jętności technicznych, marketingowych itp. mających zabezpieczyć lub zwiększyć zyski albo podnieść konkurencyjność przedsiębiorstw w stosunku do głównych konkurentów na rynku krajowym lub na rynkach zagranicznych. Por. J.H. Duning, S.M. Lundan, *Multinational Enterprises and the Global Economy,* Second Edition, Edward Elgar, Cheltenham, UK and Northampton, USA, 2008.

[7] SPEs (*Special Purpose Entities*) służą do transferu kapitału w ramach międzynarodowych grup kapitałowych. Transakcje dokonywane przez te podmioty mogą ujawniać się w różnych komponentach BIZ – zarówno w kapitale udziałowym, jak i w pozostałym kapitale (poprzez różne instrumenty dłużne, np. pożyczki udzielane między spółkami z grupy podmiotów powiązanych kapitałowo). Zgodnie z definicją NBP, *grupa podmiotów powiązanych kapitałowo* to grupa tworzona przez podmiot dominujący wraz z podmiotami, w których jest on inwestorem bezpośrednim. Podmioty te są połączone relacją inwestycji bezpośrednich. (…) Do grupy podmiotów powiązanych kapitałowo mogą należeć zarówno nierezydenci, jak i rezydenci. Por. *Polskie i zagraniczne inwestycje bezpośrednie w 2012 r.*, op. cit., s. 45.

[8] Zgodnie z definicją NBP, *kapitał w tranzycie* jest to zjawisko, które polega na tym, że w tym samym okresie odnotowuje się napływ kapitału z zagranicy i jego odpływ za granicę, co skutkuje odnotowaniem symetrycznych wpisów po stronie napływu i odpływu bezpośrednich inwestycji w danym kraju. Kapitał w tranzycie nie ma wpływu na krajową produkcję i zatrudnienie. Ibidem, s. 45.

[9] Ibidem, s. 9.

[10] Ibidem, s. 17. Autorzy raportu WIIW FDI Report zwracają uwagę na to, iż jedynie w przypadku Polski i Węgier dostępne są szczegółowe dane dotyczące transakcji przeprowadzanych przez podmioty specjalnego przeznaczenia. W przypadku pozostałych państw uwzględnianych w raporcie WIIW, w tym dla 8 państw UE, informacje dotyczące SPEs nie są wyodrębnione, nawet jeśli występują (patrz: *Methodological guidelines and definitions* (w:) G. Hunya, M. Schwarzhappel, *Growth Engine Stutters*, *FDI Report 2013*, s. 6).

[11] NBP uwzględnia kapitały z tytułu nabycia i zbycia nieruchomości za granicą od 2006 roku.

[12] Kraje takie, jak Dania, Francja, Japonia, Hiszpania, Singapur, Tajlandia nie zbierają danych o reinwestowanych zyskach, bądź zbierają je, ale nie publikują, albo też zbierają takie dane ale tylko dla inwestycji wychodzących lub tylko dla napływających Por. J.H. Duning, S.M. Lundan, *Multinational Enterprises and…*, op. cit., s. 12-13.

[13] Rewizje wynikają z uwzględnienia informacji pozyskanych od krajowych przedsiębiorstw bezpośredniego inwestowania po terminie publikacji opracowań przez bank centralny, urząd statystyczny lub władze krajowe.

[14] UNCTAD, *Global Value Chains: Investment and Trade for Development, World Investment Report 2013,* United Nations, New York and Geneva, 2013.

[15] Oparte są bowiem na ogłoszonych w danym roku transakcjach, które mogą nie dojść do skutku lub być realizowane przez kilka lat, stąd też wynikające z nich przepływy BIZ mogą być rozłożone w czasie.

[16] Jeśli nie zaznaczono inaczej, przywołane dane pochodzą z: UNCTAD, *Global Value Chains…*, op. cit.

[17] Napływ BIZ do krajów UE-27 obejmuje zarówno bezpośrednie inwestycje zagraniczne napływające z państw spoza Unii, jak i BIZ pomiędzy państwami unijnymi (wewnątrzunijne).

[18] Państwa, które przystąpiły do UE w latach 2004 i 2007 (bez Chorwacji, która przystąpiła do Unii Europejskiej w 2013 r.)

[19] G. Hunya, M. Schwarzhappel, *Growth Engine Stutters*, op. cit., s. 42.

[20] The Central Bank of Hungary, *Foreign Direct Investment Including Special Purpose Entities in Euros,* „Statistical publications", http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Kiadvanyok/mnben_statisztikai_kiadvanyok/mnben_kts2/mtkiadv_scv-vel_eur_en.xls [27.5.2014].

[21] Używana w literaturze i praktyce terminologia finansowych centrów *offshore* czy rajów podatkowych jest niejednoznaczna, stąd międzynarodowe zestawienia tego typu jurysdykcji podatkowych różnią się w zależności od podmiotu, jaki dokonuje interpretacji kluczowych ich cech. Najczęściej wykorzystywane w literaturze i praktyce są klasyfikacje finansowych centrów *offshore* MFW, Wskaźnik Tajemnicy Finansowej (WTF, Financial Secrecy Index), OECD, a w Polsce – systematyka Ministerstwa Finansów.

[22] Czech National Bank, *Balance of payments statistics, Foreign Direct Investment*, http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/en/statistics/bop_stat/fdi/download/PZI_2012_a.xls [27.5.2014].

[23] *Polskie i zagraniczne inwestycje...*, op. cit., s 11.

[24] Obserwowany w 2012 r. odpływ netto udziałów kapitałowych z Polski wystąpił po raz pierwszy od ponad 10 lat.

