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This article treats on the behaviour of fiscal autorities of the twelve new state members of the EU during the post-adhesion period. We analyze the factors which determined the fiscal consolidations of the new member states, identifying two groups of states differing significantly in their fiscal behaviour. Because of the limited number of pages of this article, we presented the budgetary policies of only six countries, three from each group. Through the research made on the behaviour of the group of countries irresponsible from fiscal point of view, we concluded that the great budgetary deficits have their origins in the superficial approach and the lack of desire to politically implement the expenditures reductions, which can be observed in the repeated revisions of the budget and the inconsideration of the deficit reduction.

Keywords: stability pact, budgetary deficit, excessive deficit procedure

Classification JEL: H60, F36

The concept of european integration is based on the coordination of the ″great orientation of economic policies″, based on a process of regular surveillance of the economic situation and economic policies from the member states. In order to assure the viability of the Economic and Monetary Union and the stability of a currency, there have been elaborated the so-called economic convergence criteria that must be accomplished by the states who want to adopt the euro currency: price stability implying the maintaining of the inflation at low rates, severe budgetary discipline which allows a deficit of maximum 3% and a rate of public debt of maximum 60%, monetary stability in certain limits and interest rate convergence for a long term.
Through the Stability and Growth Pact, adopted by the European Council in 1996 at Dublin, one try to prevent the adoption of a relaxed and inadequate fiscal policy in one or more member states of the European Union. Essentially, this Pact provides penalties applied authomatically to the member states which have an excessive deficit exceeding 3% of GDP, except the situations when strong recessions are registered (a decrease of GDP with more than 2% means a situation of recession). But the application of these penalties have been made in a flexible way, taking into account the economic difficulties of the countries not respecting the engagement (among whom France, Italy, Germany) and the political equilibrium in the European Union.
Even if Great Britain, Danemark and Sweden chose not to participate to the Economic and Monetary Union, they are obliged to respect the decisions taken by the EU regarding the coordination of the economic policies. These states are not obliged to respect the dispositions of common monetary policy, applied only to the states from the eurozone, but they must accept the monitoring of their own economies by the European Union, in order it be able to establish whether they accomplish the convergence criteria, in case they would like to adhere to the Euro Zone.
An important result emerging from the recent study of the authors Evzen Kocenda, Ali M. Kutan, Taner M. Yigit *Fiscal convergence in the European Union*, is the fact that there is a significant level of heterogeneity in fiscal convergence, implying concerns regarding the ability of monetary unions to provide fiscal convergence to their members. This observation proves the necessity to appoint future fiscal policies to improve the fiscal performances. Some countries, such as Poland and Holland, have already included fiscal rules in their legislations. Of course, the fact that the

member states have different fiscal positions causes implementation problems, at least at the beginning.

On the 1st May 2004, it took place the fifth enlargement of the European Union, receiving at once ten new member states: Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Hungary, eight of which belonges to the ex-soviet orbit. After the enlargement, the population of the European Union counted 77 million of habitants, its surface increased to 700 000 km² and its medium GDP decreased to 5%. The adhesion of Bulgaria and Romania, on the 1st January 2007 ended the fifth enlargement begun on the 1st May 2004. All the twelve states declared to adopt the euro currency as soon as possible. In order to realize this, the ten new member states must adjust their economic policies – more precisely, their fiscal and monetary policies – but for the moment, it is the fiscal policy which proved to be the most challenging. Some of these states have a fiscal deficit higher than 3% of GDP and six form the ten states have been put under excessive deficit procedure from the beginning of their adhesion to the EU (among these, Hungary is still under excessive deficit procedure).

Fiscal policy proves to be even more difficult to be controlled by the authorities because of the political connotations. The Governments of these countries considered difficult to convince the electorate of the fact that this fiscal consolidation has a public interest and they entered into collapse the moment they introced or barely just brouched the fiscal reform.

