MACROECONOMIC POLICY GUIDELINES IN THE EUROPEAN UNION COUNTRIES

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Abstract
In recent years, some European Union countries have made progress in economic convergence plan, but in others some special challenges took place. Economic and financial crisis has intensified some of the problems faced by these countries, causing undesirable developments. Measures taken by Member States differ from state to state, depending on the economic reality of each.

Keywords: *inflationary phenomenon, convergence criteria, sustainability, price stability, macroeconomic policies*

Introduction

This paper covers a brief analysis of the macroeconomic policies in the European Union countries in terms of the economic convergence process and the progress in achieving economic convergence in the new EU Member States. The economic convergence presents specific features depending of the countries and their seniority as a Member State of European Union.

We consider important the theme of this article because the convergence criteria are intended to ensure balanced economic development within the EU, and preventing any tension in the Member States. Adopting euro would be a stabilizing force, but it is possible that adopting euro by new Member States is too fast after their entry into the EU, as required by the euro changeover criteria are too strict, and somewhat inappropriate for emerging economies in accelerated growth. Also, the euro is still a potentially unstable monetary system, and the last thing any of the countries of Eastern Europe needs is more instability.

We try to answer to the issue of this article following the analysis made on the progress in achieving economic convergence. Some countries were analyzed in terms of economic convergence progress, but in other countries there were some problems, resulting mainly by increased inflation.

The relation between the paper and the already existent specialized literature is that in theory all Eastern European countries integrated in the EU should prepare to become members of the euro zone. For many years politicians and the money markets have seen the memberships of the euro area as a force for stability in countries still struggling to remove the legacy of decades of state planning. Investors are eagerly waiting the changeover, but the changeover is pushed to a distant future in most new Member States.

Convergence criteria

Overall, in recent years, an increase of the phenomenon of inflation in all new Member States has been reported. Poland and Slovakia are the only ones that recorded levels below / to the reference value. The main risk posed by developments in inflation expectations is affected, with repercussions in the medium and long term, through induced side effects.

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Factors that have contributed to increased inflationary pressure in the new Member States were: (internally: private consumption growth, labor shortages, adjustments in administered prices and indirect taxes, external: increasing food and energy prices). The evolution of inflation is different, and each country has a different trajectory, due to their "model" of the domestic economy. The worst developments were recorded in the Baltic countries and Bulgaria, and on future developments of this variable, there are no optimistic views.In Hungary there was a moderation of inflation in 2008, while inflation in recent years remains quite high.

Measures to reduce the phenomenon of inflation in these countries should move towards the implementation of monetary policy oriented towards price stability, accompanied by fiscal measures to support the non-inflation. Of great importance is the promotion of structural reforms to improve productivity of production factors, and conditions in the labor market.

To achieve the convergence criterion on inflation in the old Member States was particularly important to adopt a monetary policy geared to price stability, which lead to stable exchange rates, slower growth in labor costs and even reduce them, and reducing budget deficits. Also, fiscal policy was needed to temper rigid-driven inflationary pressures easing of monetary conditions in order to meet the convergence criteria necessary for joining the E.M.U. Therefore, inflation depended in the old Member States on the credibility of the strategy implemented by the authorities and the default fiscal policies and structural reform to improve the functioning of labor and goods market.

Analyzing the evolution of nominal convergence indicators in the old member states it has been noted that in addition to the interest rate criterion, which has not been exceeded, all countries have passed at least once a benchmark for other indicators.

A definitive conclusion is that the new Member States are entering a world that works with completely different expectations and entering with the same step is sometimes quite difficult.

During the period April 2005 - March 2009 average interest rates on long-term in the new Member States have not exceeded the reference values (except Hungary and Romania). Maintaining average interest rates on long-term product value is determined also by the increasing growth and current account deficits, rising inflation and risk perception on a continuing weak economic expansion in the case of Hungary.

In the subject of the exchange rate in the Baltic countries involved in MRS II, the central parity has not suffered a significant devaluation in recent years.

Bulgaria, Romania, Czech Republic, Hungary and Poland are still not in MRS II.

According to Fitch Agency, Estonia will not adopt the euro before 2012, Bulgaria, Latvia and Lithuania not before 2013, Hungary not before 2014 and Romania not before 2015. On the other hand, a Reuters poll in April, it was estimated that Romania will be the last State of the candidates who will adopt the single currency.

It is possible that the euro embracing by new Member States, could be a little soon after their entry into the European Union, because the criteria imposed on the changeover, are too stringent, and difficult for emerging economies.

The new European Union member states will adopt sooner or later the European single currency, the necessary condition being rated criteria listed in the Treaty of Maastricht.

For monetary integration to be sustainable, it is necessary to achieve real economic convergence with the euro area countries, with the possibility to make it long term. In this context, it is important to long-term vision of convergence. Follow the short term, using discretionary measures (to make progress "artificial" for short), will not only hinder real integration potential of these economies with the euro area, but it really could seriously undermine macroeconomic stability in those countries.

Macroeconomic policies

National macroeconomic policies, monetary and fiscal are "modeling" tools of the process of nominal convergence, a process meant to sustain real convergence. The main objective of monetary policy strategy, price stability, supports the nominal inflation criterion, and the national central banks focus on the issue of maintaining or reducing, as appropriate, the inflation expectations, contributes to the nominal long term interest rate criterion.

