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Eurozone Convergence Impact on the Romanian Fiscal Budgetary System

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Abstract *The Treaty on European Union and the Treaty on the Functioning of the European Union, Romania's main responsibility is to strengthen the national economy, to ensure real and nominal convergence, the integration in the Economic and Monetary Union. Basically, the completion of the integration of the Romanian state. In this context, special attention should be paid to the convergence. In its realization requiring strict coordination of macroeconomic policies, and thus of the fiscal and budgetary emphasizing structural reforms and ensuring a stable economic environment and robust. Therefore, the content of this paper includes an analysis of measures taken to strengthen fiscal discipline and how the fiscal targets have been or can be met.*

Key words Nominal convergence, deficit, public debt, mixed taxation, fiscal pressure

JEL Codes: H68, Z23

1. Introduction

The study conducted raising issues relevant to fiscal convergence in the Eurozone states and Romania. Frequently addressed in the literature, the issue of convergence has sparked controversy in terms of how often the financial stability can be assured; to what extent the tax burden and tax harmonization toll mix contributed convergence. Using previous research results correlated with the objective of integration into Economic and Monetary Union of Romania, the developed study highlights the extent to which tax convergence has been achieved in the whole Eurozone and Romania.

2. Literature review

The literature provides a vast area for approaching the convergence problem. Studies undertaken by authors such as Baumol W. in 1986, "*Productivity growth, convergence and welfare: what the long-run show time*"; RJ Barro and Sala-i-Martin, X. (1992) "*Convergence*" or Mankieu NG, Romer, D., Weil, D. (1992), "*A contribution to the empirics of economic growth",* demonstrates the specialists' concern in deepening of academic research in terms of convergence.

The research developed by these authors on convergence issues being treated with in terms of revenue. Essentially all the research conducted by Baumol, Barro and Mankieu assumed hypothesis testing of neoclassical model, built by R. Sollow in 1956, and found in the work "*A contribution to the theory of economic growth*".

An analysis of pioneering studies leads us to conclude that they have deepened and developed constantly; and, as a result of the emphasis on harmonization and coordination of fiscal policy at European level, and monitoring of financial stability, recent studies draw attention to the fiscal convergence.

In this sense, are remarkable contribution made by authors such as Esteve V., Onorate L., Delgado F.J. *et al*. They studied tax convergence in terms of taxation, and analyze its effects on the cycles of business, how they can intervene to eliminate idiosyncratic fiscal shocks or reduce the primary fiscal deficits.

By using the convergence of beta and sigma type (convergence rate 2.4%), for a period between the years 1967-1994, in "*Convergence in fiscal pressure across EU countries*", Esteve V. demonstrates the existence of convergence for elements pressure tax. In the same context, Onorate L. (2004), the study "*Fiscal convergence before entering EMU*", investigates the fiscal convergence effect in reducing fiscal deficits and control over inflation and interest rates.

The treatment of convergence continues by including assumptions of econometric models of mix taxation level and degree of fiscal pressure. An example of this is the paper "the tax mix and the fiscal pressure converging in the European Union?" of the author Delgado F.J. (2006); the study was developed subsequently by Delgado Presno F.J. and Presno M.J. (2011), in order to obtain extensive estimates, and published in the article "*Convergence of Fiscal Pressure in the EU: a Time Series Approach*".

In order to develop the analysis of fiscal convergence in the Eurozone, and to establish the impact on Romania's fiscal-budgetary system, I used various publications of the European institutions (Convergence Reports, annual reports, Reports on public finances of Member States of the Union etc.) and legislation adopted at EU/national level about the rules on the application of the convergence criteria. However, the use of statistical data provided by Eurostat, the EU Statistics Office, Ministry of Finance and National Bank of Romania has been useful in highlighting stage of their convergence.

3. Methodology of research

The article is developing a study on the impact of fiscal convergence in the Eurozone over the tax system and national budget. Documentation is based upon published studies reference to European and national levels, and relevant legislation applicable in Romania and the European Union.

The research methodology used in the preparation of this article calling both logic induction and deduction and methods of quantitative analysis or comparative analysis.

The complexity of approached subject imposing often synthesizing and interpreting the results of econometric models, for reflecting the level of convergence in terms of budgetary indicators.

4. Tax convergence in the Eurozone

Evidence of the convergence trend of tax at EU level was made by researchers in realized studies. Prestigious specialists in the taxation area, draw attention to the fact that prior to 2008 could be observed the development of fiscal convergence. A decrease in the degree of convergence was identified once with the onset of the economic-financial crisis, knowing but "*a recovery in recent years*" (Solomon, 2015).

