Comparative analysis of integration developments in the EU10 countries: Trends of adaptation and catching up

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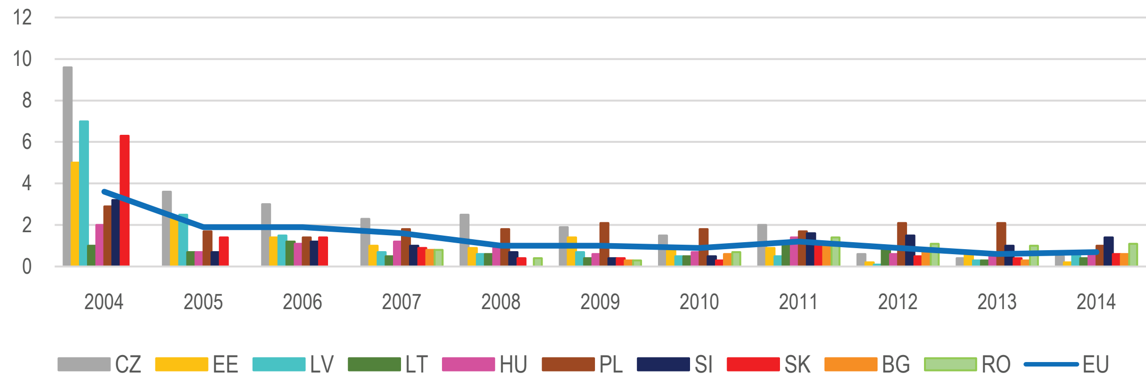
Institutional integration, application of single market law, use of EU funds

When acceding to the European Union, the new member states joined a legal community with the obligation of timely and accurate implementation of EU law. The European Commission closely monitors the member states' performance with special regard to transposition of single market directives. In this respect[5] the newcomer countries had an extremely heterogeneous performance in the year of accession (2004) followed by a quick adaptation process (see Figure 1). As a result, in terms of transposition deficit, these countries are at around 1% level (close to the EU average) which shows a high degree of discipline. Regarding infringement cases (see Figure 2) they were usually on the rise a few years after accession, followed by an improving trend in general. In this field the overall performance of the EU10 has been very good, almost constantly remaining under the EU average – with the sole exception of Poland. The latter country has been struggling with EU law especially on transport, environment (emissions) as well as health and consumer issues. For the whole group in general, 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 currently (in 2014) the EU10 countries have just a few contentious cases (ranging between some 10 and 49) which should be compared to the around 1,200 single market directives in force.[6]

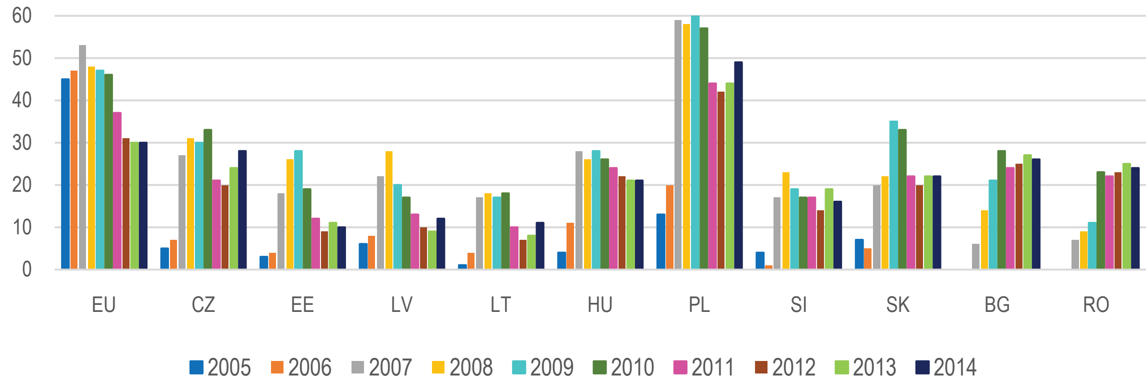
Figure 1: Transposition deficit of single market directives
percent of total



Source: European Commission(2014a) (for Romania and Bulgaria data only since 2007)

[5] European Commission (2014a)
[6] European Commission (2014b), p. 4.

Figure 2: Number of infringement cases



Source: European Commission (2014a) (for Romania and Bulgaria data only since 2007)

With regard to institutional integration, the newcomers have been efficient and successful. 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 in the beginning (mainly regarding interpreters/translators).[7]

Furthermore, five of the ten countries have already assumed successful Council presidencies – Slovenia in 2008, the Czech Republic in 2009, Hungary and Poland in 2011 and Lithuania in 2013 – enabling their administrations to gain a deep knowledge and understanding of EU-level decision-making mechanisms.[8] These countries' politicians proved to be active in the European Parliament too. In March 2014, there were five representatives from the EU10 region from among the 15 MEPs of the year (this time nominated also of the whole term).[9] It should also be mentioned that seven of ten capital cities – namely Warsaw, Prague, Budapest, Ljubljana, Tallinn, Riga and Vilnius – are hosting a European agency or independent body out of 40 such institutions.[10]

Last but not least, as a general observation, it should also be highlighted that the EU10 never formed a blocking minority that would put a break on further integration. On the other hand, they were able to represent common interests and ideas, especially in the field of preserving cohesion assistance in the 2014-2020 period, energy policy cooperation or promoting Eastern Partnership.