■

TEN YEARS IN THE EU: HUNGARY'S PERFORMANCE IN THE COMPARATIVE CONTEXT OF THE VISEGRAD COUNTRIES

*Krisztina Vida**

Introductory remarks

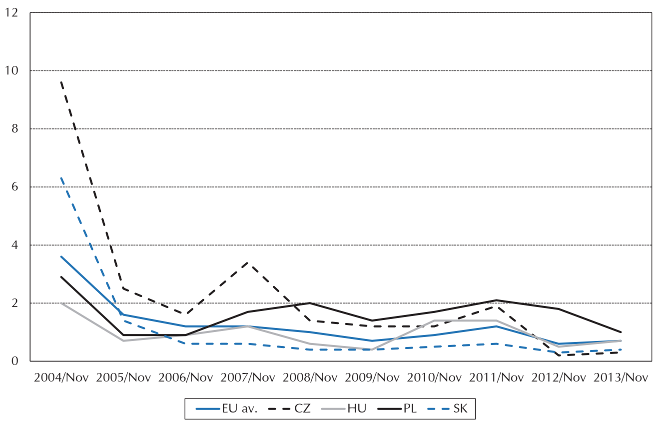
This paper[1] aims at giving a snapshot of the performance of Hungary in the last ten years in the European Union. The evaluation is done along several aspects including legal adaptation, institutional integration, economic growth and catching up, competitiveness, use of EU funds, development of public finances and monetary trends – put in a comparative perspective with Poland, the Czech Republic and Slovakia. The main question of the paper is whether there is convergence by the Visegrad countries to EU averages as well as to each other or whether the opposite is true.

Legal adaptation, institutional integration

When joining the European Union the new member states entered a legal community with the obligation of accurate implementation of EU law. The European Commission monitors closely the member states' performance with special regard to transposition of single market directives. In this respect[2] the Visegrad countries had an extremely heterogeneous performance in the year of accession followed by a very quick adaptation process (see Figure 1). As a result, in terms of transposition deficit, recently the four countries are at or below 1% (close to the EU average) which shows the high degree of their discipline. As regards infringement cases, they were on the rise in the first years of membership followed by a steadily declining and converging trend since 2009 (see Figure 2). In fact, only Poland has been above the EU average but its performance is radically improving recently. The most problematic dossiers seem to be environment-related directives, but taxation or agriculture could also be mentioned. All in all however, it must be emphasized that the Visegrad countries have currently between some 20 and 36 contentious cases which should be compared to the around 1,500 single market directives.

Figure 1

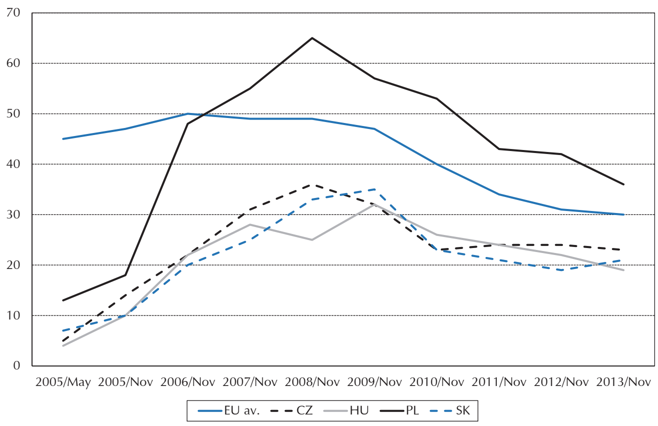
Transposition deficit %



Source: European Commission.

Figure 2

Infringement cases



Source: European Commission.

With regard to institutional integration, it can be established that the V4 countries have been efficient and successful: the next few data can underpin this statement. First of all, filling up the positions in the European administration was a rather smooth process, although finding well trained people, really fit for the tasks at the EU institutions was not easy (with special regard to interpreters/translators). In the so-called *concours* Hungarian applicants proved to be quite successful: by September 2004, Hungarian civil servants occupied 18% of the available positions while representing only 13% of the population of the ten new member states[3]. Furthermore, three of the four countries have already assumed successful Council presidencies – the Czech Republic in 2009, Hungary and Poland in 2011 – enabling their administrations to gain a deep knowledge and understanding of EU-level decision-making mechanisms (Slovakia's turn will be in 2016). In the European Parliament too, these countries' politicians proved to be active. In 2013 from among the 15 MEPs of the year (this time nominated also of the whole term) there were three representatives from the Visegrad region[4]: Ms Roza Thun from Poland, working on internet policy and digital market, Ms Kinga Gál from Hungary, fighting for minority rights and linguistic diversity and finally Mr Jan Olbrycht also from Poland, responsible for sustainable built environment. It should also be mentioned that three capital cities are hosting a European agency: in Warsaw the FRONTEX Agency for external border control, in Prague the European GNSS (Global Navigation Satellite System) Agency and in Budapest the EIT (European Institute of Innovation and Technology) can be found. Moreover, in the Hungarian capital city the CEPOL (European Police College, responsible for training of senior police officers) will start operating in September 2014. Last but not least, as a general observation it should also be highlighted that the V4 increasingly appears as one group in integration matters, be it preserving cohesion assistance in the 2014-2020 period, energy policy cooperation or the Eastern Partnership.

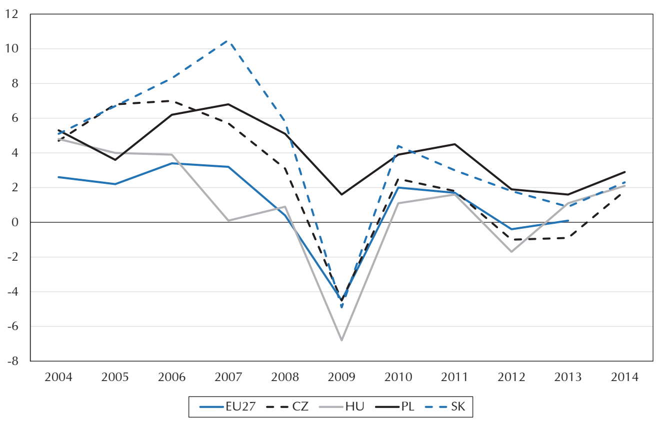
Growth and catching up

The Visegrad countries entered the EU with a GDP growth rate of around 5% but right after accession they took a diverging trend[5]. In fact, Slovakia got the biggest impetus from membership, but the Polish and the Czech growth rates were also above the EU average in the first years. The Czech and Slovak expansion was fuelled by both domestic demand (especially high investment rates) and exports, while in Poland domestic demand was the main driver of growth. Only the Hungarian economy showed a steadily declining trend (with exports being the single pillar of growth), to suffer from the deepest recession in 2009 (-6.8%). The Czech and the Slovak negative growth rates were similar to the EU average (-4.5%) while Poland – due to its robust internal market and lower exposure to external effects – was the only country in the group and also across the EU to avoid recession at all. As Figure 3 illustrates it, in the years of 2010-2013 the four countries have been recovering at a higher (Poland, Slovakia) or lower pace (the Czech Republic and Hungary experiencing even a milder recession). But the gap among their rates has been narrowing lately and 2014 might be the first year since accession when the rhythm of economic expansion might be in harmony in the region (2-3%). Moreover, according to medium-term forecasts by the Economist Intelligence Unit[6], the growth rate of the V4 countries until 2018 is expected to remain within the band of 3-5% which would enable a sustainable continuation of catching up for all these nations.

