

THE EUROPEAN ROMANIA THROUGH THE WINDOW OF THE SCOREBOARD

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By the Winter EU Summit in December 18, 2004 in Brussels, Romania concluded the accession negotiations and on April 25, 2005 at Neumünster Abbey in Luxembourg the Treaty of Accession was signed, so that from January 1, 2007, it became a EU member with full rights and obligations. In the seven years after accession one can say that many things have changed, but a careful contextual analysis of some relevant macroeconomic indicators for Romania creates the impression that the changes are not entirely appropriate to the schedule of assumed obligations. Longtime expectations of wealth and basic individual freedoms which animated the entire Romanian population in a national consensus of historical value are still a part of the aspiration and motivation for the social reconfiguration that came after decades of communist tough oppression and deprivation.

Keywords: accession, integration, European Union, scoreboard, labor unit, unemployment, macroeconomics

JEL classification: E10, E19, E 24, E 66, F 15

1. Introduction

Time long-awaited accession to the European construction was the same with the dawn of an era in which this complex scaffold was looking for the most suitable solutions for the detection and correction of deficiencies resulting from the sub - optimal degree of fulfillment of the most important criteria for convergence.

The *scoreboard* is among these solutions and in addition to the successfully completed attempts under different names pacts and treaties, it is a controversial instrument, a comprehensive panel of macroeconomic indicators which were selected upon their relevance and expressiveness at a national economy level.

The authors considered appropriate the option to describe this mechanism of prevention and correction, but also to highlight the minuses that the scientific literature and practice have been correctly reported.

In the following and based on various data, accompanied by documented analysis and logical reasoning, the authors try to describe the fulfillment of these goals by the European Romania, or at least to measure the distance the country has traveled in this respect together with the other transition-colleague countries, intending to depict the future trends in its developments, *without leaving aside the description of those elements that form the peculiarities Romanian phenomenon*.

To this effect, we stuck mainly on the dynamic analysis of the *unit cost of labor* and of the *internal unemployment rate*, two indicators we considered of maximum expressiveness in measuring the taken steps, given the fact that the integration could be called as a second transition, and many actual analysts' observations have also identified a so-called *barometer of happiness* to diagnose more subtle the successes over the whole load of post-communist period.

2. Technical specifications on measuring the imbalances

In the context of the Europe troublesome economic and social events caused by the global financial and fiscal crisis, the EU Commission has created a tool for assessing and measuring the multiple imbalances and for enabling to anticipate the difficult situations and also to provide the macro - makers with the directions for their future corrective actions.

The surveillance mechanism of the potential macroeconomic issues was established in December 2011 as part of the "six - pack" laws panel.

This *Scoreboard* means a set of relevant macroeconomic indicators expressing the configuration of the significant developments of the Member States' economies. The periodical analysis in the *scoreboard* is materialized in the Alert Mechanism Report or AMR, which is annually prepared and designed as a filter for proceeding to a more detailed analysis when certain Member States are in need, focusing on specific areas with biggest problems difficulties.

The ten indicators originally foreseen in the *scoreboard* cover two-fold aspects:

A. External Imbalances and Competitiveness:

1. Average current account balance in the past three years (allowed values between -4 % of GDP and 6 % of GDP);
2. Net international investment position (liabilities stock under 35 % of GDP)
3. Variation in the real effective exchange rate over the last three years (between -5 % and +5 % for the Euro area countries between, and between to -11% and +11 % for the other EU Member States).
4. The share of a state's exports in the total world exports should not be reduced by more than 6 % over the last 5 years.
5. The nominal unit labor costs (expressed as a ratio between the average payment of an employee and the real GDP divided by the number of the employed people) should not increase by more than 9 % for the Euro area countries and 12 % for the other EU Member States in the last three years.

B. Internal Imbalances:

6. Private sector debt (amount allowed fewer than 160 % of GDP)
7. Private credit flow (below 15% of GDP).
8. The increase in real prices of housing (less than 6 % per year)
9. Public debt (below 60 % of GDP)
10. Average unemployment rate in the last three years (under 10 %).

Although these ten indicators were originally established as relevant, the recent developments have required an additional indicator, and between growth rate and financial sector debt – to - equity ratio the first form was chosen, considering that it illustrates better the relation between the real economy and the financial sector, while remaining also the second variable to be pursued complementarily.

