ANALYSING CATCHING-UP TRENDS OF THE VISEGRAD COUNTRIES: HEADING TOWARDS MORE CONVERGENCE?

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1. Introductory remarks

This study[1] aims at giving a snapshot of the performance of the Visegrad countries (V4) in the first decade of their EU membership and, based on past trends and available forecasts, attempts to outline the prospects for their future catching up. The evaluation is done along several aspects mainly focusing on growth, real and nominal convergence, as well as basic elements of competitiveness. The main question of the paper is whether there has been convergence by the Visegrad countries to EU averages/benchmarks as well as to each other since 2004, and whether converging or diverging trends can be expected until the end of the decade.

2. Growth and catching up

The Visegrad countries entered the EU with a GDP growth rate of 5% on average, but right after accession they took a diverging trend.[2] In fact, Slovakia got the biggest impetus from membership, but the Czech and (with the exception of a slow-down in 2005) the Polish rates were also impressive in the first years. The

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2 Statistical data used here stem from the Eurostat database unless indicated otherwise. http://ec.europa.eu/eurostat/data/statistics-a-z/abc (consulted in August 2015).

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 after EU entry (with exports being the single stable pillar of growth); to suffer from the deepest recession in 2009 (-6.6%). The Czech and the Slovak negative GDP rates were also somewhat bigger than the EU average of -4.4%, 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 1 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 in 2014-2016 – for the first time since accession – the rhythm of economic expansion is becoming harmonious in the region (ca. 2-3.5%). Moreover, according to medium-term forecasts by the Economist Intelligence Unit,[3] the growth rate of the V4 countries from 2017 until 2019 is expected to remain within the band of 2.2-3.4% and their cumulated average will be around 2.7% in those years. Given the fact that, according to the same forecast, the EU28 average growth rate will be 1.9% (and that of the euro area slightly lower), the better performance of the V4 will enable a sustainable continuation of catching up until the end of the decade. The high pre-crisis dynamism is however not to return to the region in the foreseeable future,[4] but a steady and more modest convergence – supported also by the EU's financial assistance in the 2014-2020 period[5] – can be predicted. As regards the structure of growth, according to European Commission forecasts,[6] in all four countries it will be driven overwhelmingly by domestic demand. Within that, investments will take the lead with slightly decreasing trends after the "absorption boom" of 2014-2015, however. At the same time, public and private consumption will have varied patterns in the V4. Net exports will again contribute positively to growth in the three smaller Visegrad countries only, while Poland was not able to maintain its post-crisis improving trend of external trade.

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3 Country Reports by the Economist Intelligence Unit, August 2015.

4 Mainly due to two factors: ailing export partners and lack of „easy" borrowing. IMF (2014), p. 60.

5 In the current seven (plus three) year budgetary period, the V4 countries taken together will benefit from more 150 billion euros in the form of development assistance (Structural and Investment Funds).

6 European Commission (2015a).

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 Slovakia (improving equally by 19 percentage points in the first decade of membership). In contrast, the Czech rate remained rather constantly at 80-84% compared to the EU average, while the Hungarian catching-up process has been a very modest one (up from 62 to 68%).[7] As Figure 2 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. Thus, the development of the region validated the theory of beta convergence, according to which poorer countries are capable of higher growth rates when catching up, while, the relevance of sigma convergence is shown by the narrowing of the gap among the V4 as well as between them and the EU average. Furthermore, as it was mentioned, thanks to continuously higher growth rates in the second half of the decade, the catching up of the V4 in terms of GDP per capita can be continued. This convergence will however happen at a far more reduced pace than the Polish and Slovak examples in the past ten years, and will be closer to the Hungarian performance demonstrated so far.

Figure 1: Real GDP growth rate, %

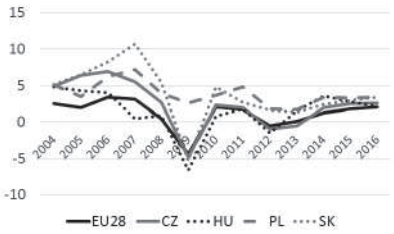
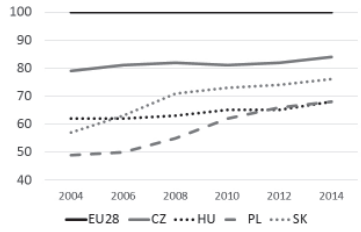


Figure 2: GDP/capita in PPS



Source: Eurostat, European Commission (2015a)

As regards catching up at the level of regions, the picture is partly similar to the national performances (see Table 1).[8] This means that the most spectacular catching up took place in NUTS-2 regions of Slovakia and Poland while the

[7] If one looks behind the trends and examines Eurostat's nominal sums of per capita GDP at current prices (in euros), then the developments show an even sharper picture. Namely, in the case of Poland and Slovakia GDP per capita doubled or more than doubled from 2004 to 2014, while in the Czech case the multiplier was 1.56 and for Hungary merely 1.3.