Another indicator of "institutional maturity" is the use of EU funds by the beneficiary countries. Here the EU10 countries could be characterised by a long learning process. Even though the Eastern enlargement was the first where the applicant countries had – via the pre-accession funds – the opportunity to prepare for the absorption of greater amounts of non-reimbursable assistance, the use of those funds has still been relatively slow and not without problems in several new member states. While – thanks to the n+2 rule[11] – by 2014 the contract ratios have improved tremendously everywhere, the actual payments are still lagging behind (see Table 1). In this

[7] Bruxinfo (2004)
[8] The remaining five countries will hold the presidency of the Council in the following order: Latvia (2015), Slovakia (2016), Estonia and Bulgaria (2018) and Romania (2019).
[9] Ms Roza Thun from Poland, working on internet policy and digital market, Mr Jan Olbrycht also from Poland, responsible for sustainable built environment, Ms Kinga Gál from Hungary, fighting for minority rights and linguistic diversity, Mr AlojzPeterle from Slovenia responsible for health issues, and finally Mr Marian J. Marinescu from Romania promoting research and innovation. (http://www.mepawards.eu/winners)
[10] http://europa.eu/about-eu/agencies/index_en.htm
[11] According to the n+2 rule, the recipient countries can prolong the implementation of EU cohesion assistance by two years after the end of the financial framework, i.e. until the end of 2015.

respect the worst performer is Romania and the best one is Estonia (being at 37% and 77% respectively). Given that the contracted money has to be spent by the end of 2015, recently an "absorption boom" can be witnessed in many of the EU10 which has a very positive impact on economic recovery.

Table 1: Absorption of EU funds (2007-2013) by the EU10, 2014

Country	Contracted grants % of total	Paid grants % of total
Bulgaria	100	54
Czech Republic	92	64
Estonia	96	77
Latvia	96	70
Lithuania	99	74
Hungary	100	62
Poland	95	64
Romania	94	37
Slovenia	93	62
Slovakia	98	53
Average	97	63

Source: KPMG[12]

The overall absorption performance has been more heterogeneous than the sectoral distribution of EU assistance: nine out of the EU10 have been overwhelmingly investing into infrastructure (between ca. 60-80% of the total grants), followed to a more modest extent by human capital and research activities. The only exception was Slovenia, where, most of the money went into R&D as well as information technology and communication, thanks to high quality infrastructure and due to a different policy approach.[13]

Catching up

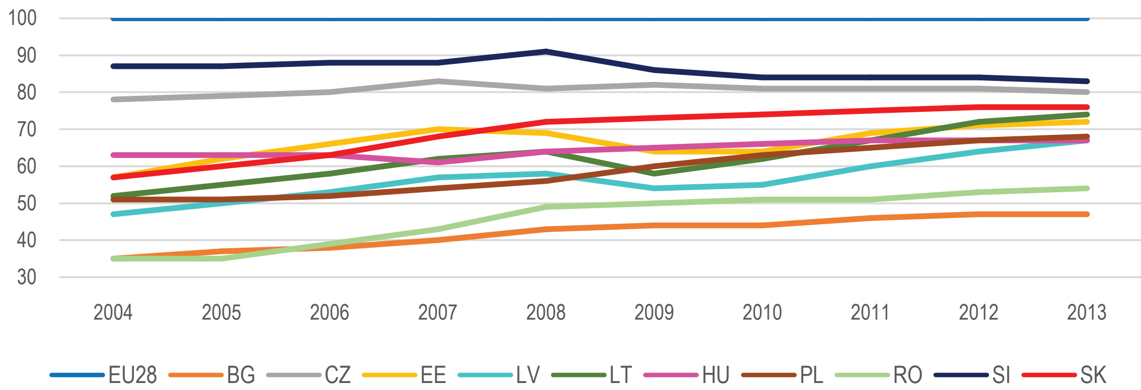
One of the main reasons for joining the European Union by the Central and Eastern European countries was the ultimate objective of gradual convergence of living standards to the EU average. Catching up can be measured with several indicators. In this study three basic series are used. The first index is the development of GDP per capita. Figure 3 illustrates well that none of the EU10 countries could reach the EU average in the past ten years but some closing up has been taking place, even if at different paces. This was due to two parallel phenomena at the same time. The two best performers, Slovenia and the Czech Republic recorded since 2009 a slight decline and stagnation respectively, both suffering from a longer economic recession than the rest of the group. On the other hand, an especially spectacular catching up (reaching of around 20 percentage points between 2004 and 2013) took place in the case of Poland, Slovakia, the Baltic states, and Romania, and a modest one in the case of Bulgaria and Hungary.

As a result of these trends, the gap among the EU10 countries has narrowed significantly by 2013 compared to 2004 (from 35-87% to 47-83% of EU28 average) and the whole group got closer to the Union average too. The

[12] KPMG (2014), p. 12.
[13] KPMG (2013), p. 16.

main question in the post-crisis period is, whether a more dynamic growth in the coming years would trigger a faster convergence to the EU average or whether this process will be a protracted one. Another question is, whether the gap within the EU10 would continue narrowing, or would they take a more diverse path of catching up.