The ten new member states can be devided into two major groups: states violating the rules of the Stability and Growth Pact and having been put under excessive deficit procedure in July 2004 (Cyprus, Czech Republic, Hungary, Malta, Poland and Slovakia) and states respecting the rules of the Stability and Growth Pact and having very few debts (Estonia, Latvia, Lithuania and Slovenia). For the moment, Romania and Bulgaria can be included in the second category.

The European Commission monitors the evolution of the public budget situation and the ministerial debt of the new member states of the European Union in order to identify the major errors of budgetary discipline. In turn, after having consented to the existence of the excessive budgetary deficit in the case of a member state, the Council of the European Union makes recommendations regarding the limitation of the ministerial deficit of the concerned state.

We consider that the states violating the rules of the Stability and Growth Pact increased the level of their previewed deficit, more frequently and more severely than those corresponding to the Pact. The more spendthrift (squanderer) are the governments the more they tend to be excessively ambitious regarding their concolidation plan, trying to convince the European Union institutions that they will be prepared on time for the Economic and Monetary Union. The major differences between the first member states from before 2004 and the new member states are obvious, because the new member states are based on the indirect taxes, especially on the value added tax (VAT). The massive usage of the indirect taxes may be explained by the fact that their procurement is more efficient than that of the direct taxes. The states from the EU-15 are more based on the direct taxes, which represent almost the third part of their budgets. Similarly, the countries under excessive deficit procedure are based more on VAT regarding the formation of their budgetary income, while the others on the incomes resulting from the taxes put on the incomes of the corporations and in a more reduced average on those resulting from the taxes put on the incomes of the private persons, in comparison with the other countries[1].

We can define the **fiscal consolidation** as a period during which the budgetary deficit percentage of GDP improved with more than 1% of GDP in the first year and it continued to improve in the following years. It is sustained that the consolidation persists when the budgetary deficit percentage of GDP decreases.

In the following we will present a short description of the budgetary policy of six of the new member states: Cyprus, Malta, Slovenia, Hungary, Bulgaria, Romania based on their convergence program and we will try to discover the key factors which influenced the fiscal position development, having priority for the integration of the Economic and Monetary Union of the six new member states.

In **Cyprus**, the negative development from September 2001, affected the minor Cypriot economy based on tourism, and had a negative effect on the position of the state´s budget. Since January 2003, a new fiscal reform came into effect, in the fields in which Cyprus had to conform to the EU directives and the OECD indications to eliminate the practices of ″fiscal paradise″. The new fiscal law imposes the same level of tax for the international and national companies, but the rate of tax of 10% remains however reduced. Because of the bad and repeated implementation of the consolidation measures, as a consequence of the lack of political will and the impossibility to face the increase on the defence spending, agriculture and public administration spending, the position of the state budget damaged during the whole pre-adhesion period. As a result, Cyprus has been put under the excessive deficit procedure after 2004, which ended in June 2006. The introduction of a middle term budgetary framework, begun in 2006, improved the quality costs of the ministry resort, and meanwhile, promoted the reallocation of expenditures in favour of economic increase. Due to this budgetary reform, in 2007 Cyprus registered a budgetary excedent of 3,4% of GDP. Meanwhile, the Cypriot government repayed a major part of its debts, using the financial actives (sinking funds), which proves the improvement of the public finances quality. As usually, the monetary and currency policies in Cyprus turned to the maintainance of macroeconomic stability and a low inflation, and since the 1st January 2008 euro has been adopted as official currency. The deterioration of the current account form the last years seems to be first of all the result of the deficit of commercial balance, as a consequence of high demand for consumption and investments and the increase of the price of oil and other materials and wares. In the field of tourism, Cyprus faces in the last period a problem of competition, a fact reflected by the balance of current account in the field of tourism, which can be solved both by the adjustment of prices and the relative modernization of tourist products. In this period of major turbulence on the financial market, the general strategy of budgetary policy is to continue the consolidation of public finances, in order ti keep reducing the public debts, through the reduction of current expenditures and restructuring of public expenditures, in favour of capital expenditures and those allocated to research and education, which can boost the economic increase[1].

