THE IMPACT OF THE RECENT FINANCIAL CRISIS UPON THE NOMINAL CONVERGENCE INDICATORS ACROSS NEW EU MEMBER STATES

MIHUȚ Ioana Sorina [1], LUȚAŞ Mihaela[2]

Babeș-Bolyai University, Cluj-Napoca, Romania

Abstract

The Central and Eastern European economies have registered due to the recent financial crisis one of the most important economic disequilibrium that can be compared globally. In what concerns the feed-back of the individual economies across EU to the challenges of the recent financial crisis, especially those of the new member states, these may be characterized shortly as being chaotic. This statement is based upon the fact that there were a series of factors whose interaction led to an inefficient coordination of the main policies, factors among which: different degrees of financial contagion, unequal exposure to different categories of shocks or the ability to develop efficient measures. The main purpose of the current article is to conduct an analysis of the impact of the recent financial crisis upon the nominal convergence indicators across the states that joined EU in 2004 and 2007.

Keywords: *f*inancial crisis, Nominal convergence, European Union, European integration.

JEL classification: **F36, F44, F62.**

1. Introduction

In order to assess the impact of the recent financial crisis upon the economies of the member states of European Union and especially upon the

[1] *Teaching assistant/PhD., Faculty of Economics and Business Administration, Department of Economics, ioana.mihut@econ.ubbcluj.ro*

[2] *Professor/PhD., Faculty of Economics and Business Administration, Department of Economics, mihaela.lutas@econ.ubbcluj.ro*

states that joined EU in 2004 and 2007, we consider that is necessary to highlight the main characteristics of the convergence and economic growth models acquired by these particular set of economies. During the pre-crisis period, these models had a series of features that were totally different from those of the rest of the member states of the European Union or extrapolating globally from those adopted by China or Latin America. These features aimed the political, institutional, financial and even commercial framework. Moreover, the convergence process across the states that entered EU in 2004 and 2007, was accompanied by an appreciation of the exchange rates, an increase of the inflation rates and high rates associated to the budget deficits, especially for the Baltic countries, but there is no exception for Romania or Bulgaria. The interconnection of these elements was a driven factor for an unsustainable growth whose effects were strongly felt during the recent financial crisis.

The convergence processes during pre-crisis period based upon the liberalization of trade, capital flows and financial markets. The complementary element of these liberalizations was an intensification of the degree of openness of the economies. The main result of this action may be quantified by an increase of the GDP indicator, in some cases with values higher than those registered by some developed economies across EU. There were states where this convergence and economic growth process had a more intense dynamic like Slovenia, Slovakia or Czech Republic but there were also some economies where these evolutions where not so prominent like Romania and Bulgaria that experienced a series of imbalances mainly due to political and economic factors.

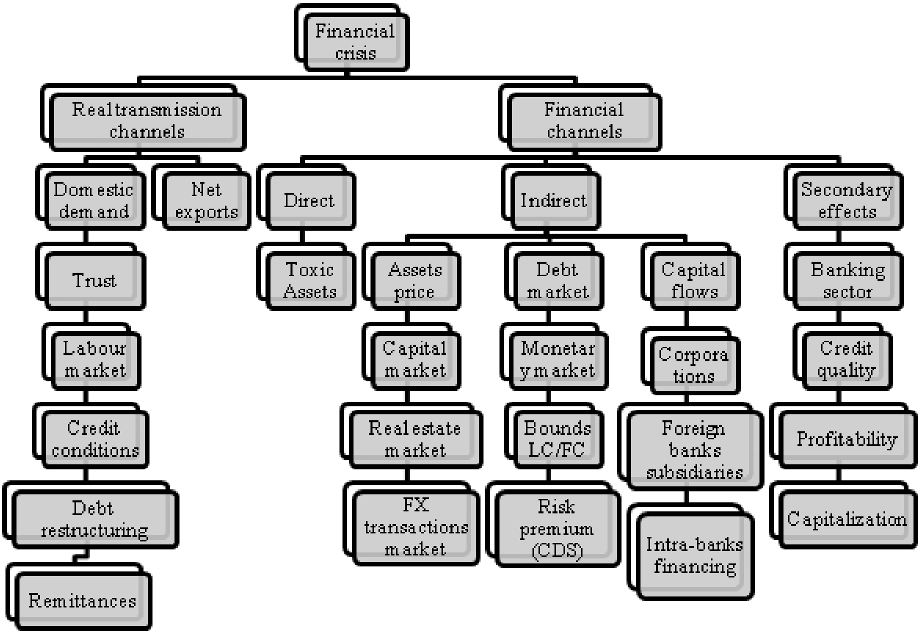
”*The Great Depression”* as it was called by some specialists in the field, the recent financial crisis which started in US at the mid of 2007, shortly propagate across economies from European Union, highlighting a series of economic, monetary and fiscal shortcomings that these economies faced long time ago and upon which the responsible authorities have not taken the necessary measures. The current crisis is due to the field where it triggered a financial one following the patterns embodied by all financial crisis in general (Rovinaru F., Rovinaru M., Pop L., 2009, pp.103). The financial crisis launched a series of challenges both on economic integration level as well as on international structure level. These two segments faced enormous pressures being forced to prove their abilities to generate concrete feed-back embodying a set of actions with precise character and more importantly consistent with the current context. The entire architecture of the European Union faced one of the most important sustainability tests in the history (Kattel, R., 2010).