Figure 3: GDP per capita
PPS, EU28=100



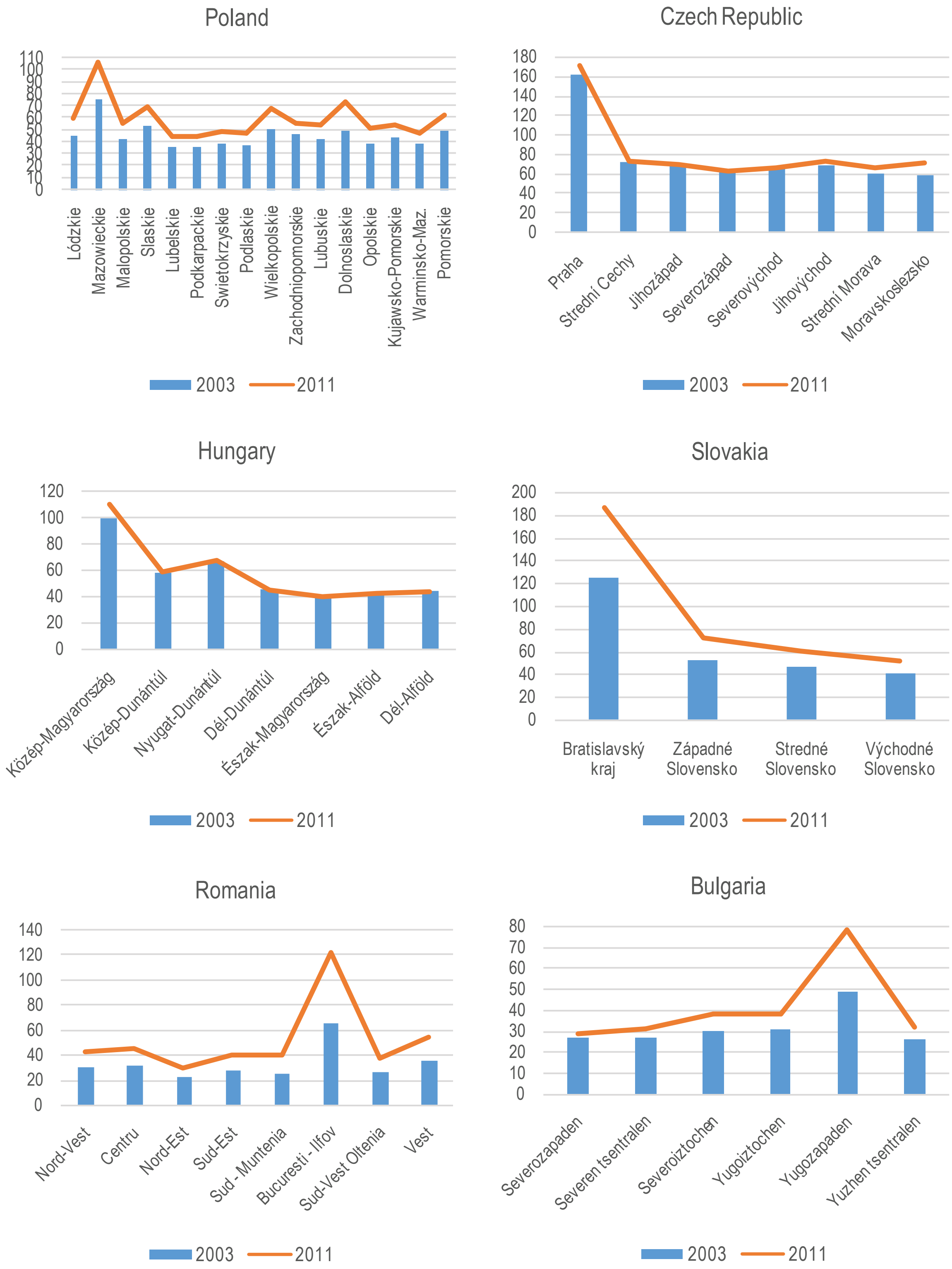
Source: Eurostat

The second indicator is regional convergence. The available regional data show a significant heterogeneity of the EU10 countries. First of all, it must be mentioned that from the ten analysed countries, only six have more than two NUTS2 regions (the Baltic states being one single region each and Slovenia having two regions: the Western one being at the EU level and the Eastern one being still under 75% of EU average). A common feature in all of them is the significant development of their central regions embracing the capitals. Moreover, from 2014 onwards, the central regions of Poland, the Czech Republic (where the capital city itself is a region), Slovakia, Hungary, Slovenia and Romania are all categorised as more developed regions (i.e. above 90% of EU average, not eligible for the Cohesion Fund), while only Bulgaria and the three Baltic states remain entirely under the less developed (below 75%) status.

Another similar feature across the mentioned six bigger countries is that most of them are struggling with considerable regional gaps between the central regions and the rest of the country, which did not diminish in the past years (on the contrary, it rather widened in the case of Slovakia, Romania and Bulgaria). Those six countries also had a very different regional convergence record in general. As Figures 4-9 show, most of the regions did register tangible improvement by 2011[14] compared to 2003, starting from very different levels. A clear exception to this trend could be witnessed in Hungary with virtually no regional convergence at all, and the Czech Republic where the regions – starting on a significantly higher level – showed a very modest increase of GDP per capita. The discrepancies among those six countries' non-central regions is quite significant: according to the 2011 Eurostat data, roughly the half of those regions were below 50% while the other half could be found between 50 and 75% of EU average.[15]

[14]The 2011 data were the latest available in the Eurostat database in October 2014.
[15] For more details see: European Commission (2014c)

Figures 4-9: Regional development in the six bigger EU10 countries (2003-2011)
NUTS2 regions

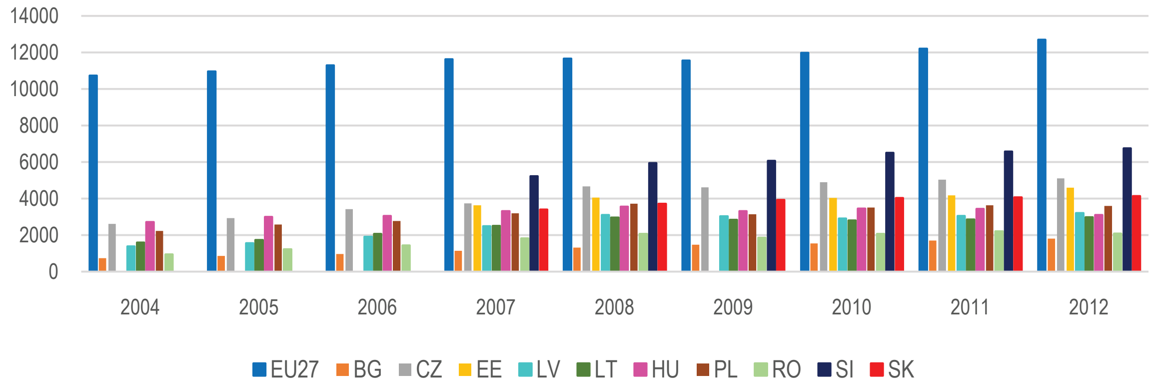


Source: Eurostat

The third indicator is wage convergence. In this respect a lot remains to be done to reach levels comparable to Western European standards. While prices of many commodities and services have become similar in the new member states to those in the old ones, average earnings are still lagging well behind. Figure 10 demonstrates the rather striking gap, while it also indicates a slow catching up in this respect too. Namely, the average income of the EU10 citizens was less than one fifth of EU average in 2004, which actually went up to nearly one third of it by 2012. Within the EU10 the discrepancies are also high: in harmony with national development levels, Slovenia is leading the group with nearly four times the sums earned by Bulgarians. In the middle range can be found the Czech Republic, Estonia and Slovakia, followed by Poland, Hungary, the other two Baltic states and Romania.