The Macroeconomic Imbalances Procedure, known as MIP is a surveillance mechanism that aims at early identification of the macroeconomic imbalances risks and their correction as well.

The Excessive Imbalance Procedure, known as EIP, represents the transposition of the first corrective procedures when taking a series of gradual steps to return the key-indicators within the allowed framework and different sanctions could be undertaken for the Euro area countries in the situations of repeatedly violated recommendations.

The assessing the classification of indicators within near or far limits from the established ones is not a mechanical action, but is based on an analysis that takes into account the real time correlations and also the trends observed in a specific dynamic, *separating the benign_slippages from those potentially developing that might drive towards systemic shortcomings.*

Thus, in accordance with Article 121.2 of the EU Treaty, the European Commission may adopt preventive recommendations addressed to the Member States in the early stage of the imbalances, avoiding any possibility of their extension and contagion. It is an operation which is conducted yearly at the end of May, in the so-called the *European Semester*, through which economic and fiscal policies are coordinated in the EU, because the EU Commission should assess the policies before they were assumed and adopted by the Member States.

When a Member State is the subject of a macroeconomic imbalances procedure, it would submit a corrective action plan with clear targets and sustainable precise deadlines whose transposition into practice ought to be monitored and recorded in regular reports. Depending on the severity of the findings appropriate sanctions would be provided.

For example, the first failure in achieving the recommended goals will be penalized with the imposition of an interest-bearing deposit, while the second failure could convert this deposit into a fine of 0.1 % of GDP.

According to the gravity of the findings, more other sanctions would be required additionally. To establish a firm discipline, the voting for sanctions uses a reverse qualified majority to block sanctions.

At EU level, decisions are taken by a two-thirds majority in most cases, meaning 255 out of the 345 total votes. This implies 91 votes as threshold jam, i. e., the difference plus one vote.

Notwithstanding the penalties for failing to get out of the excessive macroeconomic imbalances could be blocked only if two thirds of the votes (255) were against the penalty, which is much harder.

3. Criticism of the Scoreboard

The *Scoreboard* as previously described was mainly driven by the fact that the economic crisis has shown that the EU needs urgent and desperate new economic decision-making procedures and new tools to put them in practice.

There are times and circumstances where European leaders are trying to find immediate solutions to provide timely palliative for the urgent problems, while exploring other options for strengthening the governance system applicable within the European Union Treaty.

The new economic governance mechanism has two main components:

- The *European Semester*, which is the normal and permanent mechanism to dialogue with the Commission and other Member States, meaning a way of exchanging information and coordination between Member States both in terms of fiscal and budgetary policies and national programs for economic and structural reforms, and

- The *Excessive Imbalances Procedure*, which aims to institutionalize a mechanism for monitoring, early warning and effective intervention to prevent the recurrence of unsustainable deficits and competitiveness losses due to inappropriate economic policies.

In a documented study on the scientific and practical valence and effectiveness of the *Scoreboard* as a new European instrument for correction, the Academy Professor A. Dochia gives voice to his suspicions about the effectiveness of this tool meant to fairly report and enlighten the macroeconomic risks, building his rationings upon the conclusions of the analyst Elisa Parisi – Capone and who formulated them in the paper "*Macroeconomic Imbalance Scoreboard EZ Visual Ranking Among 11 countries, Economonitor*", November 9th, 2012, considering the case of 11 EU countries analyzed by the panel indicators.

First, over the last decade, there is no time in the alert thresholds that have not been exceeded and none of the 11 Member States included in the analysis could ever succeed to permanently maintaining the prescribed limits.

The poor predictive power of indicators is another reason for suspicion, not only from the cases of Greece and Spain, when they warned indeed what followed, but the case of Austria could disappoint the role of the *Scoreboard*, since its situation sharply deteriorated soon after 2009, although in 2001-2008 the whole panel of indicators showed very good.

Lack of substantiation of the alert thresholds makes them questionable, since Germany is a case as glaring as possible.

Also the inefficient capacity to impose sanctions or corrective measures is to be stressed either as long as countries like France and again, Germany, were not been convicted under the provisions of the Stability and Growth Pact for their breaching the budgetary discipline.