Hungary reviewed continually its budgetary plans and postponed the setting in a straight line the budgetary deficit with the Stability and Growth Pact. The major reasons cited by the government are the unpredictible high expenditures for the pensions, the wages of public officers, the expenses related to health system and welfare and the unexpectedly increase in the costs of the ministerial debt service. Despite some reductions of expenditures, implemented during the fiscal years 2003 and 2004, the budgetary deficit exceeded 3% from GDP after the integration in EU, initializing the excessive deficit procedure. Until 2006, when the budgetary deficit reached the maximum rate of 9,3% from GDP, the Hungarian budgetary framework was extremely vulnerable to the fiscal slideslips. In 2006, it has been lanced an austerity plan, meant to decrease the budgetary deficit under 3% until 2010, aiming at a strengthen of fiscality (espacially of VAT), a reduction with 20% of the effective of public officers and the dramatic reduction of the payments for the health system. After the gradual improvement of the transparency, planification and budgetary control begun in 2006, in November 2008 it has been adopted the fiscal legislation reform, containing multianual numeric norms and providing the constitution of a new Fiscal Council. This new committee will elaborate independently macroeconomic and budgetary previsions, evaluations on the fiscality and budgetary situation and will make propositions in the budgetary field. Regarding the expenditures, there have been recently taken a series of positive measures. For 2008, the budgetary deficit is estimated at 3,4% of GDP, in the previsions of the Commission service from January 2009, this representing an improvement in comparison with the 5% from the GDP in 2007. Despite the improvement of the budgetary deficit in the last years in Hungary, the country remained vulnerable because of the high level of external debt. The main aim of the budgetary authorities on middle term is to reduce the budgetary deficit from 3,4% of GDP in 2008 to 2,6% of GDP in 2009, followed by a slow reduction to 2,5% in 2010 and 2,2% of GDP in 2011. On the whole, this budgetary consolidation of 1,2% of GDP is planned to be equally distributed between the incomes and the payments. In order to assure a lasting fiscal convergence, Hungary is advised by the European Union Council to take the necessary measures to reduce the budgetary deficit under 3% of GDP in 2009, and to reduce for a middle term the public debt to the limit of 60% of GDP and to continue to reform the public debt, the medical care services and the education systems[1].

Malta entered into the 21st century with an enormous budgetary deficit of 6% of GDP, that however has been a progress in comparison with the deficits registered in the second half of the ´90. Malta´s government lanced a consolidation program to reduce the deficit to a more reasonable level, but this has been only a partial success. Partially, because of the events from the 11th September 2001, and partially because of the increase of payments on the public officers wages, on pensions, Malta didn´t manage t conform to the Stability and Growth Pact in 2004[1]. In 2001, there has been introduced the Business Promotion Act offering fiscal stimulents (reduction of the tax on the profit, reduction of the tax on the reinvested profit) to the industrial societies which demontrated a potential of increase and creation of new jobs in the manufacturer field (including the software domain), reparations and maintainance. These fiscal facilities were available until 31.12.2008. In the last years, the fiscal policy of Malta has been submitted to some significant reforms, reflecting especially the effort to improve its efficiency, the opening of Malta´s economy to the international commerce and the setting in a straight line of the tax system with those existing in the EU. It has been important the increase, in 2004, of the standard rate of VAT from 15% to 18%, which implied the increase of the fiscal incomes with about 1% of GDP. In the same year, another modificaton in the tax system represented the introduction of an eco-tax, meant to fight against pollution and to encourage the usage of containers. The incomes from the tax on the profit of the societies continued to increase and they raised to 0,3% of GDP in 2007[1]. In March 2007, the European Commission asked Malta to gipe up the discriminatory system of taxing the foreign and international commerce companies until the end of 2010, and Malta decided to abolish gradually the existing supporting system; thus, the international commerce companies are taxed until the end of 2010 with a rate of tax on the profit of 4%, while the rate of ta on the profit of national companies is of 35%. Malta escaped of the excessive deficit procedure in May 2007, but the remarkable tendencies to reduce the general public deficit in th period 2004-2007 ended temporarily in 2008, when the budgetary deficit is estimated to have grown from 1,8% in 2007 to 3,5% of GDP, because of the decision to increase the payments. On long term, the budgetary impact of aging is lower in Malta than in the average of the EU, with decreasing payments on pensions in the GDP for long term according to the estimations made in 2005. However, the reform of the pesnion system in 2006, which aims at improving the pension level at the same time with the increasing of the age of pension, implies higher payments on long term. Malta entered the eurozone on the 1st January 2008. The fiscal policy from 2009 represents the global consolidation of the budget which is adequate and according to the European Economic Recovery (adopted because of the high public deficit and debt), accepted in December 2008 by the European Council. Malta adopted several economic supporting measures in 2009. Most of these measures are favourable and directed and are meant to the fields considered stronger in face of the slowing down of the economic increase, for exemple, tourism and manufacturing. Though the percentage of public debt remains high at 61,9%, one previews it will diminish gradually to 60% taking into account the significant reduction between 2004 and 2007. Malta is advised by the European Union Council to resume the fiscal consolidation process to reach again a deficit in GDP of 3% in 2009 and to stregthen its budgetary framework on middle term in order to increase the efficiency of public expenditures, including the accelaration of the projection and application of a reform of the healthcare system.