Convergence of living standards to the EU average has actually been one of the major reasons for joining the Union. In this respect, very promising trends – measured in GDP per capita – could be detected in the cases of Poland and especially Slovakia (improving by 16 and 19 percentage points respectively in the first decade of membership). In contrast, the Czech rate remained rather constantly at roughly 80% compared to the EU average, while the Hungarian catching up process has been a very modest one (up from 63 to 67%). As Figure 4 shows it, these developments mean two things: an obvious narrowing of the gap within the Visegrad group – led by the Czech Republic, followed by Slovakia and Poland-Hungary sharing the third place – and a gradual convergence of the V4 as a whole towards the EU average.

Figure 3

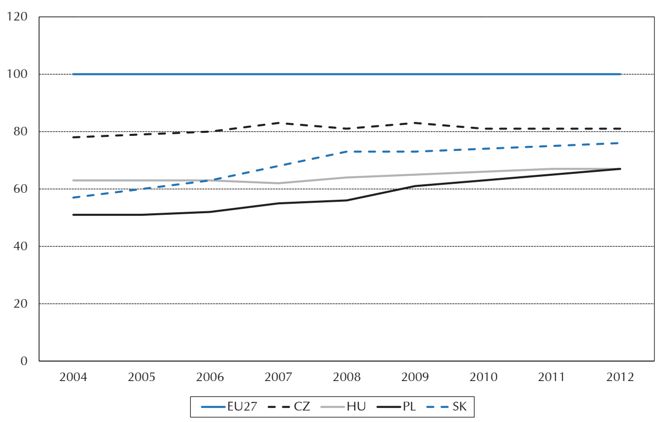
Real GDP growth rate



Source: Eurostat, European Commission.

Figure 4

GDP/capita PPS, EU27=100



Source: Eurostat, European Commission.

As regards catching up at the level of regions, the picture is partly similar to the national performances (see Table 1)[7]. This means that the most spectacular catching up took place in NUTS-2 regions of Slovakia and Poland while the Czech and especially the Hungarian regions did not experience a similar convergence. Hungary is the only Visegrad country where some regions even reported a negative closing up rate in 2011 compared to 2004, and here can be found the poorest regions too – which was not the case at the time of accession. The regions surrounding the capital cities (or in the Czech Republic the capital itself) are the flagships of catching up. At the same time, it seems to be a shared challenge that there is a huge discrepancy in development levels between those central regions (reaching well above 100% of EU average – in the Slovak and Czech cases closer to 200%) and the rest being below 75%. Paradoxically, this problem seems to be the gravest in the smallest Visegrad country: Slovakia. If disregarding the capital cities/regions we can also see that the most homogenous country in terms of regional development is the Czech Republic (with just a 10 percentage points discrepancy between the most and the least developed regions) while the other three countries struggle with gaps of between ca. 20 (Slovakia) or even 30 percentage points (Poland and Hungary).

Besides the national and regional level achievements, at the citizens' level wage convergence must be mentioned too. In this respect important changes took place between 2004 and 2012. First of all, the initially leading position of Hungary melted away, and was significantly outstripped by the Czech Republic and also Slovakia (while the gap with Poland almost disappeared). This means that – according to Eurostat figures in purchasing power parity – in 2012 the net annual earnings reached approximately 8000 euros in the Czech Republic, 6300 in Slovakia, 5700 in Hungary and 5400 in Poland. These figures should be contrasted with the nearly 20,000 euros average earnings in the EU27 in the same year. However, there has been some catching up: taken the four Visegrad countries' average in 2012 (6350 euros) it was "only" one third of the EU average instead of one fourth in the year of accession.

Table 1

Catching up of NUTS-2 regions in the Visegrad countries

REGION NUTS-2	GDP/capita 2004, PPS, EU27=100	GDP/capita 2011, PPS, EU28=100[a]	Change (percentage points)
CZECH REPUBLIC			
Praha	157	171	+14
Strední Cechy	70	73	+3
Jihozápad	70	70	0
Severozápad	61	63	+2
Severovychod	64	67	+3
Jihovychod	67	73	+6
Strední Morava	60	66	+6
Moravskoslezko	61	71	+10
HUNGARY			
Közép-Magyarország	102	110	+8
Közép-Dunántúl	61	59	-2
Nyugat-Dunántúl	67	68	+1
Dél-Dunántúl	46	45	-1
Észak-Magyarország	43	40	-3
Észak-Alföld	42	43	+1
Dél-Alföld	44	44	0
POLAND			
Lódzkie	47	60	+13
Mazowieckie	77	107	+30
Malopolskie	43	56	+13
Slaskie	57	70	+13
Lubelskie	35	44	+9
Podkarpackie	35	44	+9
Swietokrzyskie	39	49	+10
Podlaskie	38	47	+9
Wielkopolskie	55	68	+13
Zachodniopomorskie	47	55	+8
Lubuskie	45	54	+9
Dolnoslaskie	52	74	+22
Opolskie	44	52	+8
Kujawsko-Pomorskie	45	54	+9
Warminsko-Mazurskie	39	47	+8
Pomorskie	50	62	+12
SLOVAKIA			
Bratislavsky kraj	129	186	+57
Západné Slovensko	53	72	+19
Stredné Slovensko	47	59	+12
Vychodné Slovensko	42	51	+9

[a] *EU27 comparison not available, minor changes due to accession of Croatia.*

Source: Eurostat.