Taking into consideration the effects of the recent financial crisis the academic world raised a series of debates such as: ”*What is the time period necessary for economies to reach the pre-crisis development levels*?” or ”*What is the balance between the responsibilities of each country in particular and the supra-national authorities, in what concerns the financial crisis management*”? The collapse of the main financial institutions in US (September 2008) was considered to be the crucial moment that determined the transformation of the recent financial crisis into a global one, affecting not only the financial system but also the economical one. The current situation of the Eurozone was strongly influenced by the financial crisis impact and by the debt crisis across European markets. As a result, the economies from the Eurozone, but not only, entered the recession phase, facing a significant deterioration of the fiscal government position. All the fiscal restrictions imposed by the authorities slow down even more the recovery process from an economical perspective for the euro member states, but also for the other members of the EU. Therefore, the consolidation measures of the national budgets, by promoting a preventive behaviour of the consumers, deepen even more the existing crisis across internal markets. An important consequence of the financial crisis is the asymmetry in what concerns the economic vulnerability due to internal and external pressures (Bodea G., Jula O., 2009, pp.27).

For a more comprehensive understanding of the mechanism through which the financial crisis influenced the evolution of the main economic indicators, it is necessary to delimit the main transmission channels involved. Although the literature in this field provides a wide range of classifications regarding this aspect, we consider being representative the dichotomy proposed by Gardo and Martin (2010) that illustrates in a very suggestive manner the transmission process of the recent financial crisis across Central and Eastern European economies.

There are two main channels through which the financial crisis effects are propagated across economies namely real and financial transmission channels. Although the proportion of financial channels is obviously higher, we must take into consideration the role of the real transmission channels, especially those of labour market and credit conditions that may strongly affect the financial stability. If we refer to the financial channels category, the toxic assets that exist across markets along with the real estate market boom were considered the driving factors of the recent financial crisis.

Figure 1: Transmission mechanism of the recent financial crisis across Central and Eastern European economies



Source: Gardo, S., Martin, R., (2010), The impact of the global economic and financial crisis on Central, Eastern and South-Eastern Europe, European Central Bank, Occasional Paper Series, Nr.114, pg.21.

Moreover an efficient macro-prudential surveillance ensures financial stability (Trenca, I., Balogh, P., 2013, pp.24). Once these mechanisms and the interconnection channels are destabilized, the macroeconomic equilibrium is strongly affected.

2. State of the art

A series of authors that concentrated their research upon the impact of the financial crisis on the new member states of European Union have drawn the attention upon the errors of the process of adopting euro. Therefore the alignment to a strategy that aimed at not adopting euro in a short time period is considered inefficient (Dabrowski, 2007). Countries like Romania, Hungary, Poland or Czech Republic postponed the adoption of euro due to a series of factors such as: the lack of determination towards a fiscal adjustment, ideologies regarding the adoption of the common currency by the decision makers at the political level. This approach in respect to euro proved to have a negative impact upon the evolution of the main macroeconomic indicators, enhanced also by the recent financial crisis.

