamentals and associated policies in the implementation and achievement of macroeconomic stability (Schadler et al., 2005). Some of the larger recent EU members gradually moved from exchange-rate-based stabilizations to more flexible monetary policy as transition progressed. South-eastern Europe has very lower speed of reforms and lower growth rates. Related to this, capital inflows to the region are very smaller and have shown greater dispersion between countries (EBRD, 2007).

Regardless the exchange rate regime, the appreciation of the real exchange rate among countries in the region is significant, although it is slightly lower when compared to countries in the EU member states. As a result, these countries suffer from loss of competitiveness. This can be clearly seen from the movements of the deficit on their current account, which are important in all these countries. For example, the current account deficit in 2007 ranged from 3.1% of GDP in Macedonia to 36.2% of GDP in Montenegro (EBRD, 2007). Using the exchange rate as hope for inflationary expectations have been effective so far, producing a low and stable inflation rates. In terms of high import dependence and the relatively slow implementation of structural reforms realized in increased export potential, contributed to the importance of high trade deficit, which was largely financed by high private transfers.

Macroeconomic convergence of Macedonia and the road to EU – facts and discussion

Transition process in Macedonia is specific because of the relatively slower process of real convergence and persistent real depreciation of the Macedonian Denar. According to some research, it is the productivity in tradeable sector compared with growth of foreign partners with relatively lower rates. This was result due to the absence of large foreign companies and loss of important foreign markets, especially after independence. In the past few years, Macedonia is moving rapidly and closer to the more advanced transition economies. Several years have been realized a positive and stable growth rate, which was 5.1% in 2007. Although economic growth rates are lower compared with those of the Baltic countries and some countries in the region, this is a sure sign of aceleration of the process of real convergence.

This process is also supported by FDI and portfolio investment (6.3% of GDP in 2007) and rapid credit expansion, with an annual growth rate of 39% in 2007. About nominal convergence, Macedonia is facing with challenges which are common for the most of the economies in the region and abroad (Bisev and Petkovski, 2003). Since 2007, there was acceleration of the inflation rate, which is mostly caused by the global rise in the price of food and energy. Thus, the uncertainty regarding the movements of these prices, and expectations for pressures caused by the process of real convergence are the main challenges for monetary policy in the medium term. In this respect, as in other countries tend to be part of the EU and make all efforts to achieve this goal, also for Macedonia there are valuable lessons from the macroeconomic experience of the new EU member states which highlight the experiences and discussions whether and how these practices can be applied in the future where economic conditions vary from country to country.

Real convergence, meaning access per capita income of the new member states to the EU, is process before EU accession and then it continues. A survey by UNDP, is mouthed analysis and experiences of other countries that recently joined the EU. They confirm the advantages for which Macedonia has the capacity, but also point to the fact that the realization of these potential benefits depends not only on the possibilities and capacities of Macedonia but also from political will to implement determined effort to prepare the country for EU membership. The recommendations of the experts explain that accession preparations are very complex process where different policies and initiatives should be coordinated. These recommendations provide explanation and clarification

concerning to policymakers and citizens, explains how all these things must be fulfilled more or less simultaneously, thus showing the magnitude and connection of the tasks ahead. Clearly-determined obligations associated with precise time set accession negotiations to the EU will mobilize policy makers and the public for effective implementation of the reforms which should be implemented according to the access of the country to the EU. It could be conclude that Macedonia hasn't big difficulties in meeting the first Copenhagen economic criteria, transforming the economy into a functioning market economy, but there are difficulties in meeting the second economic criterion to make the economy adequately effective and competitive on the single and expanded EU market.

In terms of economic stability, the economic structure has improved in recent years, but further improvements and management means more effort for a higher degree of economic stability (Daviddi and Uvalic 2003). The primary sector comprises 11% of GDP and industry (including construction) for only 27.5%, reflecting a small industrial base. Approximately half of exports are delivered to other new or emerging markets, 22% only to Serbia and Kosovo, leading to high volatility to external shocks in these countries. Average annual real GDP growth per capita was only 2.2% in 2000-2010. Real GDP declined by moderate 0.9% in 2009 in the wake of the global economic crisis, but recovered in the first three quarters of 2010 which was also measured at a modest 0.4%.

Monetary policy has been quite solid in recent years. Macedonian denar is de facto pegged to the euro at the rate of about 61.5 MKD/EUR, which kept inflation under control for many years. The real effective exchange rate has been relatively stable since 2000, and relating to annual inflation, it accelerated to 3% at the end of 2010. Fiscal policy is prudent since 2003 and the fiscal deficit remained moderate at 2.6% of GDP in recesion 2009. Deficit targets of 2.5% of GDP in 2010 and 2011 appear as appropriate in view of current economic conditions. Financing should not be a problem, especially as the PCL of IMF provides reserve if it is necessary. Public debt is calculated on relatively low 25%. The external position remains to be a cause of constant efforts for improvement. The annual trade deficits are very high of 20-25% of GDP for many years. With the service account because it is balanced and a small income account, much of the trade deficit is balanced by net current transfers.

