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Tibor Palánkai, Márton Baranyi, Gábor Miklós :

The Introduction of the Euro and Central Europe
(State of monetary integration, maturity, strategies, policies and interests)

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I. FRAMEWORK OF MONETARY INTEGRATION OF CEE NEW MEMBERS

1. East-Central European new members and the Euro

The full EU membership of CEE candidate countries assumes their full EMU participation. This corresponds to the Copenhagen accession criteria, namely they should have the "ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union", and they have no possibility of opting out, like United Kingdom and Denmark.

As it is stated in the accession treaties, *all countries will take over and implement* the acquis under the chapter of *economic and monetary union as from the date of their entry*, while some derogations are applied. That was strongly connected with their membership in the Single Market.

The immediate participation in the single market assumed by the Accession Treaties. was possible, because of an *pre-accession transition period*, which basically fell between 1995 and 2004, the date of entry. On the basis of the Commission's recommendation, at the June 1995 Cannes summit the Council approved a 'White Paper' in which proposals were formulated for the applicant CEE countries with regard to their gradual adaptation to the 1992 program of the single internal market and their integration into it (law harmonization, application of standards, etc.). As by 2004, most of the recommendations of the "White Paper" were implemented by the candidates, the immediate acceptance of acqui communautaire concerning the single market had no obstacles.

For the old member countries the SEM's completion and the first "stage" of EMU overlapped.

So the de facto full membership in the single market of the new members meant that they informally join the second stage of the EMU. Parallel, they are assumed to comply with requirements of stability oriented economic policies, and start to implement their "convergence program", namely by that they enter into the second "stage" of the EMU, in fact, again right from the beginning of their EU membership. The member countries will have to treat their monetary policy as a matter of common concern. The CEE finance ministers take part in the Ecofin again upon entry the Union. So when often journalistically, one speaks about a later "EMU entry", it is nothing else than the joining the euro-zone, namely the third stage. That is what needs formal and official decision and endorsement. It should be noted that contrary to old members, the CEE new entrants, from the first moment of their membership in the Union, will 'co-exist' with the single currency.

The joining the acqui communautaire „upon entry" meant that contrary to previous enlargement for the CEE new members there was no general transition period set, except in some special fields, while most of the derogations were technical. The four major fields of derogations were:

Free movement of labour (7 years);
Selling of arable land (9 years);
Direct payments under CAP postponed till 2013;
Joining the Euro-Zone – no deadline.

While committing to the monetary integration, the both the old and the new member countries were divided from the beginning how *rapidly and how early should the new entrants join the euro-zone.* In fact, this was the issue, which was the subject of very broad and intensive dispute.

Many believed, and particularly, the old members for several reasons, that the transition period between joining the EU and entering euro-zone might last for many years,

probably more than a decade. That was particularly the view of many Western experts, shared by Community officials.

Those, who argued for caution, and a later acquisition of the euro, expressed their fear about the danger of deflationary effects of meeting the monetary and fiscal criteria, a loss of growth, postponement of convergence and the restructuring, and the constrains for "one size fits all" common monetary policy. Both, the Commission and the European Central Bank "have urged the candidates not to rush into the euro, but to concentrate on structural reforms. (The Economist, April 5 2003.) Both bodies "have given warning that hasty euro entry could endanger the applicants' growth prospects by depriving them of the monetary flexibility needed to cope with the pressures of the single market." (The Economist, December 7 2002.)

As Csaba László, the Hungarian Finance Minister stated, Hungary should join the euro-zone "not by forcing, but by naturally growing into it". (*Népszabadság*, July 24, 2002.)

In an interview about why new member should be cautioned about the quick introduction of the euro, Otmar Issing, the member of the executive Board of ECB stated: "It is simply a good advise that the affected countries should thoroughly consider the timing of introduction of the euro, and should thoroughly prepare the economy for the obligations of monetary union. All questions, for example, the further structural reform ahead of countries, the necessary price corrections, the investments in infrastructure, should be carefully examined, before the countries announce that they are ready for complying with the rules about inflation, deficit or state debt. The early giving up the means of autonomous interest and exchange rate policies could be a big mistake." (Népszabadság, March 1 2003.) Christa Randzio-Plath, Chair of the Committee of Economic and Monetary affairs of the European Parliament told: "The accession countries would be well advised not to push too hard for early EMU membership before their economies have 'digested' the competitive shock of participation in the single market." (The citizens' Euro, Information Program for the European Citizens. 2001.)