[8] Eurostat data for 2004: http://europa.eu/rapid/press-release_STAT-07-23_en.htm?locale=en ; Eurostat data for 2013: http://ec.europa.eu/eurostat/documents/2995521/6839731/1-21052015-AP-EN.pdf/c3f5f43b-397c-40fd-a0a4-7e68e3bea8cd

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 2013 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 overwhelming 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 15 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 nearly 30 percentage points (Poland and Hungary). The fact that regional gaps did not start narrowing, while some regions switched to a high gear than others, validates the trade-off theory regarding convergence, according to which "…in case a less developed national economy starts to converge to the international average, an increase of dispersion will be experienced among the domestic regions within the national economy, thus the more developed regions will grow faster than the less developed ones."[9]

Table 1: Catching up of NUTS-2 regions in the Visegrad countries (2004–2013)

REGION NUTS-2	GDP/capita 2004, PPS, EU27=100	GDP/capita 2013, PPS, EU28=100*	Change (percentage points)
CZECH REPUBLIC			
Praha	157	173	+16
Střední Cechy	70	73	+3
Jihozápad	70	73	+3
Severozápad	61	62	+1
Severovychod	64	68	+4
Jihovychod	67	77	+10
Střední Morava	60	67	+7
Moravskoslezko	61	69	+8
HUNGARY			
Közép-Magyarország	102	108	+6
Közép-Dunántúl	61	59	-2
Nyugat-Dunántúl	67	67	0

[9] Kertész (2010). 2.

Dél-Dunántúl	46	45	-1
Észak-Magyarország	43	40	-3
Észak-Alföld	42	42	0
Dél-Alföld	44	45	+1
POLAND			
Lódzkie	47	63	+16
Mazowieckie	77	107	+30
Malopolskie	43	59	+16
Slaskie	57	70	+13
Lubelskie	35	48	+13
Podkarpackie	35	48	+13
Swietokrzyskie	39	49	+10
Podlaskie	38	49	+11
Wielkopolskie	55	73	+18
Zachodniopomorskie	47	57	+10
Lubuskie	45	56	+11
Dolnoslaskie	52	76	+24
Opolskie	44	54	+10
Kujawsko-Pomorskie	45	56	+11
Warminsko-Mazurskie	39	48	+9
Pomorskie	50	65	+15
SLOVAKIA			
Bratislavsky kraj	129	184	+55
Západné Slovensko	53	71	+18
Stredné Slovensko	47	60	+13
Vychodné Slovensko	42	52	+10

*Source: Eurostat (2015), *EU27 comparison not available, minor changes due to accession of Croatia*

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 2014. First of all, the initially leading position of Hungary melted away, and was significantly outstripped by the Czech Republic and also by Slovakia and Poland. This means that – according to Eurostat figures in purchasing power parity – in 2014 the net annual earnings[10] reached approximately 8,700 euros in the Czech Republic, 8,000 in Slovakia, 7,600 in Poland and 6,400 in Hungary. These figures should be contrasted with the 22,000 euros average earnings in the EU28 in the same year. However, there has been some catching up: taken the four Visegrad countries' average in 2014 (7,700 euros) it was more than one third of the EU average instead of one fourth in the year of accession. In parallel, it must also be mentioned that price convergence

[10] In the category of single persons without children.

happened significantly faster. By 2012, the prices of communication devices and services reached 102%, clothing and footwear 89% while electricity and gas 80% of respective price levels of the EU15.[11]

