

## Romania's Convergence to European Union – a Post-Integration Analysis

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### Abstract

*In EU post integration period, the Romanian authorities have advanced the development of macroeconomic policies and have implemented structural reforms in all areas of economy. In this paper, we identify the main priorities for the success of Romanian integration in the European Union. The nominal convergence must be achieved faster than the real convergence with the European Union. Can Romanian economy obtain faster convergence? We consider that the major pillar of increasing intra and interregional cohesion is the growth rate of absorbing the structural funds allocated by the EU. What are the main mechanisms to increase structural convergence with the EU countries?*

**Keywords:** *integration, nominal convergence, real convergence, structural convergence*

**JEL Classification:** *F36, O11*

The macroeconomic theory shows that the nominal convergence process is obtained faster than real convergence with European Union countries. There is a large consensus among policymakers regarding the correlation real convergence - nominal convergence. In fact, a higher degree of real convergence represents the substance of successful integration in the European model.

The first perspective supposes analysis of real convergence through income convergence, productivity convergence, relative prices convergence, employment structure convergence, educational convergence. The analysis of real convergence process is not official in EU. In fact, European Commission avoided imposing strict criteria as the nominal convergence criteria. However, there are authors who tried to establish the quantitative criteria regarding the measurement real convergence. Hen and Leonard<sup>1</sup> consider four criteria that quantify this process: growth of GDP (+/-2% around the average of three best performing member states in this process); unemployment (+/-3% around the average of three best performing member states in this process); surplus/deficit of the current account balance (around +/-2% to GDP) and competitiveness indicator vis-à-vis Germany (around +/-10% at the beginning of implementing euro down the market).

The Romanian economy real convergence with European model can be analyzed starting from GDP per capita at purchasing parity power. In 2008, GDP per capita in Romania was 39%

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<sup>1</sup> Hen, Ch., Leonard, J., *Uniunea Europeană*, Editura CNI Coresi, București, 2003.

relative to the EU27 average, less than Czech Republic (80%), Poland (54%), Hungary (64%), Slovenia (88%), but more than Bulgaria (37%).

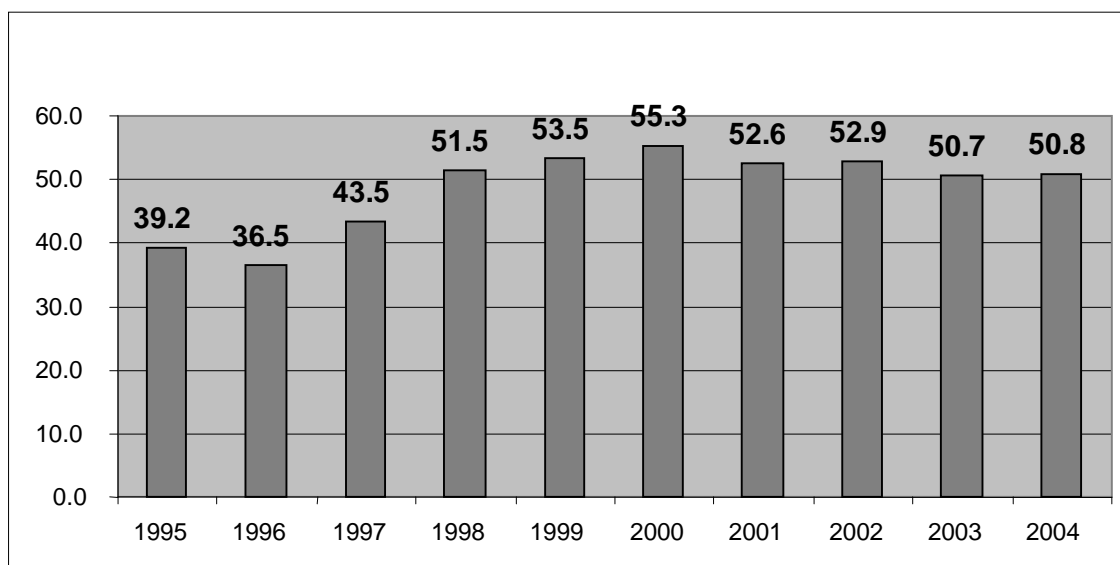
**Table 1.** GDP per capita at purchasing power parity (PPP)