Figure 10: Net annual earnings

euro



Source: Eurostat (data missing for Estonia in 2004-06 and 2009, for Slovenia and Slovakia in 2004-06)

Trends of growth and competitiveness

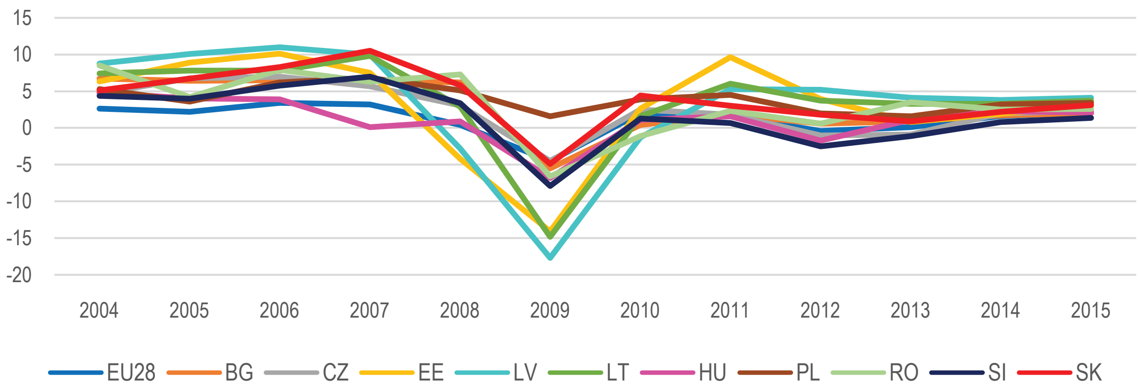
The early 2000s could be characterised by high growth rates in the Central and Eastern European region, and the accession to the European Union just reinforced them in most of the EU10 countries (Figure 11). From the eight countries that joined in 2004, only Hungary took a sharp downward trend while – after some slowing in 2005 – Poland and Slovenia continued to enjoy dynamic growth, similarly to all the other newcomers. In Hungary this failure was due to internal factors (the mismanagement of public finances and the lack of a coherent economic policy) while the European and global environment continued to be a favourable one. According to Eurostat data series,[16] growth in the EU10 in the first years of membership was driven by all three components of it: consumption, investments and exports; even if to different extents in each country.

The region was severely hit by the financial and economic crisis, with very different recession rates however. While after overheated growth rates, the Baltic states suffered from a dramatic, double-digit shrinkage of their economies in 2009,[17] the others were between -7.9% (Slovenia) and -4.5% (Czech Republic). The only country to avoid negative growth was Poland, thanks to its robust internal market and lower exposure to external effects.

[16] Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/main_tables
[17] About the specificities of the Baltic developments in the past ten years see: Meisel (2014).

Getting out of the crisis and resuming economic growth has been happening at a different pace across the region. At the same time, Figure 11 shows a steady convergence of growth rates for 2014-2015, with an unprecedented narrowing of the gaps among the members of the EU10. In general, economic expansion is mainly due to exports, while sluggish investments are boosted by accelerated absorption of EU funds. At the same time, private consumption recovers only slowly in most of the EU10.[18]

Figure 11: Real GDP growth rate
percent



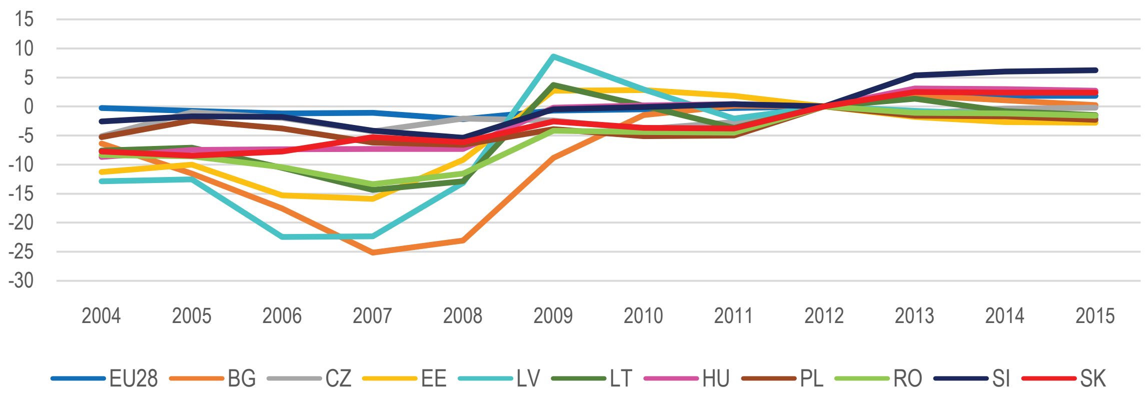
Source: Eurostat

The trends of the current account balances demonstrate well the economic performance and external competitiveness of the EU10 countries. Figure 12 clearly shows a split of the EU10 into two groups between accession and the crisis: the better performer four Visegrad countries and Slovenia on the one hand, and Estonia, Latvia, Lithuania, Romania and Bulgaria (accumulating huge deficits) on the other. While the former group benefited from better economic structures coupled with higher added value of their exports,[19] the latter group suffered from structural weaknesses and a greater import dependency to satisfy consumption.

The crisis, however, put an end to those sharp differences as – thanks to shrinking domestic demand – imports of goods and services fell considerably across the region, resulting even in current account surpluses or just small deficits. According to the figures for the past few years, the EU10 countries seem to have more harmonious and well manageable current account positions than ever before since 2004. It remains to be seen however, whether these favourable trends will remain in place in the post-crisis period. Namely, the challenge is not only the potentially strengthening demand for imports, coupled with the lack of dynamism on the EU10's traditional export markets, but also – as a side effect of economic recovery – the increased profit repatriation of foreign companies (which is usually the biggest in Poland and the Czech Republic).

[18] Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/main_tables
[19] IMF (2014), p. 36.