The recent financial crisis determined a reconfiguration of the global process and systems highlighting a series of shortcomings which have been ignored until than such as (Becker et. all 2010):

- Markets approach towards sustainability and country risk assessment;
- Divergence due to assets price and the accumulation of debts across the private sector;
- Differences regarding the financial sector level of integration and the limits of the regulatory and supervisory framework within EU;
- Vulnerabilities associated to the public sector arising from contingent liabilities.

Dabrowski (2010) concentrates its research upon assessing the fiscal capacity of the European Union to counteract the effects of the recent financial crisis. An extreme shock like it was the financial crisis proved to be a strong indicator of quantifying the sustainability of the European Union institutional framework and the common policies coordinated by this impressive architecture. The main conclusions of the article concentrate upon the following elements:

- The efficiency of the fiscal intervention of the national governments;
- The need for a re-evaluation of the entire fiscal supervision framework at global level but most importantly at European Union level;
- The recent financial crisis highlight once more the gap between the Central and Eastern European countries and Western European countries and the fact that the future measures should concentrate upon increasing the fiscal potential of the EU and coordinating its policies related to major fields such as fiscal and monetary supervision.

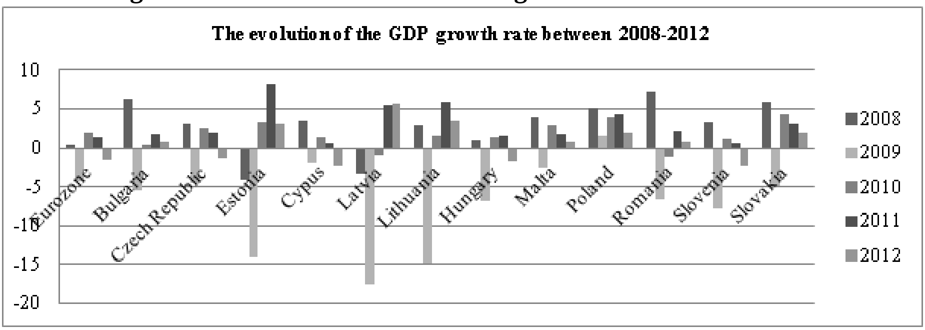
It is a clear fact that the effects of the recent financial crisis were extremely severe across new EU member states. The literature in the field concentrated its efforts upon identifying the main factors responsible for the size of the imbalances across these markets. Becker et al (2010) identifies as possible triggering elements the high degree associated with the financial integration along with the increased dependence on net capital flows. Additionally to these, we may consider that across small economies such as Malta and Cyprus with high degrees of openness, any transformation in what concerns the foreign investors behaviour is perceived more intense due to the insufficiency of the domestic resources to act as anchors for restoring balance.

3. The analysis of the impact of recent financial crisis upon new member states

In what concerns the new member states of the European Union, the recent financial crisis

determined a re-evaluation of the main objectives taken into consideration by each state regarding the convergence criteria that should be fulfilled before adopting the common currency. Therefore identifying some new instruments through which to achieve stability and sustainability of the markets is considered essential.

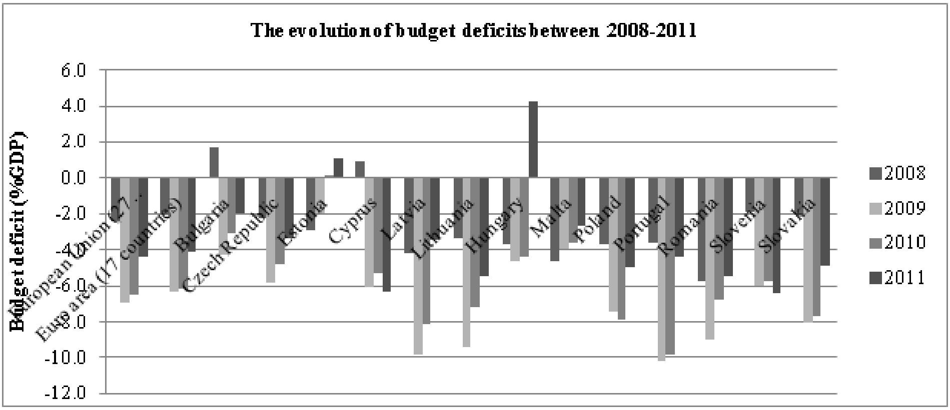
Figure 2: The evolution of the GDP growth rate between 2008-2012



Source: Authors own calculations based on Eurostat data.