(EU 27 average = 100)

Country/Years	2003	2004	2005	2006	2007	2008 (estimation)	2009 (estimation)
Bulgaria	29.7	30.6	32.1	33.3	35.5	37.0	42.0
Czech Republic	67.8	70.3	73.3	75.0	78.1	80.0	94.0
Poland	47.0	48.8	49.8	51.0	52.4	53.8	57.0
<b>Romania</b>	<b>30.0</b>	<b>32.2</b>	<b>32.9</b>	<b>34.2</b>	<b>37.0</b>	<b>38.4</b>	<b>44.0</b>
Hungary	59.3	60.1	61.9	63.2	63.7	64.2	68.4
Greece	81.1	82.0	83.6	84.7	85.7	86.8	94.3
Spain	97.4	97.6	98.3	98.2	97.8	98.3	102.3
Portugal	72.8	72.4	71.2	70.0	68.8	68.1	79.4
Italy	107.8	105.8	103.6	103.1	98.6	97.7	103.4
EU15/EU27	100	100	100	100	100	100	100

Source: EUROSTAT, 2009

The structure of Romanian economy sectors shows that it remained constant during 1995-2007. Romania has the lowest structural convergence indicator among former communist countries (50.8%), while ECE countries' average was 75%, and Bulgaria's 68%. The agriculture contribution to the GDP decreased to a little extent in 1995-2007. About 50% of structural lag to the EU15 is explained through the poor tertiary sector contribution to the GDP (in 2005, 50% in Romania versus 72% in EU15).



**Fig. 1.** Structural convergence index of Romanian economy relative to EU15

Source: Eurostat, 2005

Regarding the structure of the Romanian economy, the expectations in the next three years are pessimistic. National Commission of Prognosis (NCP) shows that in 2009-2012, the structure of the Romanian economy will be the same. In 2008, the structural convergence indicator will reach 55.3% relative to average EU27. The structural divergence can grow if the services' contribution to the EU27 GDP increases.

The structural convergence index with European economy can grow if the labor productivity will be higher. Then, it drives to higher incomes, which can sustain economic growth, welfare,

etc. If the average rate of labor productivity growth will be 10% annually, then Romanian economy gets involved into a faster catching up process.

**Table 2.** Labor productivity per person employed  
(GDP at purchasing power parity per person employed person, relative to EU 27 = 100)

Country/Years	2003	2004	2005	2006	2007	2008 (estimation)	2009 (estimation)
Bulgaria	31.9	31.7	32.6	33.6	36.3	37.7	39.8
Czech Republic	62.0	64.3	68.6	70.4	72.3	73.4	76.3
Poland	59.6	62.0	62.7	63.8	60.4	61.9	64.5
<b>Romania</b>	<b>34.0</b>	<b>36.3</b>	<b>36.6</b>	<b>37.9</b>	<b>42.5</b>	<b>44.2</b>	<b>46.8</b>
Hungary	66.8	68.1	70.1	71.6	73.7	74.5	76.3
Greece	100.5	98.2	97.5	101.1	103.0	104.0	106.8
Spain	99.9	99.1	97.9	95.3	94.9	93.8	96.6
Portugal	66.0	65.8	65.2	64.8	64.6	64.3	67.4
Italy	111.7	110.3	108.8	108.3	104.1	103.3	105.7
EU15/EU27	100	100	100	100	100	100	100

Source: EUROSTAT, INSSE, 2009

The EU integration theory shows that the European model is a regulating strategy model, which spreads prosperity from the center towards the periphery, through the conferred structural and cohesion funds. This is to help the real convergence process of the poorer countries within the European Union with the rough nucleus constituted of the more developed countries.

Many structural problems of the Romanian economy can be solved through efficient policy to attract foreign direct investments and a good capacity to European funds absorption (cohesion and structural funds).