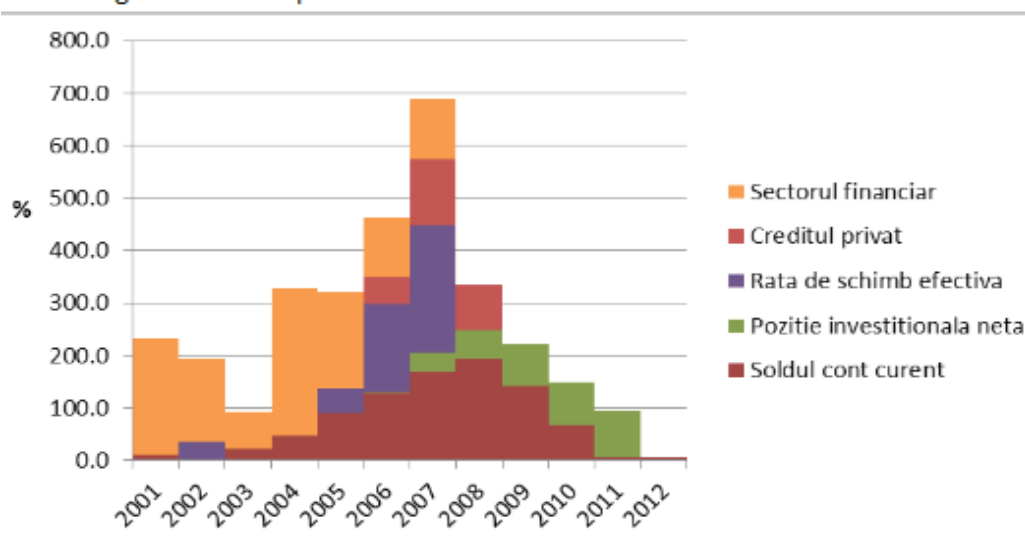
Finally, there would be the discretionary approach of the EU Commission when intending to interpret the scoreboard indicators as to decide whether a country might be subjected to thorough analysis and how much these parameters must exceed so that it could determine the onset of the excessive deficit procedure.

But the way in which national governments would take over and would accept the Commission's recommendations is another serious problem as long as the present tensions are deeply felt due to the austerity policies, the widely spread phenomena which fuel the very significant segment of the EU Member States' national Sovereignty that they still possess.

The author of the above mentioned study expresses his reluctance concerning the efficiency of the *Scoreboard* considering the Romania's case, which he appreciate as the most illustrative example of this dilemma.

In the past decade, our country consistently and substantially exceeded the alert threshold (Fig. 2), the greatest contribution came from the exceeded current account deficit, liabilities of the financial sector and the effective exchange rate variation.

Fig. 2. Situatia depasirii indicatorilor tabloului de bord in cazul Romaniei



Source: <http://cursdegovernare.ro/noul-mecanism-de-guvernanta-europeana-limitele-tabloului-de-bord.html/>

Vulnerabilities arising from excessive deficits were known and have been repeatedly reported both in the country and abroad.

But recognition of these vulnerabilities was not sufficient to trigger effective preventive measures at a time when governors themselves were unacceptably contaminated by market exuberance.

The adjustment was rapid and quite painful but only after the crisis, so that in 2012, Romania had one of the best configurations for the *Scoreboard* indicators in the European Union.

Both at national and European level, it is not the lack of information that accumulates imbalances in the economy that has fostered the crisis, but rather the policy makers' reluctance of taking unpopular and however preventive measures in due time.

Therefore macroeconomic deficits procedure and the new economic governance mechanism generally can not bear fruit unless it is assumed by the political resort, which is not usually insured at all.

4. Case study: Romania

Amid Central and Eastern Europe, Romania was the first country to have official relations with the European Community, a fact which has been pegged to a particular sequence of events.

Soon after the opening and thaw triggered by the memorable *balcony speech* in the summer of 1968, Romania turned to the West, taking advantage from an outstanding capital of sympathy, which favored the generosity of many lenders in the West, and also the membership to the International Monetary Fund (1972 - 1973), respectively - the World Bank.

In January 1974, an agreement included Romania in the Community's Generalized System of Preferences and then a comprehensive series of other specific agreements were signed with the EC to facilitate trade.

In 1980, Romania held the *de facto* the European Economic Community's recognition by signing both the *Agreement regarding the creation of Romania - CEE Joint Commission* and the *Agreement on Industrial Products* simultaneously.