Because of the deterioration of the budgetary deficit level, **the Slovene government** negociated a new social agreement for the period 2003-2005 which, among others, included new rules of wages index in the public field. It has also been made a similar attempt in the sense of index and rationalization of the social transfer system. On the other hand, the reduced tax rates of the incomes of individual persons and the modification of tax of the corporations put the public budget under negative pressure. The comprising fiscal reform initiated in 2005 keep being a key project, having as objective the reduction of the fiscal incomes weight in GDP with 2% in the period 2006-2009, expecting positive effects regarding the way of usage of work force and the economic concurrence. These measures have been completed with seven fiscal laws, applied in 2007, regarding the VAT, the taxes on the real estate wealth, taxes on ships, taxes on the incomes of the corporations and the fiscal procedures, concerning the abolition of the double-tax of the incomes and the increase of the transparency of the tax system. Regarding the payments, there have been made modifications concerning the assistance and social protection system; especially, the elligibility for the welfare and social assistance has been related to the disponibility to accept a job, while all the social transfers, except the pensions, are now indexed to the inflation instead of the wages, expecting the creation of economies with payments of 1% of anual GDP. Since 2002, Slovenia adopted simultaneously the budgets for two consecutive years depending on a base of calculation, a procedure that is kept continually. The public debt in Slovenia is very reduced in comparison with the eurozone, of about 25,6% in 2007. The budgetary deficit in 2007 was of 0,7% in comparison with that of 1,2% in 2006, and in 2008 it was of 0,1% of GDP. Slovenia registered a strong increase of GDP in the last years, reaching its maximum rate in 2007, the first adhesion year to the eurozone. For the future, it is considered to continue the fiscal consolidation to promote the macroeconomic stability and a lower inflation. However, the viability on long term of the public finances in Slovenia keeps remaining a challenge, taking into account the significant effects of the aging on the public budget in the lack of a new reform of the pension system[1].