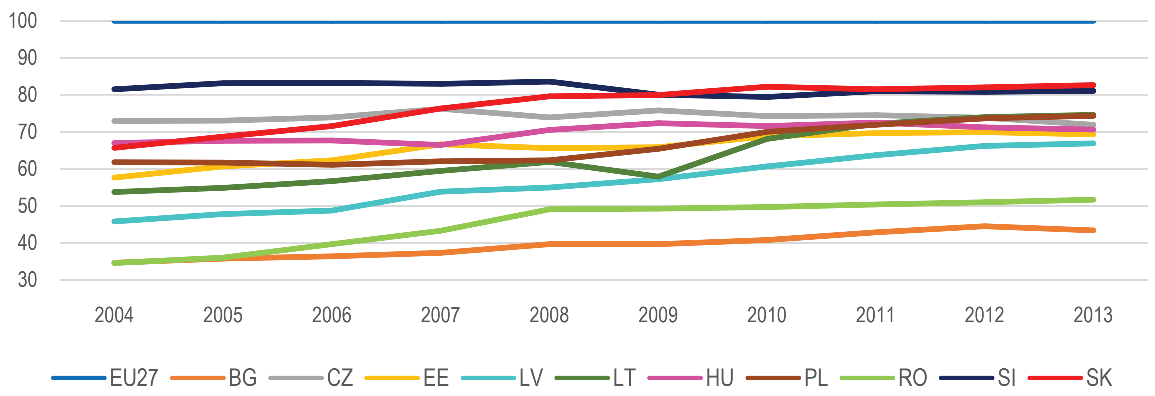
Figure 12: Balance of the current account
percent of GDP



Source: Eurostat

Another important indicator of competitiveness is labour productivity (see Figure 13). In this respect, the performance of the EU10 countries reflects their development levels and trends.

Figure 13: Labour productivity per person employed
EU27=100



Source: Eurostat

While Slovenia and the Czech Republic used to have the highest productivity levels in the first years of membership, in the past few years their performance has been stagnating or even declining respectively. At the same time, the Baltic states exhibited a spectacular catching up of over 20 percentage points between 2004 and 2013 as compared to the EU average. All the other EU10 countries showed a considerable – over 10 percentage points – improvement too, with the exception of Hungary which advanced only modestly. As a result of those developments, the initial gap among the eight countries that joined in 2004 has narrowed significantly, with a clear catching up by them to the EU average (being roughly at around 75% of it in 2013). At the same time, the productivity levels of Romania and Bulgaria are still lagging well behind the rest of the group, hardly reaching half of the EU average.

Finally, from the point of view of competitiveness it is also relevant to evoke the innovation performance of the EU10. The European Commission publishes each year the complex index (composed of 25 indicators) of the EU countries' performances (including among others the gross expenditure on research and development, the contribution to innovation by the enterprise sector, the number of patent applications or that of new doctorate graduates).[20] Based on the results the countries can be grouped into four categories. None of the EU10 can be found in the group of the so-called innovation leaders, but the innovation followers already embraced two countries of the EU10 in the past few years, namely Estonia and Slovenia. To the third group of moderate innovators belong the four Visegrad countries and Lithuania, while the fourth category of modest innovators had Latvia as well as the two Balkan countries. Behind the absolute figures, however, it is also important to take into account the pace of development, and in this respect, besides the outstanding improvement of the three Baltic states and Slovenia, the Bulgarian and Hungarian performance can be praised too. Romania, the Czech Republic and Slovakia had just a modest improvement, while Poland reached the lowest growth rate in this field in the past eight years.

Table 2: Innovation index

Country	2006	2007	2008	2009	2010	2011	2012	2013	Growth rate
Bulgaria	0.158	0.168	0.189	0.198	0.232	0.234	0.191	0.188	2.49
Czech Republic	0.374	0.390	0.369	0.374	0.411	0.416	0.405	0.422	1.72
Estonia	0.388	0.382	0.411	0.452	0.453	0.474	0.488	0.502	3.74
Latvia	0.174	0.188	0.195	0.208	0.216	0.228	0.234	0.221	3.51
Lithuania	0.241	0.254	0.233	0.239	0.24	0.260	0.271	0.289	2.58
Hungary	0.298	0.303	0.314	0.315	0.341	0.344	0.335	0.351	2.36
Poland	0.263	0.275	0.265	0.276	0.272	0.282	0.268	0.279	0.88
Romania	0.208	0.219	0.242	0.257	0.240	0.258	0.229	0.237	1.90
Slovenia	0.427	0.431	0.458	0.474	0.481	0.508	0.495	0.513	2.66
Slovakia	0.296	0.302	0.304	0.312	0.299	0.304	0.35	0.328	1.49

Source: European Commission (2014d)

Public finance and monetary trends

Concerning the fiscal position of general governments, it can be established that between 2004 and 2008 most of the EU10 made considerable efforts to consolidate their public budgets and bring the deficit below 3% of GDP (while Estonia and Bulgaria continued to run budget surpluses each year). Only two countries had a deteriorating trend prior to the crisis: Romania which, however, still remained below -3% until 2007, and Hungary. The latter country was (together with Poland in the first few years of membership) under excessive deficit procedure from the outset. Hungary actually accumulated a huge public deficit of over 9% by 2006 (see Table 3), which then had to be rectified just on the eve and then in the middle of the financial and economic crisis. This meant for Hungary a "straightjacket" and, due to an IMF-EU loan package, almost no room of manoeuvre to conduct a loser budgetary policy coupled with increased public debt – as was the case for all other EU10 countries.

[20] The European Commission's "Innovation Union Scoreboards" can be retrieved here: http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm

The years of 2008, and especially 2009-2010 have been the worst for the group: a period when only Estonia could avoid the excessive deficit procedure. In parallel with the improvement of the economic situation across the EU10 from 2010 onwards (which was however not linear in any of them) their budgetary positions seemed to follow suit too. Thanks to serious consolidation programmes, in 2013 only Poland and Slovenia had a bigger-than 3% budget deficit: the former having a 4.3% level, while the latter – due to a one-off bank recapitalisation package[21] – accumulated an unprecedented deficit of nearly 15% of GDP. With these figures eight of the EU10 had a better performance than the Union average of -3.3% public budget position of that year. The years 2014 and 2015 seem to bring about overall public finance stability in the region, in both years only Slovenia breaching the Maastricht limit but with a sharply improving trend.