Competitiveness according to selected indicators

When analysing the competitiveness of countries, several factors can be taken into account. Here the external balances, labour market indicators, investments, productivity and innovation performances will be highlighted shortly. Starting with the external balances, there is an obvious difference among the Visegrad countries. The three smaller and highly open economies have a much higher ratio of exports to GDP (between 75-100% reflecting a greater vulnerability) than Poland with its big domestic market (having a less than 50% export-to-GDP ratio). The external trade position of these countries has varied significantly in the first ten years of membership: the Czech Republic has had a trade surplus practically since accession, but this has been the case for Hungary and Slovakia only since 2009 (which was however the deepest point of both exports and imports) and for Poland only since 2013. While export orientation became an important tool to mitigate the effects of the crisis[8] imports fell back as consumption shrunk in the crisis years – having a benign impact on the trade balances of all the Visegrad countries (see Figure 5). Connected with the latter, the current account balances (Figure 6) are also becoming healthier in the region. As regards trade in services, it has always been positive in the three bigger Visegrad countries, but not in Slovakia. As to income flows, all Visegrad countries have substantial deficits which cannot be counterbalanced by the relatively low level of net transfers (which has actually been also negative in Slovakia). According to European Commission forecasts[9] the overall positive trends of the current accounts are to remain in place in 2014-2015 (with just a slight deterioration in the case of Poland in 2015), but in the longer run each Visegrad country should address the structural challenges behind this complex indicator.

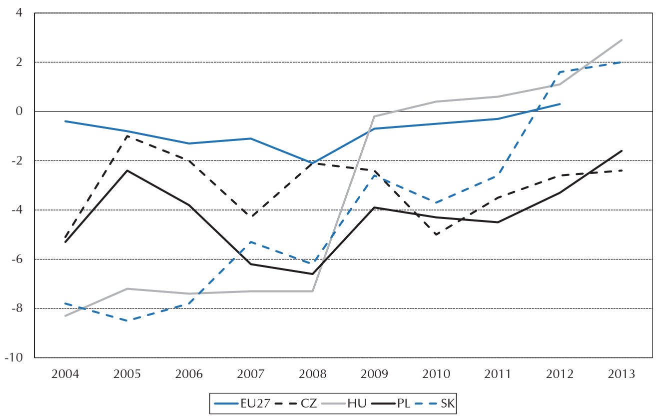
Figure 5

Balance of trade in goods as % of GDP

Source: Eurostat, European Commission.

Figure 6

Balance of the current account as % of GDP



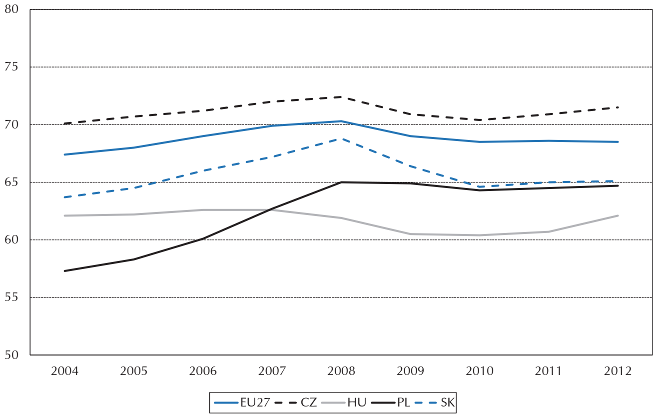
Source: Eurostat, European Commission.

As regards employment and unemployment – as can be seen in Figures 7 and 8 – in the dynamic period between accession and the crisis the Czech Republic, Slovakia and especially Poland (starting from the worst position) managed to steadily improve these rates. Employment went up and unemployment fell to historically low levels (due also to outmigration of labour especially from Poland). While both labour market indicators took a spectacularly improving path in three Visegrad countries, the Hungarian figures went into the opposite direction: in parallel with slowing growth after accession, employment decreased and unemployment increased. The crisis broke the positive trends in the three members of the group but recently employment rates seem to pick up slightly across the region while joblessness seems to have stopped rising. With the expected economic boom in the V4 both levels are set to improve. Here some exchange of good practices might also be useful, including the high share of self-employed and the low share of early retired in the Czech Republic or the public work programmes (designed to lead people back to the labour market) as well as the job protection action plan (protecting among others the younger-than 25 and the older-than 55) in Hungary.

Investments too, play a crucial role in competitiveness. In the year of accession the three smaller Visegrad countries started with rather close GDP-ratios of gross fixed capital formation, while Poland was lagging behind them. Then, as Figure 9 demonstrates it, Poland, the Czech Republic and Slovakia increased or preserved their levels, while the Hungarian one took a declining path. Later on, the crisis resulted in lowering investments across the Visegrad region, similarly to the EU as a whole. So, what has been the reason for that? Figure 10 testifies that it was not due to a decline in foreign direct investments: looking at FDI stocks as percent of GDP –

Figure 7

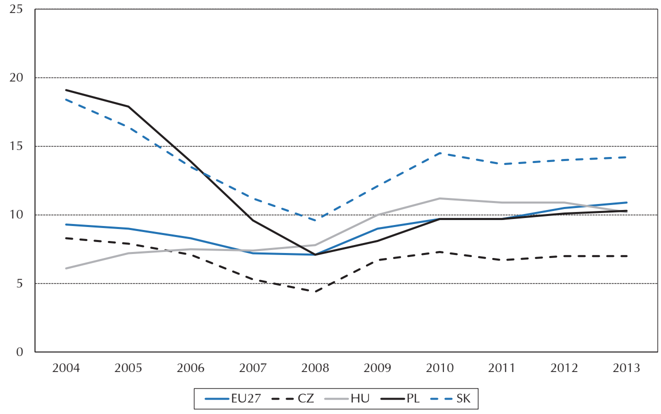
Employment rate %



Source: Eurostat.