Bulgaria deals with the existing macroeconomic imbalances through the maintainance of the existing fiscal policies. Despite the reduced percentage of public debt in GDP and the high budget excess, the high rate of inflation and current account deficit prevented the government to adopt a fiscal stimulation package of the internal demand. On long term, the country confronts the necessity to improve the quality of public payments by improving the administrative capacity and the intesification of structural reforms. For 2008, the national budget surplus is estimated at 3% of GDP. Despite the significant increase of the import and of the high rate of inflation in 2008, the incomes gathered from indirect taxes represented 1,5% of GDP, less than it´s been previewed. As a result of the introduction of reduced tax rate on the incomes of the individual persons of 10%, the incomes gathered from direct taxes represented 0,5% of GDP, less than it´s been anticipated in 2007. Concerning the public expenditures, which represented 1,75% of GDP, the discipline was not entirely respected, because of the social payments and the supplimentary infrastructure. The general conclusion is that Bulgaria had and still has as purpose the maintainance of a solid budgetary position for the following three years, too, intention reflected in the planification of the budget surplus. However, Bulgaria is advised by the European Union Council to continue the present fiscal policy and to maintain the restriction of the payments increase, in the purpose of correcting the existing internal imbalances and to continually consolidate the efficiency of public expenditures[1].

In **Romania**, the fiscal policy, detensioned in the last years, has a key role in correcting the increasing external imbalances, especially through the reorientation to the investments generating economic increase. But the budgetary execution is prevented by the frequent rectifications during the budgetary exercice, which redirects the expenditures to the current expenditures, especially wages and social transfers, as a result of the supplimentary incomes and the usage of the expenditures for investments. In the last years, Romania adopted a series of measures regarding the consolidation of the budgetary program and execution and the improvement of fiscal administration. In 2005, it has been introduced the unique rate of 16%, taxing the incomes of the individual persons and the profit of societies. As a consequence, it has increased the weight of the incomes from the direct taxes in the total of fiscal incomes from 25,07% in 2004 to 32,04% in 2007. In 2006, it´s been applied a budgetary framework on middle term and the principle of budgetary allocation based on programs. However, because of the wages slideslips in the public field, of the continuous registration of low results regarding the budgetary program and execution, of the pressure on the public expenditures as a result of the political cycle, it keeps existing a major risk of budgetary deficit increase. Thus, we remark a deterioration of the budgetary deficit, from 2,5% of GDP in 2007 to 5,2% of GDP in 2008, being possible to reach 7,5% of GDP in 2009, according to the studies made by the European Commission. The ministerial expenses doubled in the period 2005-2008 and the wage increases and the policy of massive engagements in the public domain determined the Romanian government to pay to the administrative employees almost three times more in 2008 in comparison with 2005. The European Union Council advises Romania to avoid the procyclical fiscal policy in order to limit the current account deficit which is increasing and the inflationist pressures, to improve the budgetary program and execution and to review the structure of the public payments, as well as the diminution of state aid.

Our analyze on the policies of fiscal consolidation shows the fact that many of the new member states implemented important reforms, some of them realizing even records of impressive reforms. But there remains still much to be done. The healthcare systems are more difficult to be reformed than the pension systems; the wages from the public domain remains high and the social security systems represented the source of some unexpected budgetary developments. The implementation remains a a problem in the case of many reforms, because many political situations from the new member states are unstable.

The fiscal perspective of several new member states is worrying in this sense. Their governments got used to their high deficits and the external pressure is less after the review of the Stability and Growth Pact. Moreover, if the new member states enter into the Economic and Monetary Union, the political desire to control the fiscal deficits could weaken and, even more, derisioned, as it happened in many countries in the EU-15. Taking into account the success of Finland, as member of the eurozone, and that of Sweden, not taking part of the eurozone, we can conclude that the status of member of the Economic and Monetary Union is nor decisive for the development of the new member states.

Prudent fiscal policies, which don´t represent a threaten to the prices stability, and a monetary policy having credible purposes of low inflation represent the key of the success. Similarly, without a strong domain of production which operates on the open and flexible markets of goods and services and the capacity to be competitive abroad, the Economic and Monetary Union doesn´t represent a success in itself.

Our paper suggests the fact that the countries being under ″fiscal surveillance″ of the European Union, especially Hungary and Malta, illustrate the failure while trying to stabilize their fiscal policies, even in a delicate situation. During an economic slowing down caused by the present economic crisis, these countries will confront again massive budgetary deficits.

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