Since the early months of 1990, Romania developed diplomatic relations with the European Union, and in 1991 signed the Agreement for Trade and Cooperation, which came into operation in February 1995.

In the same year, on June 22, 1995, Romania sent the so-called *Snagov Declaration*, containing a request to join the EU, an important document that all the fourteen major political parties in Romania at that time signed and assumed, as an expression of the unanimous aspiration of all the Romanian people.

In July 1997, the Commission published its Opinion on Romania's request to become a member of the European Union.

In 2004, at the Thessaloniki summit the European Union declared its support for this objective and in the winter EU summit in Brussels on December 17, 2004, Romania concluded its accession negotiations.

Recommendations for the Romanian authorities concern: anti-corruption measures, independence and functioning of the judiciary system, freedom of the press, stop police abuse.

On April 25, 2005, the ceremony for signing the Accession Treaty was held in Neumünster Abbey in Luxembourg, following that the two countries, Bulgaria and Romania would accede to January 1, 2007, unless they report serious violations of the established agreements and the membership would be delayed by one year to January the 1st, 2008 consequently, meantime continuing to maintain the safeguard clauses.

So, the first day of 2007, Romania's objective for the next stage was to deepen the integration and consolidation of its membership of the European political and economic community.

On this occasion, Romania also assumed the fundamental principles of the European scaffolding, regarding:

- ♦ rule of law and respect for the law, meaning the establishment of a uniform and harmonized regulatory guidelines and regulations that ensure protection of rights derived from;
- ♦ Rights and fundamental freedoms on the grounds that the legal norm has a universal value;
- ♦ Social rule;
- ♦ Cultural pluralism and
- ♦ Subsidiarity.

In compliance with these principles, Romania has focused its actions to achieve the following *objectives*:

- Institutional stability thus guaranteeing the democracy, the rule of law, the human rights, respect for and protection of the minorities;
- Existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union;
- Ability to assume the obligations arising from EU membership, including the adhesion to the aims of political, economic and monetary union.
- Strengthening the political system and democratic institutions ;
- Creation of an economic and social environment to provide maximum satisfaction and benefit for its citizens;
- Streamlining structures and mechanisms of the market economy;
- Strengthening political cooperation, economic and cultural relations with the European Union member states and candidate countries;
- Strengthening the Romania's status both on the European and international scene in terms of stability and security.

Achieving these ambitious goals assumed to require a new prioritization of actions and macroeconomic policies, closely watching structural adjustment to the requirements of the internal market and common policies of the EU. This means accelerating structural adjustment of the economy to recover delays in social and economic transformation and strengthening macroeconomic stability, ensuring conditions for sustainable economic development, regional and local, within increased solidarity and economic and social cohesion simultaneously.

The stable political and economic ambient that provides predictability and stability in the economic environment has a profound incentive impact in motivating and stimulating the local economic agents towards their sustainable development and domestic competitiveness.

These are the prerequisites to increase productivity, resulting innovations, expansion of the modern technology and, therefore, cost reduction.

On the monetary front, milestones were reaffirmed a firm monetary policy, non-inflationary, and a fiscal policy bearing its correcting impact upon the deficit and stimulating the economic activity, mainly export-oriented.

As important stimulus to the national economy, increased trade relations aims to stimulate and open labor market by opening an intense and varied perspective for the Romanian citizens' professional development under gradual liberalization of intra – EU flows.

However, the event has expanded enhanced access to capital markets and European investments in new equipment and information systems, the know-how of management and organizational techniques from the developed countries, consequently allowing the Romanian economic agents should work and involve on a single large sized and very important market.

A significant attention was drawn towards mitigating the adverse social consequences due to economic reforms especially for the vulnerable social categories. In this sense, the constant macro policy makers' priority concerns and focus on recovery of social dialogue at both central and local level, so that the recalibration and Europeanization of civil society should continue to be stimulated.

The law harmonization by taking and implementing the "acquis", aimed at aligning the principles, rules and actions of the Common Foreign and Security Policy, thus adjusting the institutional and operational framework of the state and preparing strengthening the cooperation with Member States and candidates in the domain of justice and Home Affairs.

All these efforts are part of a broad structural and functional reform of public administration, meaning greater efficiency and consistency of the administrative act, as to eliminate malfunctions and overlapping skills and to build a stronger compatibility with public administrations in EU countries.