Figure 8

Unemployment rate %



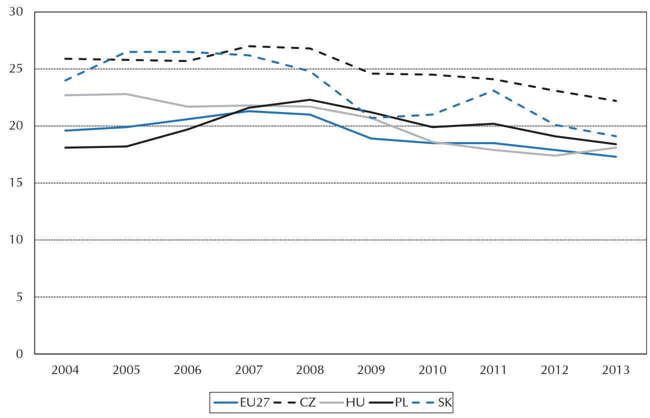
Source: Eurostat.

even if through some ups and downs – they are significantly higher in each Visegrad country (according to 2012 data) than in the year of accession, and always well above the EU average. Consequently, domestic (both private and public) investments were declining which was to some extent eased by EU assistance. However, in this respect the Visegrad countries seem to undergo a long learning process: by mid-2013 not even the half of financial support earmarked in the period of 2007-2013 for the Czech Republic, Slovakia and Hungary could actually be spent in those beneficiaries, while the best performing Poland reached nearly 60% by that time[10]. Thanks to the n+2 rule, the Visegrad countries still have time until the end of 2015 to use up the EU funds which has indeed been speeded up in all of them recently. However, with the mentioned record only Poland was above the EU average, so sharing its best absorption practices might be useful for the three smaller Visegrad countries. In general, the Visegrad countries tended to spend most of the money from the EU funds on infrastructure, human resources and research[11].

Finally, productivity and innovation are also key factors of competitiveness where the Visegrad countries are still facing challenges. Regarding the former, as illustrated by Figure 11, in terms of labour productivity per person employed, the V4 are all lagging behind the EU average by some 20-30 percentage points. Despite the initial convergence of all four countries upon accession, the Czech performance has been worsening in the past few years. Poland, on the other hand, after some initial deterioration, has registered a spectacular catching up by over 10 percentage points between 2007 and 2012; thanks mainly to improved productivity in the manufacturing, energy services and construction sectors[12]. After some convergence upon accession, the overall Hungarian performance has recently been rather stagnating. In

Figure 9

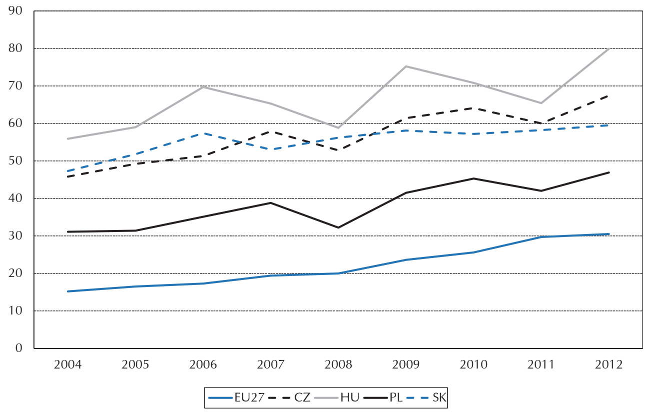
GFCF as % of GDP



Source: Eurostat.

Figure 10

FDI stocks as % of GDP



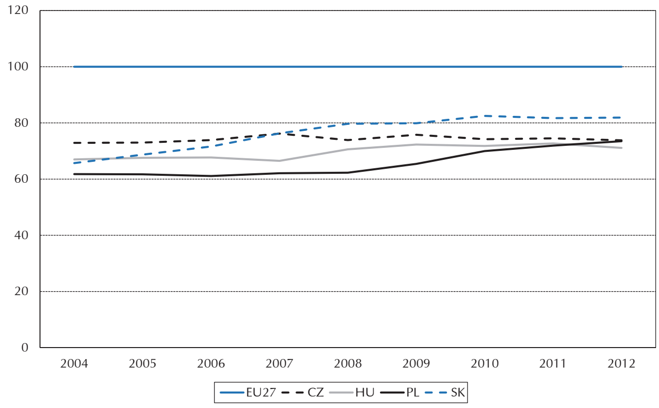
Source: Eurostat.

the V4 group Slovakia has by far the best record in labour productivity (on average by 10 percentage points higher compared to its Visegrad partners) thanks primarily to significant pick-up in the manufacturing sector in the past few years[13]. As a result of these developments, the gap in labour productivity levels among the V4 has narrowed by 2012 compared to early years of membership.

Concerning innovation – monitored by the European Commission annually, based on a complex index[14] – the performance of the Visegrad countries is also well below the EU average. From among the four categories (defined by the Commission) none of them is in the range of innovation leaders or innovation followers; but the three smaller Visegrad countries are classified as moderate and Poland as modest innovator. Figure 12 certainly suggests some catching up by the V4 but this is a policy area where much greater efforts are needed in the coming years (and for which there are now increased resources available in the new multiannual budget of 2014-2020).

Figure 11

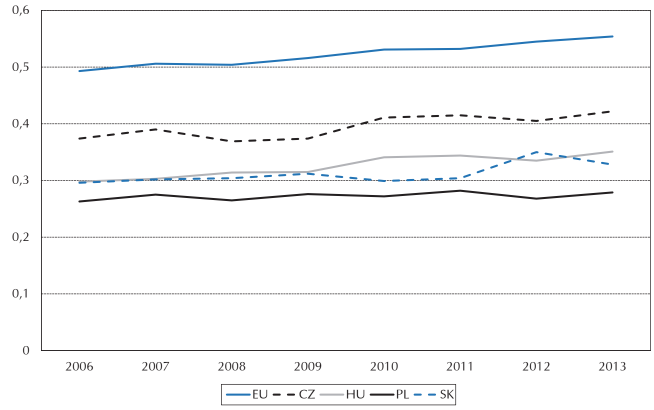
Productivity per person employed



Source: Eurostat, European Commission.

Figure 12

Innovation index



Source: Eurostat, European Commission.