Table 3: General government deficit/surplus
percent of GDP

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU28	-2.9	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-3.9	-3.3	-2.6	-2.5
Bulgaria	1.9	1.0	1.9	1.2	1.7	-4.3	-3.1	-2	-0.8	-1.5	-1.9	-1.8
Czech Republic	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.7	-3.2	-4.2	-1.5	-1.9	-2.4
Estonia	1.6	1.6	2.5	2.4	-3.0	-2.0	0.2	1.1	-0.2	-0.2	-0.5	-0.6
Latvia	-1.1	-0.4	-0.6	-0.7	-4.4	-9.2	-8.2	-3.5	-1.3	-1.0	-1.0	-1.1
Lithuania	-1.5	-0.5	-0.4	-1.0	-3.3	-9.4	-7.2	-5.5	-3.2	-2.2	-2.1	-1.6
Hungary	-6.5	-7.9	-9.4	-5.1	-3.7	-4.6	-4.3	4.3	-2.1	-2.2	-2.9	-2.8
Poland	-5.4	-4.1	-3.6	-1.9	-3.7	-7.5	-7.8	-5.1	-3.9	-4.3	5.7	-2.9
Romania	-1.2	-1.2	-2.2	-2.9	-5.7	-9.0	-6.8	-5.5	-3.0	-2.3	-2.2	-1.9
Slovenia	-2.3	-1.5	-1.4	0.0	-1.9	-6.3	-5.9	-6.4	-4.0	-14.7	-4.3	-3.1
Slovakia	-2.4	-2.8	-3.2	-1.8	-2.1	-8.0	-7.5	-4.8	-4.5	-2.8	-2.9	-2.8

Source: Eurostat (forecast for 2014, 2015)

Analysing the national measures taken to restore public finance stability, we can find – on the basis of the EU10 governments' Stability/Convergence Programmes between 2011 and 2014[22]– a range of similar steps on both the revenue and expenditure side. Starting with the revenue side, among the most typical measures were rising VAT rates coupled with the abolishment of some types of VAT deductibility. Secondly, there was a significant increase of excise duties in all of the EU10. A third common element in the region has been the fight against tax evasion and fraud, combating the grey economy and improving the efficiency of tax collection. On the expenditure side, the most typical measures included a freeze and/or cuts of public sector wages (the Romanian case being the severest with a 25% reduction) coupled with downsizing (or hiring freeze) and reduced government consumption. Many governments have also revised the national system of pensions and social transfers too. In the field of pensions the general trend has been to gradually increase the retirement age (also linked to demography and longer life expectancy) together with thorough revisions and restrictions of early retirement schemes. Pension indexation freeze took place in some countries too, but only temporarily, for the worst years of the crisis. In one

[21] The biggest part of the banking sector's recapitalisation was done in 2013, exceeding 10% of GDP in that year, while the operation stretched over to 2014 with a remaining nearly 1%/GDP.Stability Programme of Slovenia, 2014 http://ec.europa.eu/europe2020/pdf/csr2014/sp2014_slovenia_en.pdf, p. 21.
[22] Those documents can be retrieved here: http://ec.europa.eu/economy_finance/economic_governance/sgp/convergence/index_en.htm

way or another, social benefit cuts (including unemployment benefit revision, sickness or family-related allowances) were also undertaken in the region. At the same time, the differences must be highlighted too, as they reflect some country-specific approaches and solutions to the problems. In a simplified way Table 4 summarises the most important measures that were taken by the individual governments in the past five years including the conventional/similar and the non-conventional/dissimilar steps.

Table 4: Main anti-crisis fiscal measures in the EU10 (2011-2014)

Revenue side	BG	CZ	EE	LV	LT	HU	PL	RO	SI	SK
VAT hike (or at least revised deductibility)		●				●	●	●	●	●
Excise duty hike	●	●	●	●	●	●	●	●	●	●
Combating tax-evasion/improving tax collection	●	●	●	●	●	●	●	●	●	●
Increase in social security contributions	●					●				●
New energy-related fee	●	●							●	●
Broadened base for personal income tax										●
Crisis personal income tax									●	
Rising corporate income tax										●
New or higher real estate type tax		●		●	●			●	●	
Special measures on lottery or gambling		●		●					●	
Full/partial elimination of the private pension pillar[23]						●	●			●
Bank levy and/or financial transaction duty						●			●	●
Sale of carbon emission rights			●	●	●					●
Sale of frequencies						●				●
Sale of emergency oil stocks										●
Privatisation							●			
Special sectoral taxes						●	●		●	●
Expenditure side	**BG**	**CZ**	**EE**	**LV**	**LT**	**HU**	**PL**	**RO**	**SI**	**SK**
Freeze/cuts in public sector wages	●	●	●	●	●	●	●	●	●	●
Freeze/cuts in social benefits		●		●	●	●		●	●	
Freezing/lower indexation of pensions	●	●		●	●				●	
Increasing of retirement age	●	●	●	●	●	●	●	●	●	●
Cuts in government consumption	●	●	●	●	●	●	●	●	●	●
Cuts in government investment		●			●		●	●	●	●
Cuts is subsidies to public companies/agriculture				●			●	●		●
Debt assumption of local governments						●				
Recapitalisation of banks									●	
Capital injection into a development bank						●				
Wage increase in some public services						●	●			●

Source: Stability/Convergence Programmes of EU10, 2011-2014

When looking at the public debt figures of the EU10 (Table 5) it is obvious that they all entered the Union with levels below the Maastricht threshold. In fact, up until the crisis the only problematic new member state in this

[23] Several EU10 countries introduced the mandatory private pension pillar. Of them Poland and Slovakia decided to eliminate it partially, while Hungary opted for its full abolishment, and – based on a decision in autumn 2014 – the Czech Republic will do the same by 2016.

respect has been Hungary where indebtedness took an alarming trend after accession, in parallel with the accumulation of an unprecedented public deficit by 2006. The other country with a growing and the second highest debt was Poland, which despite the crisis, never reached the 60% limit. The remaining eight new members had really low and well manageable debt levels in EU comparison (e.g. below 30% of GDP in all of them in 2008). The reasons for those positive results were partly historic (e.g. the Baltic states did not inherit any debts from soviet times, or Romania not taking up any during the communist era) and partly reflected lasting prudential fiscal policies (e.g. again Estonia or also Bulgaria running budgetary surpluses).