The corollary of the above designed and implemented policies was set the valuation of all these great opportunities and also the gradual fulfillment of the convergence criteria, defining and necessary prerequisites for the subsequent participation in Economic and Monetary Union.

5. The evolution of the main macroeconomic indicators

Romania's dramatic history has left behind a very complicated reality, aggravated by too much prolonged and quite poor run transition which has affected both attitudes and behaviors in all areas of economic and social life. Shortly after World War II, Romania was the poorest European country.

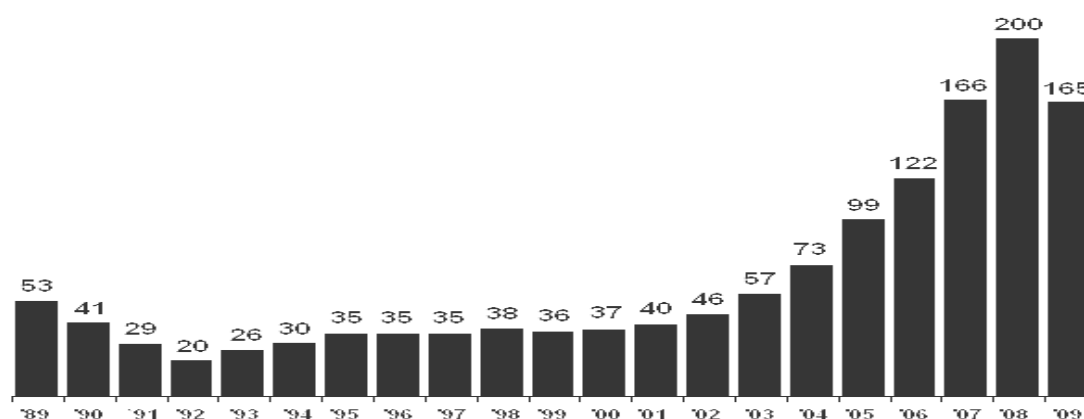
That phenomenon happened to the post war Romania was the same and can be seen both in the two Germans and the two Koreas. Crippled by communism, the Romanian economy entered a decade of recession, which has brought to reality, and only afterwards it began to recover quickly.

In response to one of the objectives of this paper, the projection of Romania as a case study, we will limit our analysis only on 2 of scoreboard indicators, the development of unit labor costs and the internal unemployment rate under the premise that they would illustrate as conclusive and lapidary formula as possible the balance between expectations and achievements, meaning the simplest measure in achieving the welfare associated to the accession aspirations.

Watching the history of Romania's GDP evolution in the last 20 years, four periods of the economy could be shaped. Overall, in the 20 years since the collapse of the communist regime, Romania's GDP grew four times in absolute terms, from \$ 40.8 billion in 1990, to \$ 161.1 billion in 2009.

The chart below is an argument on the efforts to overcome the dramatic action of the post-communist transition and capture the euphoria of the first years of membership, and then the classical effects of the electoral cycles in this period as well.

Romania's GDP Evolution during 1989 – 2009
(UM- billions USD)



Source: BNR; INSE, <http://www.riscograma.ro/3537/iata-cum-a-distrus-comunismul-economia-romaniei/>

The slope reported since 2008 became certainty in 2009 and already signals the global financial crisis on these lands by virtue of openness and permeability of the economic spaces.

Although it is the most accurate indicator that characterizes the development of a country over a period of time, GDP does not measure the welfare of a nation, but only the added value annually produced in an economy.

Sometimes GDP overstates the welfare of the nation, such as a disaster when, however, there is GDP growth. The explanation is that the government spends more to restore damages and grant aid, and they increase GDP, but without translating it into welfare. So it cannot be concluded mechanically that an appropriate wealth would accompany any increase in this indicator.

The first stage of the Romanian economy: declining years (1990 - 1992) - the first three years after the Revolution, Romania's gross domestic product fell from \$40.8 billion in 1990, to \$19.6 billion in 1992.

The second stage: Years of stagnation or slight increase (1993 - 1999) - Overall, the Romanian economy grew in this period from a GDP of \$ 19.6 billion in 1993, to \$35.6 billion.