Year 2009 was without any doubt the period of maximum intensity of the recent financial crisis, most of the countries registering downward trends in what concerns the evolution of the GDP growth rate. The EU average stood at the value of -4,3% as well as the euro average. In respect to the states that entered EU in 2004 and 2007 the impact of the recent financial crisis was strongly felt by Estonia (-14%), Latvia (-17,1%), Lithuania (-14,8). The only state that registered positive values associated to the GDP growth rate in 2009 was Poland with a value of 1,6%. During 2010-2011 the evolution of the growth rates situated on a positive trend with values between -0,4% for Bulgaria and 8,3% for Estonia. These values are a strong argument in favour of the integrated efforts of the national and supranational authorities for developing a new set of policies for economic recovery (See figure 2).

Figure 3: The evolution of budget deficits between 2008-2011



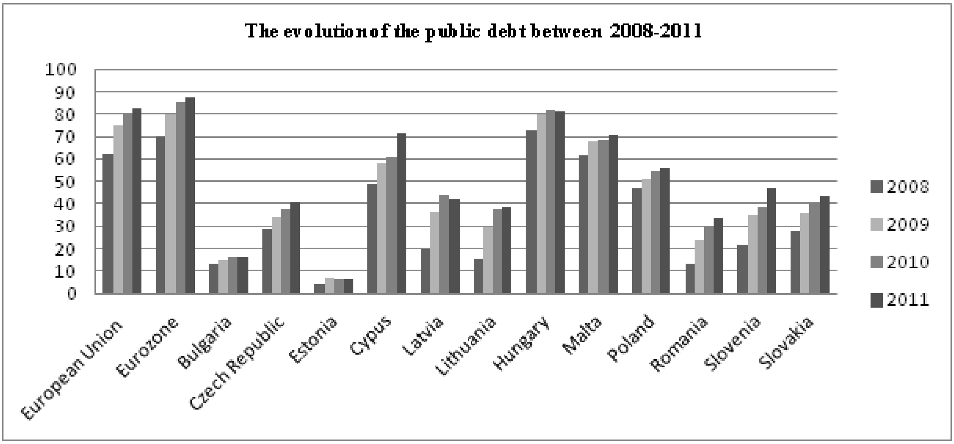
Source: Authors own calculations based on Eurostat data.

Maybe the most controversial aspect related to the recent financial crisis and therefore to the ability of the countries to fulfil the Maastricht convergence criteria is the uncontrolled growth of the budget deficits, elements that were not given the proper attention and the process of consolidation of the fiscal sustainability indicators was often postponed. Figure 3 offers an objective statement of the situation concerning the budget deficits and figure 4 reveals the level of the public debt for the states that entered EU in 2004 and 2007.

At the end of 2009, 18 of the member states of the European Union were in the situation of excessive deficit according to the data published by the European Commission namely: Ireland, Greece, Spain, France, Latvia, Malta, Austria, Belgium, Czech Republic, Germany, Italy, Netherlands, Portugal, Slovakia, Slovenia, Lithuania, Poland and Romania.

The emergency measures designed in order to reduce budget deficits prove to be inefficient in what concerns improving this sector, generating more negative effects upon the GDP growth rate and upon the employment rate. Maintaining an optimum level regarding fiscal policy represents one of the main targets of the Stability and Growth Pact. Also the European Commission, as a main institution of the European Union architecture, argues in favour of a budget discipline: ”*Ensuring a stable position in what concerns the public finance sector is essential for increasing the level of out-put and the rate of employment. Low rates associated with public debt and budget deficits reduce the volatility of the exchange rates and moreover constitute an important pillar in supporting authorities approach towards exercising an effective control upon the inflation rate*” (European Commission convergence report 2000).