3. Overview of macroeconomic performance

When analysing the macroeconomic performance of countries – influencing their competitiveness too – 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 – according to 2014 Eurostat figures between ca. 84-92%, reflecting a greater vulnerability – than Poland with its big domestic market and 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 goods' trade surplus practically since accession, but this has been the case for Hungary and Slovakia only since 2009 (which was however the deepest point in value terms for both exports and imports across the region). While export orientation became an important tool to mitigate the effects of the crisis[12] 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 3). As however growth is back to the region, it seems to reinforce the dynamism of net exports in the smaller Visegrad countries while generates increasingly more imports than exports in Poland. This striking gap can mainly be explained by the fact that the three smaller Visegrad countries are hosting relatively more manufacturing plants run by foreign investors who realise the overwhelming part of their exports, than in the case of Poland. In parallel to these important changes, some geographical reorientation of exports has been taking place in the V4 since accession. While these countries are (by ca. 10-20 percentage points) more integrated into the EU markets than the EU average itself – testifying that the V4 is very far from being a periphery in economic terms – Table 2 shows a significant retreat from their traditional export markets towards news ones, as a result of protracted recovery of the euro area. This outward orientation

[11] Kotian–Münz (2014)

[12] Novák (2012)

actually goes hand-in-hand with the same trend at the EU level. In the case of the Visegrad countries, exports – especially in the period of 2009-2013 – picked up mainly in the direction of Russia, Ukraine, China and Turkey.[13] However, as the core of the EU is recovering and due to the Ukrainian crisis coupled with sanctions against Russia, the mentioned trend started to get reversed in 2014.

Table 2: Share of EU exports in total exports

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EU28	68.8	68	68.6	68.5	67.7	66.9	65.4	64.5	62.8	62.1	63.3
CZ	87.7	86.1	86.2	85.8	85.4	85.2	84.3	83.4	81.3	81.1	82.2
HU	84.4	82.3	80.7	80.4	79.8	80.2	78.4	77.4	77.4	77.8	79.8
PL	80.6	78.9	79.3	79.2	78.1	79.9	79.3	78.2	76.2	75	77.1
SK	87.2	87.6	87.3	87.2	85.8	86.3	84.7	85.1	84.1	82.9	84.4

Source: Eurostat

Connected with trade performances, the current account balances (Figure 4) have been improving in the post crisis years in the V4, but since 2013 Poland seems to take a downward trend again. When looking deeper into the composition of the balances of the current account, the following specificities (beyond trade in goods) can be stated. As regards trade in services, it has recently been positive in all Visegrad countries. As to income flows, due to substantial profit repatriations of foreign-owned companies, all V4 countries have deficits which cannot be counterbalanced by the relatively low level of net transfers (despite the net beneficiary status of the V4 in the EU budget). The latter is the highest in Poland due to significant remittances of Polish workers from abroad, while it is negative in Slovakia which has to contribute to the eurozone's rescue fund. Finally, an important remark on Hungary's good performance in this respect: from the V4 Hungary is by far the biggest outward investor in share of GDP,[14] meaning that returns on its investments make a significant positive contribution to the current account.

[13] Éltető (2014)

[14] According to Eurostat, this rate in 2012 amounted to: 29% for Hungary (up from 5.4% in 2004!), 11.4% for Poland, 8.6% for the Czech Republic and only 5.1% for Slovakia.

Figure 3: Trade balance in goods, % of GDP

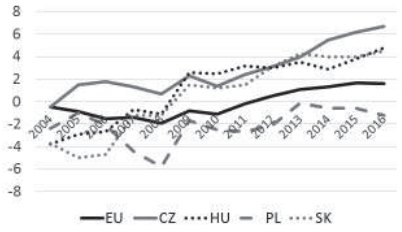
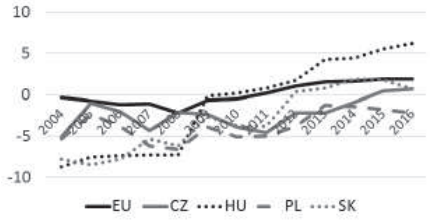


Figure 4: Balance of the current account, % of GDP



Source: Eurostat, European Commission (2015a)

Investments play a crucial role in macroeconomic developments. In the year of accession, the three smaller Visegrad countries started with rather close GDP-ratios of gross fixed capital formation (24-28%), while Poland was lagging behind them (18%). Then, as Figure 5 demonstrates it, Poland, Slovakia and the Czech Republic 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 5: Gross fixed capital formation, % of GDP