The third stage: Years of growth or formation of "bubble" economy (2000 - 2008) - Between 2000 - 2008 Romania's GDP rose from 40.2 billion Euros, to 136,8 billion Euros

The fourth stage: Years of recession (2009 - present) - From a technical standpoint, Romania entered recession in 2009, when the GDP, seasonally adjusted, fell for two consecutive quarters compared to previous quarters. In 2009 GDP was 115.9 billion, a downturn of 7.1% compared to 2008. Many analysts and observers of this phenomenon in the Romanian economy and society felt that during this year corrected the excesses of recent years, which registered a sustained growth of the economy.



Returning to assessing Romania through the perspective of the potential imbalances in the national economies as shown in the scoreboard, it contains values of specific indicators approached as a priority in any assessment, as they present soundly inertial in time.

Thus, signaling problems encountered in foreign trade and in terms of competitiveness, will be achieved through the current account deficit of the balance of payments, the real effective exchange rate developments, the changing share of exports in international trade and the evolutions of the unit cost of labor, considered as illustrative to characterize the external imbalances, while the internal unemployment rate should provide additional relevance regarding internal imbalances, since it is followed over three years long. The unit cost of labor is limited to a value higher than 9 % for the Euro area and to 12% for states beyond it, as found in the panel below.

Evoluția costului unitar al forței de muncă (%)		
	2010	2011
Bulgaria	+33,9	+20,3
Cehia	+5,7	+3,3
Ungaria	+6,4	+3,7
Polonia	+11,3	+4,3
România	+36,5	+12,7

Source: www.cursdeguvernare.ro

From the beginning of the transitional process, large discrepancies in remuneration should be emphasized in all the former socialist countries comparing to the West, which were flattened but quite a bit. They still persisted long enough in Romania, and the excessive overcoming of the above mentioned indicator as emerges from the table is explained by the drastic European record reduction of the public sector wages in mid-2010, bearing in mind that this sector were accounted for a quarter of the workforce approximately as recorded in official statistics.

Rata șomajului (media pe ultimii trei ani)

	2010	2011
Bulgaria	7,5%	9,4%
Cehia	6,1%	6,9%
Ungaria	9,7%	10,7%
Polonia	8,3%	9,2%
România	6,6%	7,2%

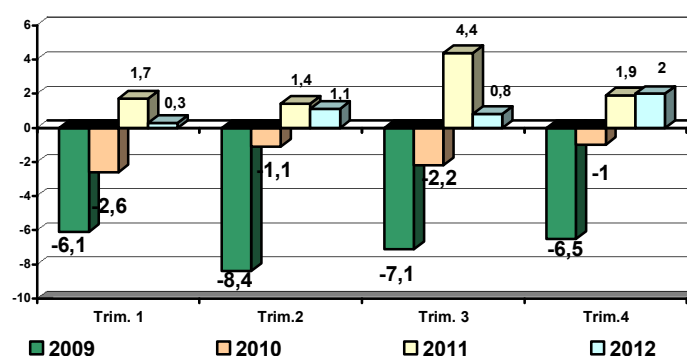
Source: www.cursdeguvernare.ro

The unemployment rate is the only indicator of the domestic macroeconomic surveillance as intended in the range shown above. This threshold of 10% is set somewhat arbitrarily also given a historical reasons for the European values, although, for example, U.S. or Japanese customs are somewhere half the European ones, derived from a more generous social policy.

In the international comparisons the used rate is consistent with the procedure of the International Labor Office and is set accordingly.

The two rates still fluctuates in tandem even if the two values are different and one of them takes into account certain more stringent criteria for the classification of the unemployed status.

The graph below illustrates not only the delay in the resumption of growth, but also the prolonged recession, although the other transitional countries quickly regained their previous tempo.