Figure 4. The evolution of the public debt between 2008-2011



Source: Authors own calculations based on Eurostat data.

When referring to the Central and Eastern European economies and especially to those that entered EU in 2004 and 2007 the effects of the financial consolidation fail to appear due to the fact that the measures of supporting this sector were implemented long after the crisis started. The main austerity measures within this sector involved a series of actions that aimed several levels.

The measures of fiscal consolidation developed at national level involved a cumulative effort from the European institutions. These efforts were quantified into a series of structural reforms whose implementation aimed at improving the fiscal performance of the member states. An example of this programme is the EU directive upon the budgetary framework of the member states that includes among others higher transparency in what concerns the government reporting, consistency of the budgetary discipline with the Maastricht Treaty, sustainable budgetary frameworks that take into consideration also the business cycles.

Table 1: Austerity measures imposed by the new member states during 2010-2011

Revenues component	Expenditures component
VAT changes Baltic countries, Hungary, Poland, Bulgaria, Romania, Slovakia. **Reducing the contribution to the second pillar of pensions** Baltic countries, Hungary, Poland, Romania, Slovakia.	Reductions within the public sector **Wage cuts** Latvia 15%-20%, Lithuania 10%-12%. Romania 25%, Bulgaria 3%, Poland Slovakia 8%, Slovenia 14%, Estonia 15%. **Pension cuts** Estonia, Latvia, Hungary, Romania 15%. Public investments programmes in Estonia and Slovakia.

Source: Korniyenko, Y., Ohnsorge, F., Ricka, F., Zettelmeyer (2012), *A fragile Recovery: Europe since the 2008-09 crisis*, From Crisis to Recovery : Old and New Challenges in Emerging Europe, Palgrave Macmillan, pg. 44.

The recent financial crisis is considered to be a landmark in what concerns the need of re-evaluating the role attributed to the fiscal policy. This role has to be an extremely active one and the governments face the position of developing new strategies regarding the correct management of this sector. The establishment of some reserve funds during boom periods is considered to be a priority of the national government of every state. In this way during recession periods governments will not have to take drastic measures like the ones adopted during the recent financial crisis. The simulations undertaken by different international organizations seem to confirm this theory. In a report issued by the International Monetary Fund in 2010 is argued the fact that within economic growth periods governments should constitute reserve funds instead of raising expenditure in order to reduce budget deficits.

In the case of the new member states that intend to adopt euro within a short time horizon to the challenges related to maintaining the inflation rate within the limits set by the Maastricht treaty as well as those related with the budget discipline were added those concerning the exchange rate risk along with a series of macroeconomic and financial risks associated with the volatility of the exchange system. The Central and Eastern European economies may be divided into two main categories depending on the exchange rate regime: fixed exchange rates and floating exchange rates. Within the fixed exchange category are included Lithuania and Bulgaria. During the recent financial crisis three of the new member states namely Hungary, Latvia and Romania were forced to seek help from international organizations like IMF for obtaining some funds for re-establishing the equilibriums on the markets.

Table 2. The evolution of the exchange rates against the euro between 2008-2009 (period of maximum intensity)

	2008Q 1	**2008Q 2**	**2008Q 3**	**2008Q 4**	**2009Q 1**	**2009Q 2**	**2009Q 3**	**2009Q 4**
Bulgaria	1,9558	1,9558	1,9558	1,9558	1,9558	1,9558	1,9558	1,9558
Cyprus	25,564	24,830	24,093	25,344	27,601	26,679	25,597	25,923
Hungary	259,30	248,04	236,07	263,36	294,19	285,71	271,35	270,88
Lithuania	3,4528	3,4528	3,4528	3,4528	3,4528	3,4528	3,4528	3,4528
Latvia	0,6973	0,6997	0,7045	0,7090	0,7061	0,7065	0,7019	0,7084
Poland	3,5759	3,4070	3,3081	3,7658	4,4988	4,4523	4,1978	4,1745
Romania	3,6887	3,6521	3,5768	3,8165	4,2682	4,1963	4,2263	4,2680

Source: Authors own calculations based on Eurostat data.