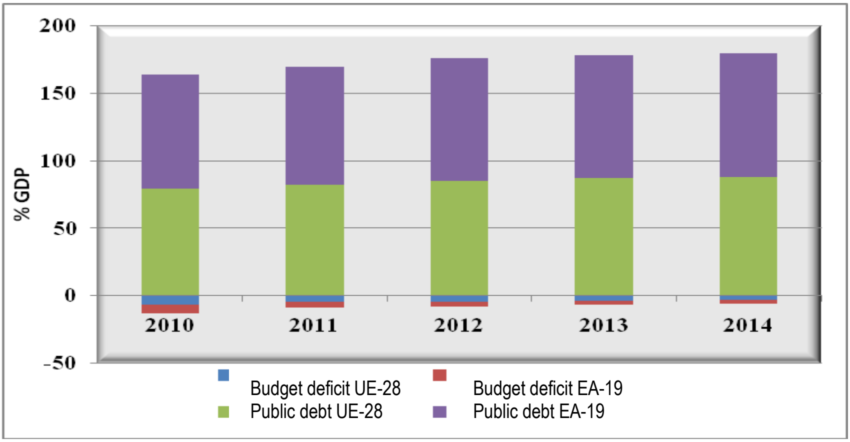
In order to achieve an analysis of fiscal convergence to Euro area, I took into account the tax criteria mentioned in Maastricht Treaty, namely the budget deficit level and public debt, both of Member States of the Eurozone. According to nominal convergence criteria, the budget deficit should be kept within 3% of GDP and public debt must not be shorter than 60% of GDP.

The consolidated version of the Treaty on European Union and the Treaty on the Functioning of the European Union, article 140 provides reporting by the European Commission. Through the European Commission examines their national law (applicable for fiscal-budgetary domain), and the extent to which the Member States has achieved a high degree of sustainable convergence. Based on the same article, "the sustainability of public finances, resulting in a budgetary position without excessive deficit [...]." (OJEU, 2012)

Recent fiscal evolution demonstrates that the state of public finances in some euro area countries presents a number of shortcomings, due in particular to the application of inappropriate fiscal policy during periods of economic expansion. Consequently, the deficit and indebtedness level grew exponentially. Given these considerations, the Eurozone states have resorted to fiscal consolidation, often evidenced in the increasing tax burden, such as:

• Changes in the level of income taxes;
• The introduction of so-called "solidarity contribution;
• Increasing of indirect taxes, by raising the statutory rates of VAT or implementing special schemes;
• Increase of environmental taxes etc.

Although the tax changes adopted in the Eurozone, subscribe the trend of increasing taxation, the average results achieved in terms of budget deficit does not reveal major differences compared to the EU average. Significant differences can be noticed at the level of public debt; the average public debt in the period 2010-2014, the euro area is 89.1% of GDP, exceeding the threshold of 60% of GDP, and approximately 4.7 percent points EU average - 28. Statement of deficit budget and debt to the EA-19 compared to the EU - 28, is shown in figure 1.



Source: Author's processing according to Eurostat

Figure 1. The evolution of deficit and public debt in 2010-2014

The budget deficit analysis for the Eurozone in the period 2010-2014, shows enrollment on a declining trend, which is in the range of 6.3% of GDP (in 2010) and 2.6% of GDP for the year 2014. The percentage EU, tend to reduce the public deficit is visible, that a drop of 3.4 percent points in the period under review.

5. Tax convergence in Romania

Membership in the European Union requires Romania the adaptation to fulfill requirements set out in the Treaty on European Union and the Treaty on the Functioning of the European Union[1]. In accordance with art. 131, in the years 2013 and 2014, according to Convergence Report "Romanian legislation does not meet all the requirements for central bank independence, monetary financing prohibition and legal integration of central bank into the Eurosystem" (ECB, 2014).

[1]Treaty on European Union and the Treaty on the Functioning of the European Union, art. 131 "Each Member State shall ensure that its national legislation including the statutes of its national central bank, with the Treaties and the Statute of the SEBC."