GDP Quarterly Evolution between 2009 – 2012 (UM - %)

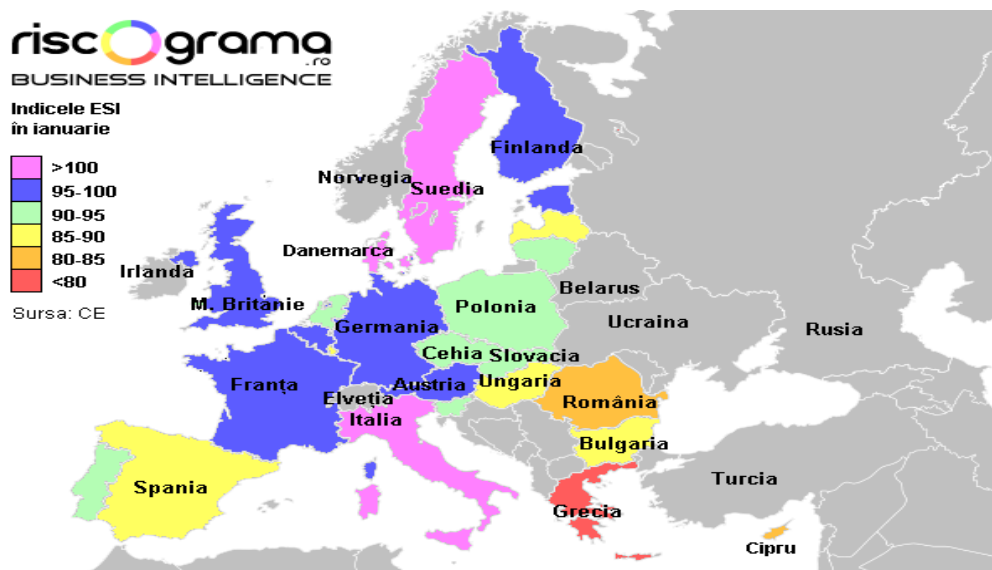
Source: www.cursdeguvernare.ro

This comparison with the *other* transitional countries has its certain purpose because we share a common historical past as planned economy and captive in communist space. In front of them, Poland should be mentioned here for it neither felt the crisis, except for some sporadic effects only; while many analysts were led to identify the Czech Republic's as the true *Switzerland of the Eastern Europe*, due to its spectacular performances.

The worsening Romania's situation was highlighted by the unfavorable international financial agencies' notes, such as Standard & Poor's, Moody's and Fitch, which not only lowered the country's rating to a speculative investment threshold, but they realized thus a singular case in the European Union, which entitles concern and worried questions considering this status a true penalty for Romania.

No doubt, there are multiple and complex causes which cannot avoid the political reasons, including here various items related to the specific route that each country had taken in overcoming the transitional process. The collapse of the internal consumption, due to the even brutal cutting population's income before '89, the volatility of the Romanian currency which tensed systematically, bad loans crowding and very old arrears in the economy.

But the most visible signal is the phenomenon of endemic corruption which fuels the poverty, as confirmed by the World Bank 2010 study that places Romania on a "*leading*" place in ranking the corruption, meaning more than 25 seats distance from Poland or the Czech Republic. There is even a map of poverty and sadness in the European countries which shows that Romanians are few reasons to be happy! ...



Source: http://economie.hotnews.ro/stiri-finante_banci-12767562-analiza-profilul-saraciei-romanilor-indicele-inegalitatii-veniturilor-persoanele-bogate-castiga-pesto-6-ori-mai-mult-decat-cele-sarace.htm?cfnl=

Based on a qualified survey among managers in some economic fields such as industry, trade, services and construction, and among consumers either, the European Commission has calculated and used the *Economic Confidence- feeling Index* (ESI).

Now, in Romania, consumers are the ones that pull the index down, while the industry and the exports seem to recover.

Given their specific circumstances, the Greeks seem to be the most pessimistic European people since one talks about the confidence in the economy, while Romania and Cyprus share but the second place in the same pace with Bulgaria.

European average increased to 97 % and the strict euro area is positioned at 95. Countries like Sweden and Denmark exceeds even the 100, but this ranking is in constant fluctuation, according to the general volatility of the economic and social environment.

Conclusions

Reconfiguration the *Scoreboard* parameters according to the pro-European developments and exigencies requires considerable effort and hardly predictable costs.

However, despite many shortcomings, which were felt more acutely and deepened amid the recent global financial turmoil, the keen Romania's affinity and orientation to the European values and principles still remain the attributes of a priority goal, especially among the groups of younger population.

This is an obvious fact that each collective polling on the future direction of the country found, showing the Romanian citizens' vivid interest for their strong and dignified involvement in the decision-making processes on the future design of the Europe, as well as in the strengthening Romania's status and prestige, in enhancing its political and economic relations with all the other state, and especially for the acquisition of the rights arising from the grant of "European citizenship".

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