The crisis however had a devastating impact on the gross debts of many EU10 governments. The debt-to-GDP ratio rose between 2008 and 2014 by about 10 percentage points in Bulgaria, 15 in the Czech Republic, 20 in Latvia, more than 25 in Lithuania and Romania, nearly 30 in Slovakia and nearly 60 (!) in the case of Slovenia (see Table 5). Even though these trends are disquieting, the EU10 group still remains well below the EU average under this indicator; with only Hungary and Slovenia having a ca. 80% level, which in the former is expected to decline again from 2015, while in the latter from 2016 onwards.[24]

Table 5: General government gross debt
percent of GDP

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU28	62.1	62.6	61.4	58.8	62	74.4	79.9	82.4	85.2	88.9	89.5	89.2
Bulgaria	37.0	27.5	21.6	17.2	13.7	14.6	16.2	16.3	18.4	18.9	23.1	22.7
Czech Republic	28.9	28.4	28.3	27.9	28.7	34.6	38.4	41.4	46.2	46.0	44.4	45.8
Estonia	5.0	4.6	4.4	3.7	4.5	7.1	6.7	6.1	9.8	10.0	9.8	9.6
Latvia	15.0	12.5	10.7	9.0	19.8	36.9	44.5	42.0	40.8	38.1	39.5	33.4
Lithuania	19.3	18.3	17.9	16.8	15.5	29.3	37.8	38.3	40.5	39.4	41.8	41.4
Hungary	59.5	61.7	65.9	67.0	73.0	79.8	82.2	82.1	79.8	79.2	80.3	79.5
Poland	45.7	47.1	47.7	45.0	47.1	50.9	54.9	56.2	55.6	57	49.2	50.0
Romania	18.7	15.8	12.4	12.8	13.4	23.6	30.5	34.7	38.0	38.4	39.9	40.1
Slovenia	27.3	26.7	26.4	23.1	22.0	35.2	38.7	47.1	54.4	71.7	80.4	81.3
Slovakia	41.5	34.2	30.5	29.6	27.9	35.6	41.0	43.6	52.7	55.4	56.3	57.8

Source: Eurostat (forecast for 2014, 2015)

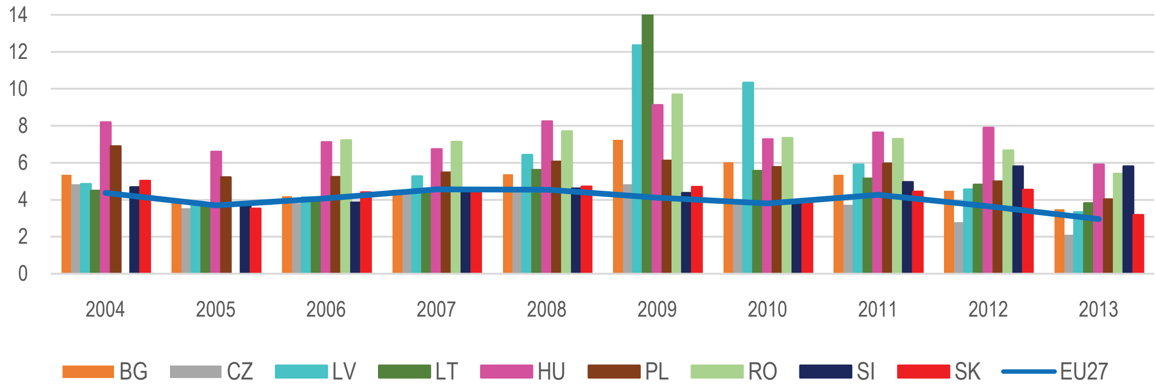
In line with the new rules on sound public finances, and especially the Fiscal Compact[25] – to which nine of the EU10 are signatory parties[26] – budgetary stability and fight against public debts gradually become part of the national legal framework too.

Public indebtedness can be linked to at least two risk factors. The share of foreign currency denominated debt in total debt[27] is the highest in Lithuania (80%), followed by Bulgaria (70%), Romania (55%), Hungary (40%), Poland (30%), and the Czech Republic (20%). This problem is minimal in Slovakia and practically non-existent in

[24] Stability Programme of Slovenia, 2014: http://ec.europa.eu/europe2020/pdf/csr2014/sp2014_slovenia_en.pdf
[25] Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) – an intergovernmental treaty focusing on the balanced budget rule with a maximum 0.5% structural deficit, on the systematic cutting back of public debts and on the introduction of the debt brake rule into national constitutions (or high level laws).
[26] In spring 2014, the new Czech government also expressed its willingness to join soon, but the parliament did not endorse it yet by October 2014.
[27] Eurostat: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/File:Central_government_gross_debt_by_currency_of_issuance,_2013.png

Slovenia, Estonia and Latvia. It must also be added, that from these six countries only those four are exposed to exchange rate volatility which – having most of their debts in euros – are not acceding to the eurozone (like Lithuania in 2015) or do not have a fixed exchange rate system (like Bulgaria having the currency board system). Thus, devaluation and a mechanic increase of debt payments is a threat in a diminishing order in Romania, Hungary, Poland and the Czech Republic.