Public finances and monetary developments

Sound public finances are actually also building blocks of a country's competitiveness. The Visegrad countries entered the EU with very different levels of budget deficit but – as Figure 13 shows – by 2007 three of them managed to put their public households in order (similarly to the EU average). The only exception has been Hungary which took a sharply diverging path and accumulated a huge (9.4% of GDP) budget deficit by 2006. Thus, from 2007 onwards Hungary – under excessive deficit procedure practically since accession – had to make considerable efforts to consolidate its budget and, as a consequence, the country was hit by the crisis in the midst of austerity measures. Due to these developments, and contrary to the other Visegrad countries, Hungary had no room of manoeuvre to temporarily relax its fiscal discipline. While the European Commission put a pressure on Hungary to cut back its deficit, it also brought all the other Visegrad countries under the excessive deficit procedure in 2009. Thanks to serious efforts by the Hungarian government, the country was finally released from EDP[15] in 2013, while the others are still there, with overstepped/extended deadlines for correction. In fact, the two peaks that can be seen in Figure 13 are attributed to the full abolishment of the private pension pillar in Hungary in 2011, and to the partial elimination of it in Poland, having an effect in 2014[16]. What is more, Slovakia decided to shrink the contributions to the mandatory private pension fund and to re-channel a bigger part of it to the state pension system[17], while the new Czech government is planning to fully abolish the private pension pillar[18]. Actually, there have been a range of other similar measures of budgetary consolidation across the region including cutting back public administration expenditure, raising VAT and excise duty rates, imposing a bank levy (in Hungary and Slovakia) or special sectoral levies usually on a temporary basis (in Hungary on energy, telecom and retail chains, in Poland on the mining sector and in Slovakia on businesses in regulated sectors)[19]. Emphasis is everywhere on reinforcing tax collection regimes and in general on rationalising expenditures. The V4 countries also envisage to reduce their structural deficits. As can be seen in Figure 14, structural deficits seem to get stabilised between 2 and 3% of GDP in the V4 countries by 2015, but their medium-term plans foresee a gradual convergence to the benchmark rate of 0.5% of GDP as prescribed by the Fiscal Compact (to which three Visegrad countries already adhered, and the Czech government recently decided to do the same[20]).

Figure 13

Public budget balance as % of GDP

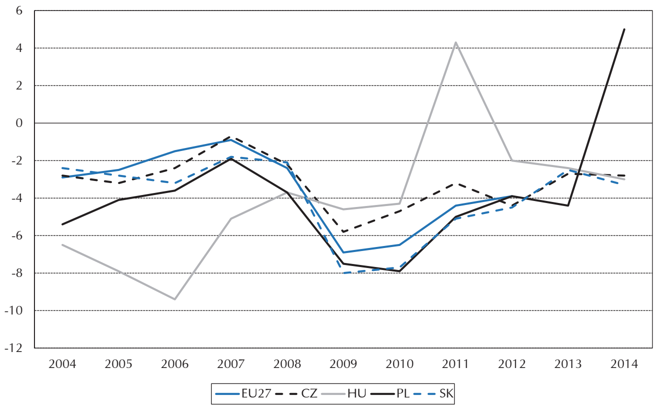
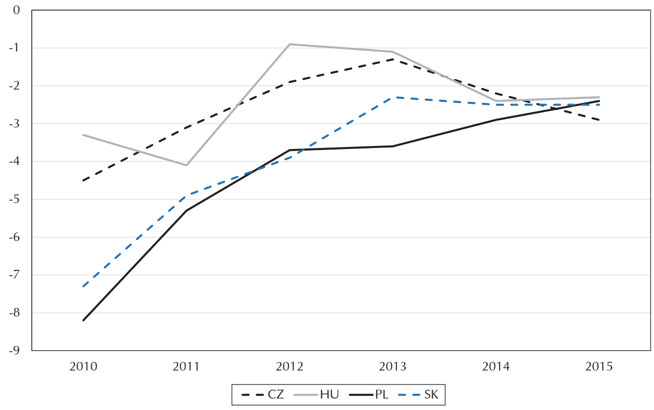


Figure 14

Structural balance as % of GDP



Source: Eurostat, European Commission, Stability/Convergence Programmes of the V4 (2013) The documents can be retrieved here: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/2013/index_en.htm [10 April 2014].

The other pillar of public finances is the level of indebtedness by the state. Here the Visegrad countries had very different initial positions but all of them remained below the Maastricht benchmark of 60% of GDP in 2004. As Figure 15 demonstrates it, after accession the Hungarian rate – due to the mentioned mismanagement of budgetary policy – took a steep upward direction until the crisis while in the other Visegrad countries this level was stagnating or declining. As a response to the crisis, these governments thus had a greater room of manoeuvre to accumulate higher debts, while always remaining under 60% of GDP. Moreover, none of these states' stability or convergence programme calculates with ever breaching this threshold in the foreseeable future. At the same time, Hungary – in parallel with budgetary consolidation – started to cut back its debt ratio after 2010. Despite some promising results however, the Hungarian case is more vulnerable as 40% of the debts are denominated in foreign currencies exposed to volatile exchange rate movements. The other source of vulnerability is the high share of public debt held by non-residents: last year its level was 61% in total debts (down from 70% in 2011). Both figures are recently on the decline and according to expectations by the Government Debt Management Agency[21], the former ratio should be reduced to 35% and the latter to 53% by the end of 201422. It must also be mentioned that three countries already have a public debt ceiling in their constitutions or high-level laws: for Poland and Slovakia it is 60%, for Hungary it is 50% of GDP, and – in parallel with