A great opportunity for the development of Romanian infrastructure is the efficient use of European Funds. Since 1<sup>st</sup> January 2007, Romanian authorities must spend 9 millions euro per day. In the period 2007-2013, European Union will approve for Romania 32 billions euro cohesion and structural funds.

Thus, the money coming from the European Union will be allotted to the projects in fields such as infrastructure (42% of the total amount), environment protection (24%), increase in the economic competitiveness (13%), developing the human capital (18%) and strengthening the administrative capacity (3%).

**Table 3.** The European funds allotted to Romania during the period 2007-2013

	2007-2013	2007	2008	2009	2010	2011	2012	2013
<b>Total of structural and cohesion funds</b>	<b>19.21</b>	<b>1.28</b>	<b>1.85</b>	<b>2.51</b>	<b>3.03</b>	<b>3.26</b>	<b>3.51</b>	<b>3.77</b>
○ The European Regional Development Fund	8.98	0.60	0.86	1.16	1.42	1.53	1.63	1.79
○ The Cohesion Fund	6.55	0.44	0.64	0.86	1.03	1.11	1.19	1.28
○ The European Social Fund	3.68	0.23	0.36	0.49	0.58	0.63	0.69	0.70
<b>Total of funds for agriculture and rural development</b>	<b>8.25</b>	<b>0.76</b>	<b>1.05</b>	<b>1.35</b>	<b>1.27</b>	<b>1.27</b>	<b>1.28</b>	<b>1.28</b>
○ The European Fund for Agriculture and Rural Development	8.02	0.74	1.02	1.32	1.24	1.23	1.24	1.23
○ The European Fisheries Fund	0.23	0.02	0.02	0.03	0.04	0.04	0.04	0.05
<b>Total</b>	<b>27.47</b>	<b>2.03</b>	<b>2.90</b>	<b>3.86</b>	<b>4.30</b>	<b>4.54</b>	<b>4.79</b>	<b>5.05</b>

Source: the Ministry of Economy and Finances, 2008

The fields in which Romania can submit projects in order to access these funds cover a great part of the areas where we have low real convergence with the countries from the European Union. It refers to the transportation, electrical power, environment, research-development, information society, professional training or tourism infrastructure.

But the Romanian absorption capacity of European structural funds remains weak (the forecast level for 2007/2008 period is only 6%).

**Table 4.** Absorption capacity of European Funds in the period 2000-2006

Country	Absorption capacity (% relative to commitments)
Ireland	74%
Austria	68%
Spain	67%
Germany	64%
Belgium	58%
France	56%
Italy	52%
Greece	40%
Slovenia	28%
Latvia	24%
Lithuania	24%
Hungary	23%
Slovakia	23%
Poland	20%
Czech Republic	18%
Bulgaria	7%*
<b>Romania</b>	<b>6%*</b>

\* 2004-2008 estimation for New Member States EU

Source: Eurostat, 2008

## Conclusions

The priorities of Romania's Convergence Strategy follow closely the next characteristics: development of higher value-added activities; increased energy efficiency and sustainable development of the energy system; growth absorption capacity of European funds in order to stimulate research, technological development, innovation and competitiveness; efficient use of European funds for improving business infrastructure, more and better jobs and the knowledge economy. Romania needs financial resources in order to increase the investments and to render the economy more dynamic, with the purpose of obtaining sustainable economic growth which can diminish the development disparities as compared to the Western countries.

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## Convergența României cu Uniunea Europeană – o analiză postaderare

### Rezumat

*În etapa postaderare la Uniunea Europeană, autoritățile române au propus fundamentarea de politici macroeconomice și implementarea de reforme structurale în toate domeniile economice. În acest articol, autorii identifică principalele priorități pentru succesul integrării României în Uniunea Europeană. Convergența nominală poate fi atinsă mult mai rapid decât convergența reală cu UE. Poate România să obțină o convergență rapidă? Autorii consideră că un pilon major al creșterii coeziunii inter și intraregionale îl constituie creșterea ratei de absorbție a fondurilor structurale și de coeziune alocate României de către UE. Care sunt principalele mecanisme pentru creșterea convergenței structurale cu țările UE?*