Still, the annual deficit of current account is relatively high in 2007-2010, between 7% and 12.4% of GDP. In addition, covering the external deficit through net foreign direct investment inflows are declining rapidly from 116% in 2007 to only 36% in 2009. Foreign exchange reserves have reached 1.55 billion in september 2008 but still remained below that level and stopped at 1.46 billion in november 2010. This is still enough to finance four months of import but cover only 85% of short-term external debt and general repayment in 2011. Gross external debt has risen from 3.3 billion (52% of GDP; 109% of exports) at the end of 2006 to 5.5 billion (61% of GDP; 188% of exports) in the third quarter of 2010. The external debt-service ratio of 14.5% in 2010 and forecast to 12.5% in 2011, were proved as possible for managing, although increased by just 8.1% compared with 2008.

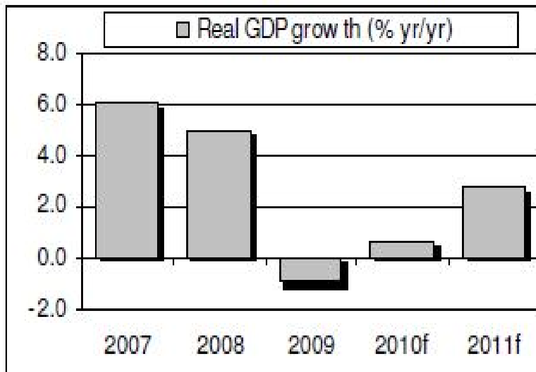


Figure no. 5a. - Real GDP grow th (% yr/yr)

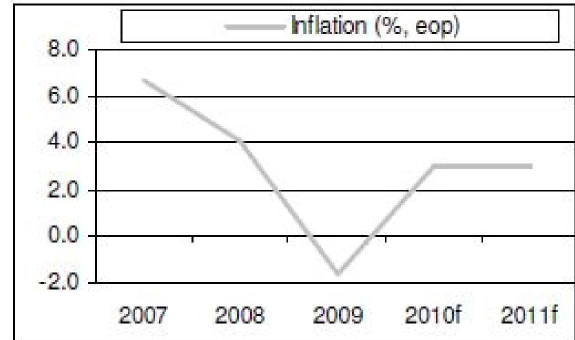


Figure no. 5b. - Inflation (%,eop)

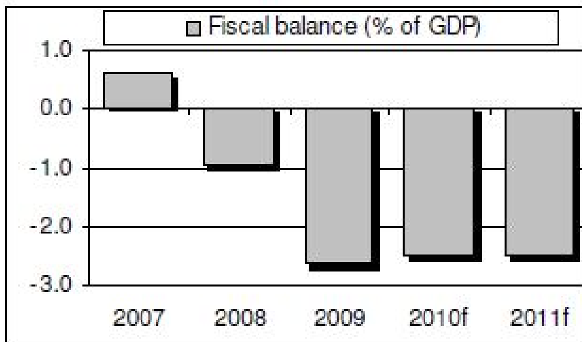


Figure no. 5c. - Fiscal balance (% of BDP)

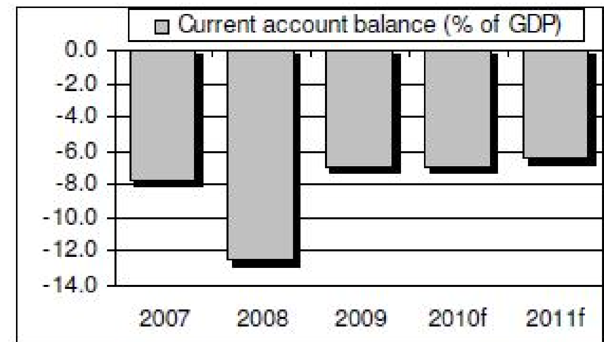


Figure no. 5d. - Current account balance (% of GDP)

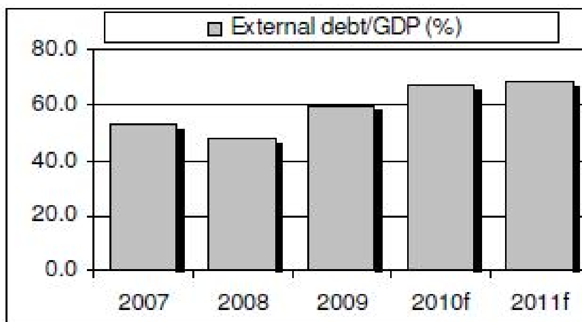


Figure no. 5e. - External debt/GDP (%)