Figure 15

Public debt as % of GDP

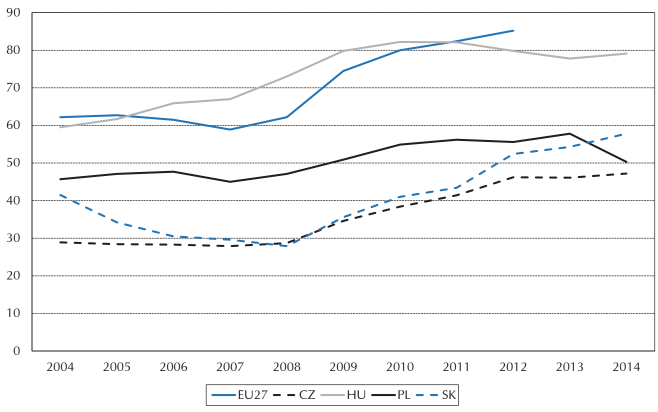
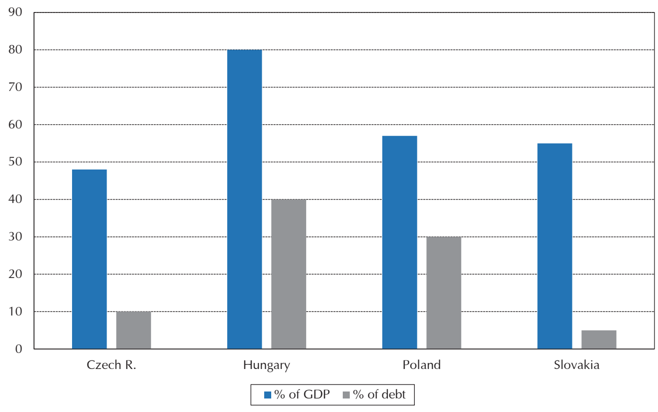


Figure 16

Public debt as % of GDP, share of foreign currecy denominated debt in total debt



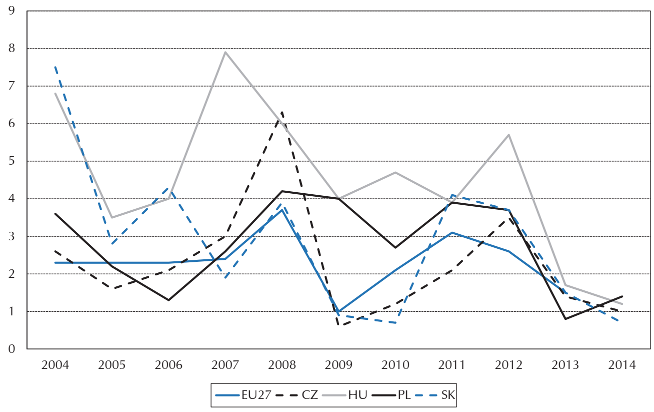
Source: Eurostat, Stability/Convergence Programmes of the V4 (2013). The documents can be retrieved here: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/2013/index_en.htm [10 April 2014].

joining the Fiscal Compact – the Czech Republic is preparing for a similar step.

Finally, when looking at the monetary environment since accession: after very hectic and heterogeneous developments between 2004 and 2013 – as can be seen in Figure 17 on inflation and in Figure 18 on long-term interest rates – recently very promising converging trends can be detected. As regards the harmonized indices of consumer prices, they are expected to reach between 0.7% (Slovakia) and 1.4% (Poland) in 2014, while longer term forecasts by the Economist Intelligence Unit calculate with an inflation rate of 2-3% across the Visegrad region until 2018 – resulting in the most harmonious price developments since accession. Similarly, gaps among long-term interest rates have been quite substantial in the region, mainly due to the extremely high rates in Hungary. Recently however, as shown by Figure 18, thanks to the monetary policy in both Hungary and Poland, the 10 years bond yields started a gradual convergence to each other as well as to the EU average. These processes have to be welcome and – together with the above mentioned public finance efforts – should be seen as a smoother way leading up to the introduction of the single currency also by the three bigger Visegrad countries. Based on the described facts and forecasts it is not unrealistic to foresee a (desirably) common joining of the euro area at the end of the decade, provided that the zloty, the koruna and the forint would all join the ERM-2 system by 2018 the latest.

Figure 17

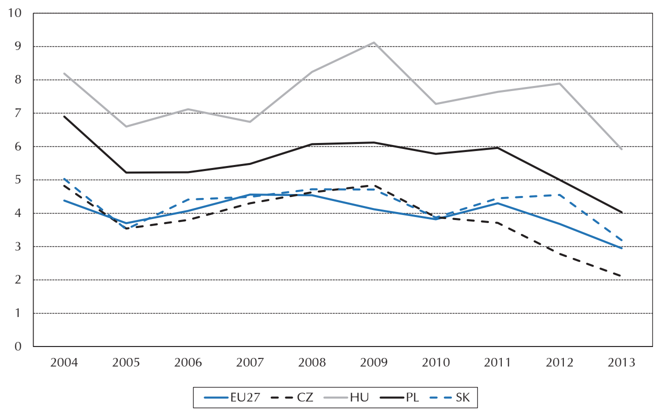
Harmonised index of consumer prices %



Source: Eurostat.

Figure 18

Long-term interest rates[a]



[a] *EMU criterion series for ten years government bond yields.*

Source: Eurostat.

Summary and conclusions

This article attempted to give a snapshot of the experience and performance of the Visegrad countries in the first decade of EU membership along a set of important aspects. The findings suggest that the four countries underwent a smooth integration into the EU institutions and proved to have a good record of application of single market directives (with Poland having to make more efforts still). As regards growth trends, the four countries joined the EU with around 5% rates which have been significantly diverging until 2014. While Poland, the Czech Republic and especially Slovakia got an impetus from membership, the Hungarian economy has been on the decline after 2004 just to experience the worst recession in the group in 2009. Recovery from contraction (Hungary, the Czech Republic and Slovakia) or slower growth (Poland) has been happening at different paces again, however, growth rates seem to be in harmony in the V4 in 2014 (2-3%) and, according to forecasts, the region may enjoy an economic expansion of 3-5% until 2018 which would mean the most homogenous development since the year of EU entry. It was also evidenced that the Visegrad region is characterised by a protracted catching up process at the national, regional and wage levels too. Regarding national and regional convergence Slovakia and Poland were the best performers while in terms of wages the Czech Republic took the lead. All in all, the V4 countries did converge to each other as well as to the EU, but they need a very long way to reach EU averages in national and wage levels and to bring up all their regions at least to the 75% level (in terms of GDP per capita) of the Union average.

When analysing labour market and investment developments as crucial factors of competitiveness, it was demonstrated that very positive pre-crisis trends in Poland, the Czech Republic and Slovakia were interrupted by the crisis. Employment, unemployment and gross fixed capital formation rates have been spectacularly improving in those three countries while in Hungary these indicators took a deteriorating trend after accession thus leaving the country in an extremely weak position by 2009. In the past few years slowly improving trends on the Visegrad countries' labour markets can be detected while investments are still sluggish. The latter is however not due to lower foreign direct investments in general, but to the shrinking private and public investment activities resulting from ailing demand and austerity measures during the crisis years. Investments are expected to be boosted now by EU funds, as big parts of the money earmarked for the Visegrad countries (between 2007-2013) have still to be spent until the end of 2015 (which add up to the new resources from the 2014-2020 framework).