The period before the financial collapse was characterized by an appreciation of the exchange rate (Romania being an exception). For the other states that are not ERM II members the pressures

of volatility were not so intense. The massive depreciations of the national currencies against the euro required the intervention of the central banks of those countries, interventions that were strictly verbally like in the case of Czech Republic, Poland, Romania or Hungary or along with some concrete measures upon the markets like in the case of Romania.

Another indicator that was strongly influenced by the impact of the recent financial crisis is the inflation rate. The evolutions of this indicator captured in table 3 highlight a strong deterioration of the performance of this indicator. During 2008 the inflation rate criteria was not fulfilled by any country. Moreover countries like Bulgaria, Estonia, Latvia, Lithuania or Romania registered extremely high values associated with this indicator. During this time period some managed to adopt euro, namely Estonia and Slovakia. On the other hand some states were far away in achieving this objective. We should mention the fact that for each economy the impact of the recent financial crisis upon the inflation rate was different being influenced by a series of additional internal factors. In the case of Bulgaria the uncertainties associated to the credit markets constraints but also to the decrease of the level of wages generated inflationist pressures that strongly destabilized the economic environment. Another country with extremely high values associated to this indicator during 2008 was Latvia with a 15,3% rate, being the highest rate within the group of states that entered EU in 2004 and 2007.

The financial crisis caused significant increases in food and energy prices. Along with these were a compression of the credit sector and a massive decline of the real estate market. The interconnection of these factors generated enormous pressures upon the inflation rate. Lithuania sharp contraction of the economy during 2008 reflected also in a sharp rise of the inflation rate. The factors responsible for this situation, besides the financial crisis, were the reduction of the assets price on one hand and a decrease of the internal demand on the other hand. Romania also confronted with high rates of inflation rate, registering at the end of 2008 a value of 7,9%. The indicator regarding inflation rate represent one of the main challenges for our country in fulfilling the Maastricht convergence criteria. In 2009 the inflation rate began to decrease, the main factors responsible for this values being determined by the level of agricultural productions, by the reduction of the impact of administrative prices as well as by the increase of the taxes of tobacco products. In 2010 the main obstacle in fulfilling the requirements regarding price stability was the inflationist boom determined by the increase of the VAT from 19% to 24%.

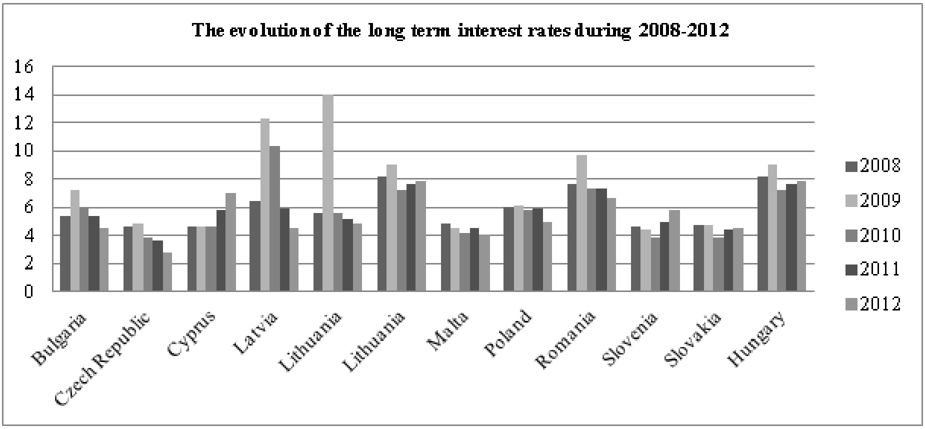
The persistence of an increased volatility under turbulence on the markets as a result of the financial crisis generated a negative effect also upon the long term interest rates. Furthermore the uncertainties related to the future evolution of the markets associated with the risk premiums amplified even more the negative effects of the crisis.