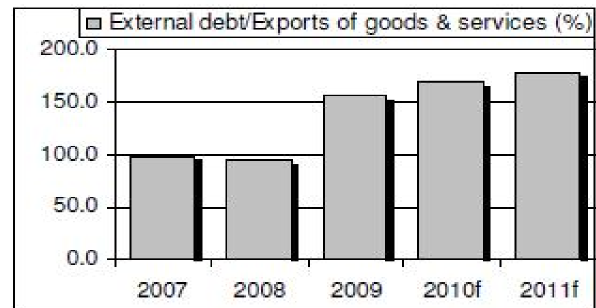


Figure no. 5f. - External debt/Exports of goods&services (%)

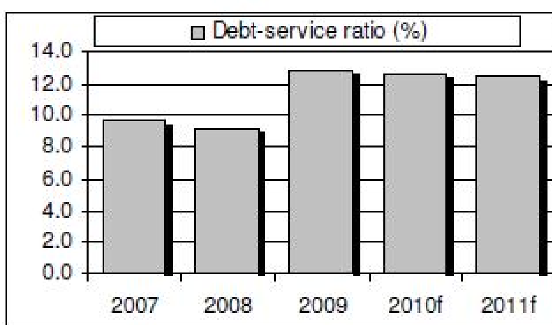


Figure no. 5g. -Debt-service ratio (%)

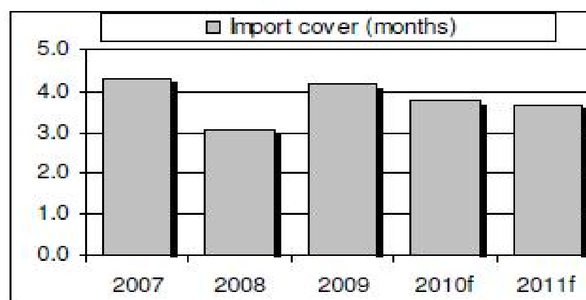


Figure no. 5h. - Import cover (months)

Source: State Statistical Office of Republic of Macedonia

Conclusion

In terms of macroeconomic convergence, EU membership requires convergence of the Macedonian economy with that of the EU in the context of realistic conditions, indicating income per capita and economic structure, and nominal terms, indicating convergence of prices, inflation and interest rates. Macedonia needs to accelerate development through higher levels of investment, increase employment and growth in productivity. Domestic investment and FDI are also important, especially first if FDI flows are not subsequently increase because of the global crisis. Stronger GDP growth would cause structural changes, moving labor force from agriculture and industry to services. Macedonia must be prepare for the social and economic effects of these movements. The approach may increase FDI inflows, so this in combination with accelerate development will cause higher levels of inflation. It is a good thing to follow prudent macropolitics combined with business-friendly reforms promoting domestic capital formation.

During the past decade, the ten new EU member states reached a high degree of market integration and macroeconomic stabilization as part of their accession process. The main challenges for these countries are dealing with large and potential capital inflows and also to achieve nominal convergence needed for appropriation of the euro. These challenges must be addressed within the scope of the limited fiscal policy. In the context of macroeconomic adjustment, macro fiscal policies will be main driver of macroeconomic policies in the years that follow. They need to focus on meeting the requirements for sustainability of EMU, and to help in absorbing the effects of aggregate demand on large capital inflows. Macroeconomic stability would be promoted the best through effective controls on spending and improved budget procedures. Large capital inflows create a risk of unexpected delays leading to major economic and financial imbalances. Carefully banking and financial market supervision are necessary to avoid credit boom and "bubbles" of the price of the assets' price that make such scenarios, but also to reduce the volatility of the financial sector. Also, the best way to get into EMU would be to set monetary policy consistent with low inflation and low interest criterion rate and enter the EMU as fast as these criteria are met. The decision to insist on ERM II requirements or to allow of the countries that met the other criteria for nominal convergence to immediately enter the EMU, is particularly important decision for allocation of macroeconomic risk.

References:

1. Bisev, G and Petkovski, M., 2003, "FYR Macedonia - Challenges for Economic Recovery", prepared for the Conference organised by the Peace and Crisis Management Foundation, Cavtat
2. Daviddi, R. and Uvalic, M. , 2003, Exchange Rates Regimes in the Western Balkans and their evolution toward EMU, *First Alumni Annual Conference on "Governing EMU" European University Institute, Florence*
3. European Commission, 2004
4. EBRD Transition report 2007: November update and NBRM calculations
5. EBRD Transition report 2007: November update.
6. Feldman, R., M. Watson, 2002, "Into the EU. Policy Frameworks in Central Europe," (Washington: International Monetary Fund).
7. Fidrmuc, J. and I. Korhonen (2006), "Meta-Analysis of the Business Cycle Correlation Between the Euro Area and the CEECs: What Do We Know?", *Journal of Comparative Economics 34, 518-537.*
8. Schadler, S., and others, 2005, *Adopting the Euro in Central Europe: Challenges of the Next Steps in European Integration,* IMF Occasional Paper No. 234 (Washington: International Monetary Fund).