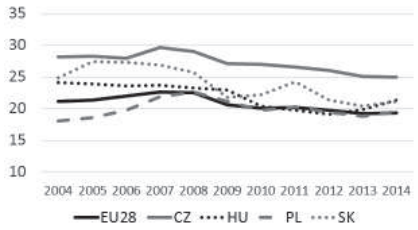
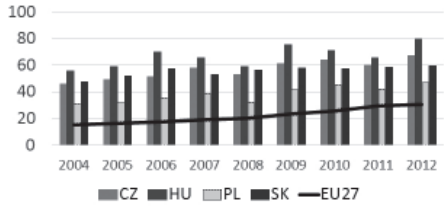


Figure 6: FDI stock in the reporting economy, % of GDP



Source: Eurostat

Figure 6 testifies that it was not due to a decline in foreign direct investments: looking at FDI stocks as percent of GDP – 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 seemed 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.[15] Thanks to the n+2 rule, the Visegrad countries still had time until the end of 2015 to use up the EU funds which has indeed been speeded up in all of them recently. By mid-2015, the contracting ratio was below 100% only in the Czech Republic (96%), but the payment ratio was still just 87% in Hungary, 78% in Poland, 69% in the Czech Republic and 65% in Slovakia.[16] In general, the Visegrad countries tended to spend most of the money from the EU funds on physical infrastructure[17] which was understandable given their backwardness in this respect. But thanks to the new rules, the current cycle is likely to be dominated by investments promoting small and medium sized enterprises and job creation. Medium-term forecasts of the Economist Intelligence Unit show that the Visegrad countries will be characterised in general by investment growth in line with or above their GDP growth rates in the coming years; although differences among their performances may be considerable.

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 – due to mismanagement of the economy – went into the opposite direction: in parallel with slowing growth and investments after accession, employment decreased and unemployment increased. The crisis broke the positive trends in the three members of the group but a few years later, recovery of labour market indicators started everywhere. According to European Commission forecasts, the visible improving trends will continue in 2016 too. Only Slovakia will still have a two-digit above-EU-average unemployment rate in the Visegrad region, while the employment rate will be rising until the same year.[18] Here some exchange of good practices might also be useful, including the high share of self-employed and of the elderly at work coupled with a low share of early retired in the best performer Czech Republic, or the job protection action plan (protecting among others the younger-than 25

[15] Information taken from Insideurope website: http://insideurope.eu/

[16] KPMG (2015)

[17] Ibid.

[18] European Commission (2015a)

and the older-than 55) as well as the public work programmes (designed partly to lead people back to the labour market) in Hungary.

Figure 7: Employment rate (20-64), %

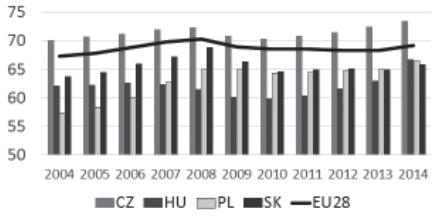
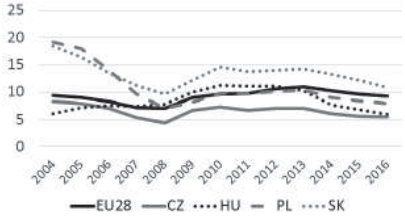


Figure 8: Unemployment rate, %



Source: Eurostat, European Commission (2015a)

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 9, 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 stagnation, has registered a spectacular catching up by over 12 percentage points between 2007 and 2013; thanks mainly to improved productivity in the manufacturing, energy services and construction sectors.[19] After some convergence upon accession, the overall Hungarian performance has recently been rather stagnating. In 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.[20] In harmony with the overall still weak productivity performance of the V4 against the EU average, according to Eurostat data, their real unit labour cost growth rates have recently been in general negative (with the exception of Slovakia) and are forecast[21] to remain negative until 2016. Even if – due to the mentioned still big wage level gaps – the price of labour should continue to catch up with Western European standards, it should go hand in hand with steady improvement of labour productivity, to avoid a loss of competitiveness.

[19] European Commission (2013a) 37.

[20] European Commission (2013b) 45.

[21] European Commission (2015a).

It is also relevant to evoke here the innovation performance of the V4. 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). According to this index,[22] 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. In the 2015 innovation report all Visegrad countries are classified as moderate innovators – including Poland which has just managed to move up from the lowest category of modest innovators. Figure 10 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 multiannual budget of 2014-2020).