Table 3: Evolution of the inflation rate during 2008-2012

	Bulgaria	Czech Republic	Estonia	Cyprus	Latvia	Lithuania	Hungary	Malta	Poland	Romania	Slovenia	Slovakia	Reference value
2008	12	6,3	10,6	4,4	15,3	11,1	6	4,7	4,2	7,9	5,5	3,9	3,4
2009	2,5	0,6	0,2	0,2	3,3	4,2	4	1,8	4	5,6	0,9	0,9	3,9
2010	3	1,2	2,7	2,6	-1,2	1,2	4,7	2	2,7	6,1	2,1	0,7	1,0
2011	3,4	2,1	5,1	3,5	4,2	4,1	3,9	2,5	3,9	5,8	2,1	4,1	3,1
2012	2,4	3,5	4,2	3,1	2,3	3,2	5,7	3,2	3,7	3,4	2,8	3,7	2,8

Source: Authors own calculations based on Eurostat data.

Figure 5: The evolution of the long term interest rates during 2008-2012



Source: Authors own calculations based on Eurostat data.

4. Critiques of the Maastricht criteria and other aspects of convergence

The establishment of the criteria a state should fulfil before adopting the common currency namely the euro are known today as the Maastricht convergence criteria and were set at the beginning of 1990, when the European Union was formed by 12 member states. Successive waves of enlargements determined this structure to include today a number of 28 member states, Croatia being the most recent state that joined this structure.

Although these new enlargements led to an increase of the degree of diversity within the European Union both economically, institutionally, political or social, the values associated to this indicators as well as the evaluation method were not a subject of radical changes. By the time they were established these criteria there was no clear explanation for the values associated to them or the method these values were obtained. For example it was not clearly argued why it was chosen the reference value of 3% for budget deficit or 60% for public debt. Also de reference values for the other criteria were set arbitrary. Once there is no similarity between the member states of the European Union these values should be adjusted for each country.

The common question considering this context is:" *There is a need for reforming these criteria taking into consideration the dynamics of the economies*" or moving forward" *May be considered the recent financial crisis a triggering factor for the need of reforming within the nominal convergence framework*"?

The impact of the recent financial crisis was considered a warning sign for the need of reformulating the criteria a state should fulfil before adopting the common currency. A series of proposals were developed as solutions for this problem, but many of them prove not to have a fundamental basis to sustain the proposed changes. Despite all that, a series of studies seem to provide realistic solutions that may be considered by supranational institutions the starting point in developing future amendments to the Maastricht convergence criteria. Darvas (2010) proposed as a method to address these vicissitudes a recalculation of the values of these indicators in accordance to the recent evolution within the euro zone and extending the evaluation period of these criteria.

Recently six new member states became members of the Euro zone namely Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), Estonia (2011) and Latvia (2014). In order to align to the criteria imposed by the Eurozone these states conducted impressive efforts in developing a series of urgent measures, but despite all that some of them proved to have a negative impact upon the evolution of the economic indicators in the period after adopting euro. In the year when these countries adopted the euro and in the following period most of the countries fail to register appropriate values associated to the Maastricht indicators that would allow them to adopt the euro in the case of a re-evaluation. Therefore the solution proposed by Darvas, and namely extending the evaluation period of these criteria is considered to be an extremely realistic one. In order to maintain the values of these indicators within the limits imposed by the nominal convergence criteria, countries tend to develop a series of measures that generate only short time effects. One example in supporting this statement is of the countries that intend to reduce the inflation rate values by adopting a series of measures like a reduction in what concerns the administrative price or the consumption taxes. Moreover Estonia was forced to adopt a number of anti-cycle measures considering the fiscal policy, in the context when the effects of the recent financial crisis generated significant imbalances in respect with the evolution of these indicators. Therefore, these actions may have a boomerang effect upon the future evolution of the economies being inconsistent with the objective of sustainable convergence.

Complementary to fulfilling these criteria, the convergence reports develop by the European Commission and the European Central Bank includes: the results of markets integration, the current situation and the outlook for the balance of payments, a review of the progress of different price indicators within a certain economy. The aim of these reports is to investigate the compatibility degree between the national legislation and the one of EU, including the operating method of each central bank.