Countries that have opted for the strategy of targeting the exchange rate had initially succeeded in stabilizing inflation expectations at lower levels (after they have experienced hyperinflation). Nonsynchronisation of business cycles of these countries, with those of the euro area and that the ECB's monetary policy is not always the best for countries that have anchored to the euro currency, explains why some countries in the region have experienced levels of real interest rates close to zero or even negative. These low levels of interest rates have boosted credit growth, domestic demand and hence the current account deficit. Monetary policy in these countries has compensated the lack of interest rate as a mean of limiting interest rate and credit demand pressures through application of discretionary measures and administrative measures in this direction.

In countries that have adopted inflation targeting, in these days of increasing international mobility of capital flows, the advantage of an independent monetary policy is questionable, even if the nominal exchange rate against the euro is flexible. Financial liberalization and technological progress have contributed to the development of global speculative operations, "carry trade" type, through which it can transfer liquidity from one country to another. If a country maintains its interest rates at relatively high level to reduce inflationary pressure, this situation induce large capital inflows in the short term, with repercussions on the exchange rate.

In the current global financial crisis, the new Member States may be the target of speculative attacks by "investors" foreign (non-financial institutions) aimed at obtaining liquidity in these markets, then transferring it to the "mother country".

The main challenge for monetary policy in those states in the next period is not only a nominal criteria at a given time, but especially to maintain over time, a situation which should reflect the sustainability of economic convergence with the euro area countries. The challenge, of course, is not confined to monetary policy, but also takes into account fiscal policy and structural reforms in the economy of the new European Union member states.

Baltic countries' experience shows that current account deficits that coexist with high rates of economic expansion, not necessarily lead to major imbalances in the economy. As long as there is a significant correlation between the size of foreign reserves and current account deficit is not cause major corrections on the exchange rate.

The high level and trend of widening current account deficits in the new Member States, as well as associated external financing needs, the rapid expansion of bank credit and external debt risk amplification generates a sudden stop of capital inflows, followed by a downturn economic.

In the new Member States, although there have been important steps to implement measures to provide better integration of labor market and social policies, it appears that the results are below expectations.

It is noted that in all new Member States, the labor market has suffered a series of structural changes. The labor force was concentrated on attractive areas were seen in the greater flexibility of wages and lower employment.

In the current financial crisis and global economic growth rate and inflation in the new Member States has adversely affected the evolution of real incomes and employment. In this manner, more than the modest steps taken by governments, those of a gradual increase in the minimum wage and average salary, will not be found in a statistical increase. Drastic measures, of income reduction on different social groups and increasing taxation, accompanied by inconsistent policies, led to an economic and social chaos in a number of EU countries, and also in Romania.

As a result of the restriction of activities in Western European countries and even in the U.S. who have been along time net user of workforce coming from Central and Eastern Europe, the immigrant population has faced massive layoffs, are determined to return to the countries of origin, thus leading to increased unemployment in the new Member States.

Given current conditions, it is imperative that the Governments of the Member States to take urgent measures to combat the negative influences, with long term impact. This can be achieved only by promoting economic and social policies consistent, tailored to the needs and problems of each country.

In determining the scope, it is desirable to enforce the role of economics in relation to politics, thus ensuring a better redistribution of public financial resources, especially targeted towards support for priority areas of expenditure (education, health and employment).

It is important to realize that the transition countries path through this period of economic crisis, will generate different costs and these are the realities of economic, political and social development of each.

Overcoming the crisis can only be done by accepting and respecting the rules of market economy by stimulating savings and loan recovery, focusing on individuals and businesses to restore confidence in banks, monetary and fiscal policies consistent with that motivate investors to engage in infrastructure projects.

In all new Member States, the most important and urgent measures be taken to strengthen tax, intended to lead to inflationary pressures on the demand and macroeconomic imbalances and structural problems of the labor market. Measures taken to increase the quantity and quality of labor supply, quality adjustment should include training to labor market needs, developing training programs and incentives that lead to regional mobility. It requires that wage settlements in labor productivity reflect the realities of the labor market and developments in competitor countries.

Fiscal policy has an important role in bringing the work of evasion, by providing a sustainable tax system, while ensuring that tax cuts are accompanied by expenditure restraint.

Such measures, coupled with an effective monetary policy will contribute to a sustainable environment of price stability and to promote competitiveness and increasing employment of labor. The authorities of each Member State should consider fulfilling the convergence criteria by achieving this goal sustainable.

Conclusions

Following the analysis made we conclude that in some countries we found progress in terms of economic convergence, but in other countries there were some problems, mainly resulting in increased inflation.

Sustainability is crucial when we analyze the degree of fulfillment of the convergence criteria. Adopting the euro is an irrevocable process and must be sustainable convergence, will not be valid only within a certain time. In order to achieve a high degree of sustainable convergence, the efforts by all member countries should be intensified, particularly in regard to the necessity of achieving and maintaining price stability and achieving and maintaining the optimal level of public finances.

In order to achieve a more complete resolution regarding this issue, the future researchers should analyze the evolution of all nominal convergence indicators of evolution for a period of three years for the new Member States that have not yet adopted the single currency and the related benchmarks.

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