Figure 9: Labour productivity per person employed

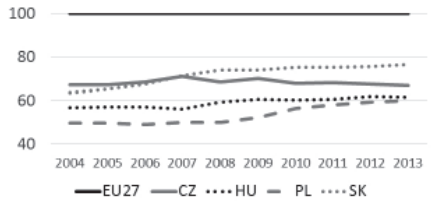
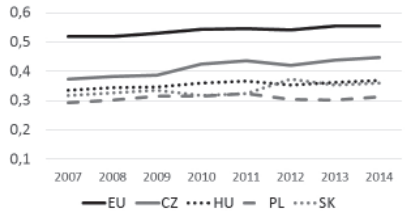


Figure 10: Innovation index



Source: Eurostat, European Commission (2015b)

4. Public finances and monetary developments

Sound public finances are not only an obligation under the Maastricht convergence criteria, but 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 11 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 – in parallel with a slowing GDP and lack of prudent fiscal policy – took a sharply diverging path and accumulated a huge (9.4% of GDP) budget deficit by 2006. Thus, from 2007 onwards, Hungary – under excessive

[22] European Commission (2015b).

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 in 2013, followed by the Czech Republic and Slovakia in 2014 and by Poland in 2015.[23]

Figure 11: General government balance, % of GDP

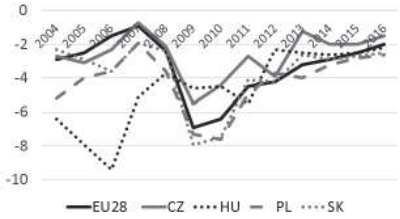
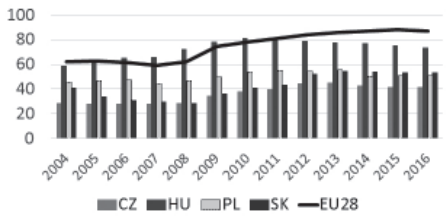


Figure 12: General government gross debt, % of GDP



Source: Eurostat, European Commission (2015a)

Figure 11 shows the improvement of budgetary positions of the V4 in the post-crisis period. When looking at the methods applied to increase revenues and rationalise expenditure, it can be stated that the four countries introduced on both sides many similar but also several country-specific steps. Table 3 summarises in a simplified way the most important anti-crisis measures taken in the past few years by the Visegrad countries – leading finally in all of them to a budget deficit below 3% of GDP by 2015.

Table 3: Main anti-crisis fiscal measures in the V4 (2011–2014)

Revenue side	CZ	HU	PL	SK	Expenditure side	CZ	HU	PL	SK
VAT and excise duty hike	*	*	*	*	Freeze/cuts in public sector wages	*	*	*	*
Combatting tax-evasion/improving tax collection	*	*	*	*	Freeze/cuts in social benefits	*	*		
Increase in social security contributions		*		*	Lower indexation of pensions	*			
Freeze of personal income tax thresholds, broadened base of PIT			*	*	Increasing of retirement age	*	*	*	*

[23] Overview of excessive deficit procedures (as of 10 August 2015): http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

Revenue side	CZ	HU	PL	SK	Expenditure side	CZ	HU	PL	SK
Rising corporate income tax				*	Cuts in government consumption	*	*	*	*
Full/partial elimination of the private pension pillar[24]	*	*	*	*	Cuts in government investment	*		*	*
Introduction of lottery tax	*				Reduction of certain subsidies	*	*	*	*
New energy-related fee	*			*	Reduction in payments to farmers			*	
Bank levy and/or financial transaction duty		*		*	Capital injection into a development bank		*		
Special sectoral taxes		*	*	*	Wage increase in some public services		*	*	*
Sale of frequencies		*		*	Debt assumption of local governments		*		
Sale of emergency oil stocks and carbon emission rights				*					
Privatisation			*						

Source: Stability/Convergence Programmes of the V4, 2011-2014[25]

The different conventional and non-conventional measures applied to consolidate the public budgets also led to some increase of the state's role in redistribution in the region, which however should decline again until 2018, according to each stability/convergence programme of the V4, as published in April 2015.

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 12 demonstrates it, after accession, the Hungarian rate – due to the mentioned mismanagement of fiscal 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 successfully cut

[24] All four Visegrad countries revised their mandatory private pension system. Poland and Slovakia decided to eliminate it partially, while Hungary opted for its full abolishment, and the Czech Republic will do the same by January 2016 (it was a voluntary system, with an obligation to stay in it after entry).