In the case of external balances the mostly negative pre-crisis trends seem to improve in the post-crisis period as exports are outpacing imports even in Poland. Thus the current account balances took very positive trends with surpluses in Hungary and Slovakia and with relatively small deficits in the Czech Republic and Poland. The big deficits of income flows coupled with far lower levels of net transfers represent however a shared challenge across the region.

Last but not least, compliance with the Maastricht benchmarks were also scrutinised shortly. Here too, very positive achievements were disrupted by the crisis in Poland, the Czech Republic and Slovakia, while the unprecedented mismanagement of the Hungarian public finances left the country in an extremely vulnerable position by the crisis. Thus Hungary had to start with fiscal stabilisation earlier than the other three countries without at the same time having any room of manoeuvre to relax its budgetary discipline and debt policy. The situation is reversed again: while – thanks to a mix of measures aiming at spreading the burdens across all the actors of the economy – Hungary could finally be released from the excessive deficit procedure in 2013, Poland, the Czech Republic and Slovakia are still under it with very short correction deadlines. Recently however, promising consolidation processes can be seen in all four countries, leading to budget deficits below 3% also in the medium run. In parallel, public debts are slowly declining in high-rate Hungary while – despite increases – are kept below 60% of GDP in the other three Visegrad countries. The stabilising public finance trends are recently coupled with stabilising monetary trends too, which – in case of their continuation – may result in the three bigger Visegrad countries' introduction of the euro at the end of the decade. In any case, given the significance of economic and political relations among the four countries, a common joining to the eurozone by the three outsiders would be desirable.

In this study it was shown that within the Visegrad group, Hungary used to be the "black sheep" under most of the analysed aspects between accession and the crisis; meaning that it was not able to grasp the opportunities offered by membership and used by its Visegrad peers more successfully. But since 2010-2011 this specificity has been fading away, as most of the Hungarian indicators evaluated here are recently improving and converging to V4 levels and EU averages/benchmarks. In the process of improving among others labour market indicators, innovation capacities, absorption of EU funds or public finance consolidation, the Visegrad platform should be used more intensively in the future with a view to exchanging best or even unsuccessful practices and to tighten cooperation in major macroeconomic developments.

Finally, based on the analysis of major trends between 2004 and 2014 and also taking into account the forecasts and outlooks, the general conclusion can be drawn that in the first ten years of EU membership – despite some diverging developments and the detrimental effects of the crisis – a gradual and perceivable convergence to each other and closing up to the EU averages and benchmarks took place. This tendency has good chances to continue in the coming years, which will certainly strengthen the position of the V4 within and also beyond the European Union.

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[1] This paper was supported by the International Visegrad Fund in the framework of the project No. 31210045, entitled "Prospects of the Visegrad cooperation in changing economic, political and social conditions. Visegrad 2022".

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[18] Economist Intelligence Unit (2014): Country Report, Czech Republic, April 2014, p. 6.

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[22] In Hungary there has been an intensive promotion of government bonds and securities among the population. In fact, constantly lowering interest rates may discourage foreign investors from financing the Hungarian debt, while the historically low personal income tax may encourage residents to choose this form of savings.

■

TEN YEARS OF LATVIA IN THE EU – REFLECTIONS, IMPLICATIONS AND CHALLENGES

*Aldis Austers**

Latvia had high expectations from the membership of the European Union, yet the first ten years of this membership have brought both positive and negative results. Latvia has managed to get into the core of the EU by joining the border-free Schengen area and the eurozone. During the first half of 2015 Latvia will hold the rotating presidency of the Council of Ministers of the EU – a remarkable event in Latvia's history. Moreover, a stable political system, pretty decent public administration, renovated roads and public buildings, and higher quality goods in shops attest to Latvia's regained fortune after a painful transition from a Soviet centralised state to a liberal market economy. However, a post-accession economic growth was followed by a deep slump. While benefiting politically from belonging to a club of rich countries, Latvia had to ask for international bail-out assistance in 2008. Today Latvia is back to economic growth, but new challenges have emerged stemming from extensive emigration of young people and demographic decline. Regional instability caused by Russia's aggression towards Ukraine is another major challenge to Latvia's future.

This article is intended to provide an assessment to what extent the expectations of the Latvians towards the EU membership have been met. First, a look at Latvia's pre- and post-accession strategy towards the EU will be presented. Further, an analysis of the Europeanisation in Latvia and Latvia's behaviour in the EU will be brought forward. Finally, political and economic development of Latvia during the last ten years will be examined. The most relevant areas of tension will be highlighted.

Latvia's pre- and post-accession strategy for Europe

After the restoration of independence in 1991, Latvia and other Baltic states were seeking quick reintegration with Western Europe. Memories of pre-war statehood and then existing well-being[1], in combination with the post-Soviet miserable economic conditions, provided a widespread support for democratisation and economic liberalisation, including full opening to capital and trade flows primarily with the West, but also with other countries from Central and Eastern Europe (CEE). Moreover, the Baltic states were desperately searching for ways on how to increase the stake of the Western powers in their existence, as a counterbalance to possible rebirth of Russian revanchist mood. In 1995, the Latvian government declared that Latvia saw the accession to the EU as indispensable for survival of the Latvian nation and preservation of the Latvian state[2].

Initially, Latvia had not been included into the group of the first six candidate countries invited to start the accession negotiations in 1998[3]. Being left behind was perceived in Latvia as a great shame. Therefore the government revised its preparation strategy, pursued the priorities identified in the Accession Partnership, and moved ahead at high speed. The Russian financial crisis of 1997, which cost Latvia a fortune, acted as another catalyst for market-oriented reforms. As a result, the progress in reforms was so significant that within two years, in 1999, the European Commission concluded that Latvia had generally fulfilled all membership criteria, and, provided that it continued with reforms, it would be