Figure 14: EMU interest rates
percent



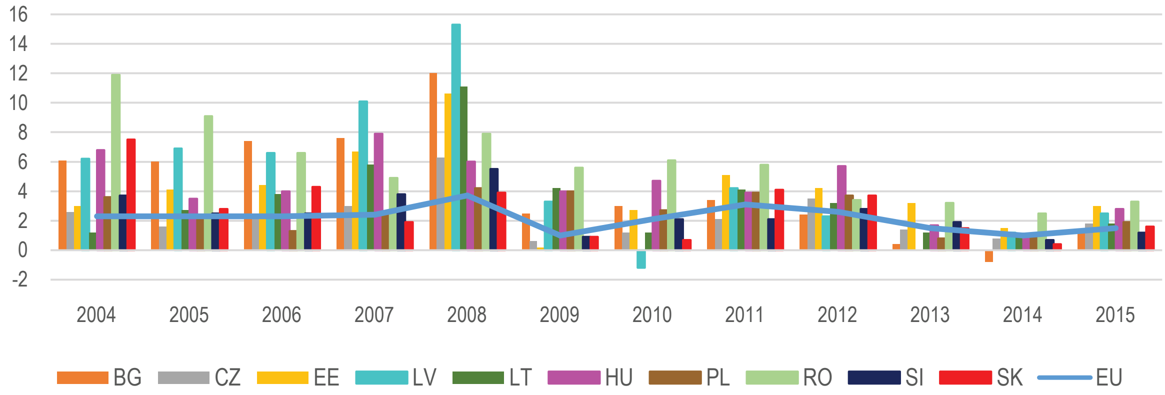
Source: Eurostat (no data for Estonia, missing data for Romania in 2004-05)

Besides the exchange rate uncertainties another burden on governments' debt service is the price of borrowing. The EU10 are overwhelmingly reliant on government bonds and securities (with the exception of Estonia and also Latvia where loans are predominant or at least above 50% respectively).[28] In this respect, an important indicator is the rate of the 10-year maturity bonds, whose convergence to the average of the lowest-inflation countries is one of the pre-conditions for joining the euro area. As Figure 14 shows, prior to the crisis, most of the EU10 countries have been close to the roughly 4% of EU average, with the exception of Romania and Hungary which used to have much higher rates. The crisis had an extremely negative impact on the interest levels of those non-eurozone countries which suffered the deepest economic recession in 2009, namely Latvia, Lithuania, Hungary, Romania and Bulgaria. In the following years however a gradual convergence back to lower levels has been taking place (but Hungary, Romania and recently also Slovenia are still leading the group being at the double of the EU average in 2013).

Interest rates are of course closely linked to money supply and price developments in general. As Figure 15 clearly demonstrates, the EU10 countries could be characterised as a high-inflation region between 2004 and the crisis, mainly due to their dynamic – in many cases overheated – post-accession growth rates. As one of the few benign effects of the crisis (shrinking demand) however, the harmonised indices of consumer prices have been declining and are forecasted to remain at around 2% in 2015 for the whole group.

[28] Eurostat: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Structure_of_government_debt

Figure 15: HICP inflation rate
percent



Source: Eurostat (forecast for 2014, 2015)

Conclusions

After a long pre-accession process marked by systematic alignment of national law to EU law, the EU10 countries showed a relatively smooth legal adaptation process as full member states. Their record of transposition of EU directives, as well as the number of their infringement cases is in general in line with the EU average. These countries also managed to integrate quickly and without major problems into the institutional system of the EU, and – after a longer learning period – their capacities for using EU assistance has also been improving.

Regarding catching up, a gradual convergence in terms of per capita GDP can be detected. As a result of differing performances, the gap among the EU10 narrowed by 2013 compared to 2004 and the whole group got somewhat closer to the EU average too. The picture is more heterogeneous in terms of regional convergence which has been slower in most of the EU10 in the first five or eight years of membership (with an overwhelming majority of NUTS2 regions still remaining in the category of less developed areas). Finally, concerning the still low level of wages, a gradual catching up process has been unfolding across the EU10 since accession.

The post-accession and pre-crisis years of most of the EU10 countries were characterised by very dynamic economic development, although the gaps among their growth rates were considerable. The crisis hit the region very severely, followed by a gradual recovery, again at different paces. At the same time, the figures for 2014 and 2015 indicate more harmonious growth rates than ever before. The Central and Eastern European region seems to become again the most dynamic one in the EU, but this time more balanced development paths can be expected accompanied by a gradual improvement of competitiveness.

On the basis of the described Maastricht-related performance of the EU10, important conclusions on their euro-maturity can also be drawn. In fact, four countries have already joined the euro area and by 2015 there will be five of them. In a chronological order these are: Slovenia (2007), Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015). Those countries are the smaller ones in the region with either a high initial development level (Slovenia) or a very dynamic catching up process since EU membership. In the post-crisis period (since 2012) the three Baltic states and also Slovakia performed well against the Maastricht criteria while Slovenia seemed to be the most problematic country suffering from a prolonged recovery and belated structural reforms.

Regarding the other five bigger countries from the group, currently none of them has an official target date for euro entry. In terms of nominal convergence, however, Bulgaria could easily be the next candidate as it complies with all the criteria, with the exception of formal ERM2 membership. Nevertheless, the latter should in no way be an obstacle for the leva which is kept uninterruptedly (without any de- or revaluation) in a currency board ever since 1997.[29]In terms of public finances, the remaining four countries have somewhat different figures and trends but their data are generally good, remaining under the Maastricht benchmark for both public deficit and debt (with the sole exception of the Hungarian debt figure). Inflation is at well manageable levels in all of them, coupled with gradual interest rate convergence (with low or declining base rates[30]). Finally, none of them joined the ERM2 system yet, which allows them to conduct a more flexible exchange rate policy, with all the advantages and disadvantages of it.

In any case, due to their close economic ties (especially among the immediate neighbours) it would be desirable for Poland, the Czech Republic, Hungary, Romania and Bulgaria to harmonise their accession to the eurozone. At the same time, beyond nominal convergence the requirement of a tangible real convergence is coming up on the political agenda; with good reason in most of them. While this process will last longer, the unfolding balanced and low-inflationary growth perspectives accompanied by improving competitiveness and sustained public finance stability across the region may facilitate a steadier real convergence leading up to the introduction of the single currency by the outsider countries too.

[29] First pegged to the German mark, later to the euro.
[30] http://ec.europa.eu/competition/state_aid/legislation/reference_rates.html

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