[25] Those documents can be retrieved here: http://ec.europa.eu/economy_finance/economic_governance/sgp/convergence/index_en.htm

back its debt ratio after 2011.[26] 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 joining the Fiscal Compact – the Czech Republic is preparing for a similar step (by putting the constitutional limit at 55%).

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 13 on inflation and in Figure 14 on long-term interest rates – recently very promising converging trends can be detected. As regards the harmonised indices of consumer prices, they reached historically low levels: somewhere around zero in both 2014 and 2015, while medium term forecasts by the Economist Intelligence Unit calculate with an inflation rate of between ca. 2-3% across the Visegrad region until 2019 – 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 14, thanks to the monetary policy in both Hungary and Poland, the 10 year bond yields started a gradual convergence to each other as well as to the EU average. These processes have to be welcomed 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 in the first half of the next decade, provided that the favourable nominal convergence trends will continue and the zloty, the koruna and the forint would all join the ERM-2 system in the foreseeable future. In parallel, real convergence should continue too, and a further key prerequisite is of course that there will be no political obstacles to entering the eurozone in any of these countries.

[26] With a view to diminishing the vulnerability of this process, the Hungarian public debt management authority has been systematically cutting back debt denominated in foreign currencies (36% in 2015, down from 40% in 2013), while broadening the base of forint-denominated bonds and securities.

Figure 13: HICP inflation rate, %

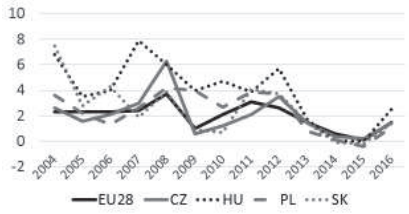
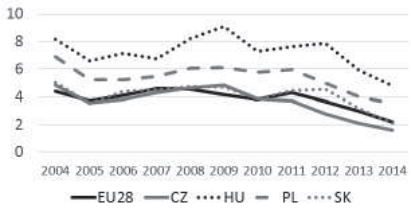


Figure 14: Long-term interest rates, %*



Source: Eurostat, European Commission (2015a),
**EMU criterion series for ten year government bond yields*

5. Summary and conclusions

This study 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, as well as to make some medium-term projections with the help of forecasts. In the analysed developments a clear sequencing of three stages could be identified: the post-accession and pre-crisis years (2004-2008) of diverging but mostly improving macroeconomic trends especially by Poland, the Czech Republic and Slovakia, the crisis years (2009-2013) of recession, stagnation or low growth and gradual recovery/consolidation, and finally the post-crisis years (2014 and beyond) marked by harmonious converging trends to each other, as well as to several EU averages/benchmarks.

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 a declining path 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 were in harmony in the V4 in 2014, i.e. between 2-3.6%. According to forecasts, the region may enjoy an economic expansion of the same pace until 2019 which would mean the most homogenous development since the year of EU entry. It will however allow for only a modest continuation of catching up by the region to the EU and euro area averages, as growth rates for both will be close to 2% throughout the forecast period. As it was evidenced, the Visegrad region is actually 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, 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, steadily 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. At the same time, investments are boosted now by EU funds, as big parts of the money earmarked for the Visegrad countries between 2007-2013 have to be spent until the end of 2015, which add up to the new resources available for 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 of goods are growing dynamically (although still inferior to imports in Poland). Thus the current account balances took very positive trends with surpluses in Hungary and Slovakia, as well as in the Czech Republic since 2015. Poland is the only Visegrad country where this indicator remains negative and is again deteriorating, signalling some challenges of competitiveness in this respect.

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 state 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 was recently reversed: 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, the Czech Republic and Slovakia followed it in 2014 and Poland only in 2015. The

promising consolidation processes in all four countries seem to keep budget deficits under 3% also in the medium run. In parallel, public debts are gradually declining in high-rate Hungary while – despite increases until 2013 – could be 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 in the first half of the next decade. In any case, given the significance of political and economic 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 in the past few years this specificity has been fading away, and recently there seems to be more converging trends among the V4, as well as by the region to EU averages/benchmarks than ever before. Furthermore, according to forecasts, those favourable trends may continue in the medium-term which provides a positive answer to the question asked in the title.

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