Independent of this situation it is ascertain by the European institutions based on responsibilities, the reference indicators in the budgetary matters emphasize the value of a favorable situation in terms of deficit and public debt. In 2013, Romania recorded a budget deficit of 2.3% of GDP and public debt was 38.4% of GDP. Keeping the situation under reference in 2014, when the budget deficit was 1.5% of GDP and public debt 39.8% of GDP. For 2015, official data provided by MFP indicates a budget deficit of 1.47% of GDP and a debt level of 38.6% of GDP.
Romania's fiscal position, covering the period 2013-2015, show that fiscal and budgetary sustainability was ensured; which has not led to the formulation of an EU Council decision, on starting an excessive deficit procedure. But it is important in Romania, in the medium term to ensure progress is sufficient to fulfill the optimum budgetary objectives; and the fulfillment of commitments in the context of financial assistance agreement signed with the IMF and EU (ECB, p. 98)
In structural terms, the reaching of budgetary objective of 1% of GDP set under the provisions contained in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union emphasizes the need to intensify fiscal consolidation efforts, stimulating economic growth, continuing the prioritizing public investments, and not least efficient public spending. In the medium term (2015-2017), the revenue side is marked by oriented measures as:

• Increase the efficiency of BGC revenue collection degree;

• Simplifying the fiscal system;

• "Improving voluntary compliance" (RG, 2014);

• Combating tax evasion phenomenon etc.

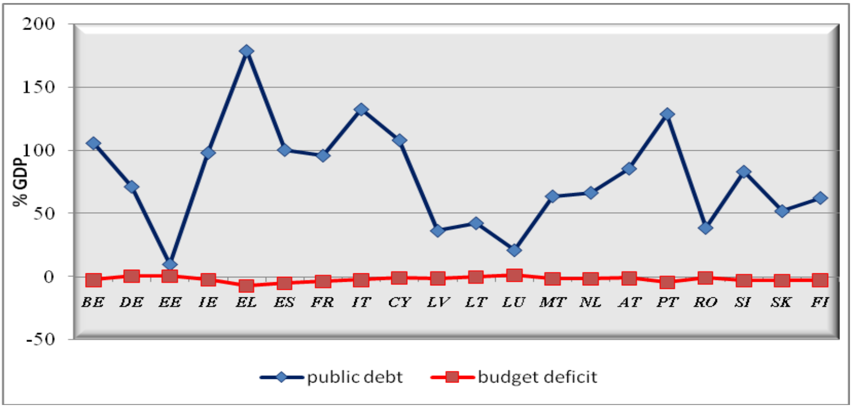
On the expenditure side the fiscal-budgetary strategy revolve around three general directions:

• "ensure a sustainable environment for expenditure on salaries and pensions in the public sector;

• orientation of available resources by engaging public investment;

• accelerating rhythm of spending the European funds to improve the absorption rate" (RG, p. 51).

As a result of measures taken to achieve fiscal convergence, the two indicators of fiscal policy showed divergent developments, both nationally and in the Member States of the Eurozone. The level of the two indicators is highlighted graphically in figure 2 for Romania and member states of the Eurozone.



Source: Author's processing according to Eurostat, AMECO

Figure 2. Budgetary deficit and public debt in the Member States of the Eurozone-19 and Romania, 2015

Analyzing the chart we can see that in four Members of Eurozone countries the reference level for the budget deficit is exceeded, namely Greece, Spain, France and Portugal; other states, including Romania recording for the 2015 a budget deficit below 3% of GDP. In terms of public debt, is recorded an exceeding of threshold of 60% of GDP in most Member Eurozone (BE, DE, IE, EL, ES, FR, IT, CY, MT, NL, AT, PT, SI, FI); the highest level of public debt being recorded in countries like Italy (132.8% of GDP) and Portugal (129.1% of GDP). Regarding Romania (compared to EA-19 states), this is the fourth country with the lowest level of this indicator in 2015 after Estonia, Luxembourg and Latvia.

6. Conclusions

The complex and heterogeneous manner of conducting the study, captures significant details on the state of the Convergence tax in Romania and Eurozone. The results offer the possibility of a conclusive opinion on this subject.
Thus, the analysis of fiscal convergence in the Eurozone reveals that in terms of deficit were recorded values below par. This indicates the presence of convergence at the level of 2015. In contrast being public debt, which with the exception of three countries, do not convergence on track. The values recorded in the UEM space were between a minimum of 10.1% of GDP (Estonia case) and a maximum of 132.8% of GDP (Italy case).

A strong trend towards convergence, in both indicators is observed in Romania's case; in 2015, the budget deficit representing 0.7% of GDP and public debt 39% of GDP, according to ESA methodology in 2010.

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