The studies in the field concentrate upon the fact that tightening the accession conditions to the Eurozone should take place not in respect with the pre-accession period but even more importantly in the period after adopting the euro. An analysis of the evolution of the main indicators is considered to have a higher impact in the period after adopting the euro, when the performance of each economy is more relevant for the Eurozone. Darvas (2010) argues that the national governments in order to assure a rapid accession to the Eurozone prove to develop unsustainable measures, the main indicators registering superior levels than the limits imposed by the Maastricht treaty in a short period after adopting the common currency.

Probably the most debated issue is concentrated around the budget discipline criterion. The majority of the opponents argue the fact that this criterion is not correlated to the optimum area criteria. Despite that, a series of authors using a wide range of statistical methodologies managed to highlight a connexion between the budget discipline criterion and the synchronization of business cycles, considered to be one of the main pillars of the optimum area theory. One example is the study developed by Darvas, Rose and Szapani (2009) that using the panel methodology identifies an indirect link between the fiscal convergence and the synchronization of the business cycles, within a sample of 21 OECD countries and other 115 economies for a time horizon of 40 year. Moreover the results highlight the fact that low levels associated to the budget deficit and public debt contributes into a significant percentage to intensify the levels of business cycles synchronization.

Reconsidering the Maastricht treaty criteria in what concerns the inflation rate and the long term interest rate must also be taken into consideration. A strict application of this criterion will lead to a series of excessive monetary restrictions across the new member states. Also, some authors consider the fact that would be more suitable to take into consideration within the inflation rate criterion the lowest value of the first three best performers of the Eurozone instead of the best three performers of the European Union member states.

A first disadvantage in term of price stability is the fact that there is no absolute standard regarding this aspect. Taking into consideration the extreme volatility degree of the inflation rates, there will be a series of costs once entering into a monetary union that could only be avoided if the initial level of inflation of the member states would be closer to the short time objective regarding price stability (the rate of inflation base between 0 and 2%).

Taking into consideration all these aspects, it is obviously the fact that the price stability criterion may generate confusion among the member states that intend to adopt the euro. The ambiguity related to the values associated with this indicator was intensified by the conclusions of the European Commission report in 2010 that operate a series of changes in respect to the interpretation of the concept of"*best three performing economies*". Therefore the reference value of the inflation rate for year 2010 was established by reference to the average of three best performing economies namely Portugal (-0,8%), Estonia (00,7%) and Belgium (-0,1%). Despite all that Ireland was excluded with an average inflation rate of (-2,3%), the European Commission arguing that: " *the extreme deviations are not considered to have a solid basis for being quantified as representative indicators of price stability*". These amendments however, severely contradict the general policies imposed by the European Central Bank and highly debated within a series of articles developed by Pesani-Ferry (2012).

The uncertainty associated to the interpretation of three best performing economies in terms of price stability requires the development of some economic approaches of this aspect. Darvas (2010) propose as an alternative solution to this problem, considering the best three performing economies in terms of price stability the economies whose inflation rate is closer to the Eurozone average.

5. Conclusions

The reduced performances of the Central and Eastern European economies during the recent financial crisis constitute a warning signal upon the need of reconfiguration the economic growth and convergence models across these economies. Identifying the most effective solutions implies the interconnection between the national and also supranational institutions. Their main role is developing policies that would ensure market stability but also promoting convergence across these economies. The convergence element is currently one of the main objectives promoted by the European Union. In order to counteract these effects a series of elements should be taken into consideration such as:

a) The quality and sustainability of the convergence process constitute an essential indicator of economic growth across every economy;
b) Achieving a sustainable convergence requires a long time horizon of;
c) The new member states of the European Union register convergent trends between them but they are far away from the EU average.

These elements should be considered by the national authorities when developing the economic growth strategies and the ones of adopting the common currency. The ability of the new member states on adapting to the macroeconomic changes was proven by the convergence level that exists between these economies. In the current context this ability will prove to be vital and will constitute a representative indicator of the economic progress of these countries.

Taking into consideration all these aspects we may conclude that the central element of any economy should be determined by the quality and sustainability of the economic convergence process. Despite all that, achieving this objective seems to be difficult to achieve, especially for the Central and Eastern European economies that based their economic growth rates from the past years mostly upon the increase of demand within the non-tradable goods sector.

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