The official commitments about an early and rapid euro-zone entry on the side of some of new members have been broadly expressed. These early official assumptions about euro-zone entries range from 2006 and 2010. According to the official decision of the government and the Central Bank, in Hungary in 2002 the euro will be introduced in 2008. In fact, the market analysts set this date to 2008 for six new CEE members, as the most probable possibility, and Czech republic and Slovakia might follow some years later. (Világgazdaság, November 11 2002.) In general, the central banks and the financial circles were those, who forced the early entry, while the governments, probably because of the constraint of the cutting budget expenditures, were less enthusiastic.

According to public opinion polls, in 2001, 69% of Hungarians and 61% of the Czechs supported the transition to the euro, and from them 19% and 17% were in favour of early introduction, and 5% and 7% are only those, who rejected the notion of loosing their national currency. Poles were more sceptical, only 35% was in favour, from them 13% supported the early entry, and 16% was against. (GfK Hungaria Piackutató Intézet, Népszava, December 29 2001.)

2. Assumed conditions and process of joining of the euro-zone

The CEE new members, concerning the EMU have to meet and comply with the same conditions and accession criteria as the present members, but probably with different timing and sequencing. As far as the *four major stages* or period were concerned, it was clear that the new members should go also through all of these stages, but with different circumstances and content, and with several overlapping.

1. Concerning the “first stage” of EMU, the question marks which arose, were about the derogations concerning the 7-year transition period with regard to free movement of labour (with the similar 9 years delay in acquisition of arable land in the CEE candidate countries by foreigners). Of course, one can argue that really it is the free movement of capital that counts mostly from the point of view of the smooth functioning of EMU, and that was fulfilled. Although labour mobility is considered important by the theories of the optimum currency area in terms of avoiding aggravation of regional differences, from the point of view of the CEE countries’ joining the euro-zone these were not exclusive limitations. In reality, only Austria and Germany insisted on limiting free movement of labour, while the most of the others with some delays and exceptions opened their labour markets. From this point of view the question of arable land was a marginal issue.

2. The *meeting of the convergence criteria* (second stage) was important as a way of stabilizing the economies of the candidate countries. There were discussions about, how far Maastricht criteria and the Stability and Growth Pact can be applied to the new CEE members, should they be applied more strictly because they might mean a stability risk, or taking into account their specific problems (need for real convergence), even different and more flexible parameters and conditions should be considered? Some felt that the CEE candidate countries, being far below the level of development of the present EU members, should probably face stricter conditions, because their meeting of “the Maastricht criteria in themselves would not secure the stability of the European currency.” (A study by the German HypoVereinsbank published by Eubusiness. *Világgazdaság*, May 3, 2001.)

2.1. When preparing for euro and complying with *inflationary performance,* should they stick to Maastricht criterion (1.5% divergence from inflation average of the three best performing countries, or from 2% ECB ceiling), or due to price convergence more flexible approach could be allowed? Should be the inflationary target absolute priority or should it be subordinated to the general economic conditions and convergence conditions of the country? In Hungary, from June 15, 2001, as an important step, ‘currency (exchange-rate) stability’ as a primary *monetary policy objective* was replaced by *inflation targeting*, as in Poland and the Czech Republic, with the only difference that these countries floated their currencies. The National Bank and the Central Statistical Office of Hungary agreed on a uniform calculation of core inflation, which will be also used in deciding on the necessary monetary policy measures. “The objective of price stability in the future CEE member countries means the achievement of ‘optimal” inflation, which is determined by the structural characteristics and equilibrium track of converging economy. The interest of the new EU members is not the “crash” of the inflation, but realization such a des-inflation track, which takes into account the aspects of monetary stability and the competitiveness, namely the development with out break downs.” (Neményi, 2003: 498.) Compared to around 1-2% in old members, the productivity growth of new members reached 4-5%, which meant that their competitiveness would not have been endangered even with some higher inflation rates. As noted by Csaba László, Hungarian finance minister, “It is more useful to reach Maastrich criteria through structural reforms, than simply use the monetary policy for reducing inflation.” (Népszabadság, May 24 2003).

2.2. It was clear, that the *budgetary constraints of ‘enlargement’* are one of the most serious problems, for both sides. Although the euro-zone member countries have managed to bring down their budget deficits the 2001 recession have led to some deterioration. The budgetary implications for CEE candidates of adjustment and preparation for membership were enormous, particularly in terms of need on development of their infrastructure, the environment and structural modernization. According to calculations, in order to meet the membership obligations concerning the chapter on the environment, Hungary needs investments of several hundred billion euros in environment improvement. The transfers envisaged by Agenda 2000 were relatively modest in the light of these needs, and the national budgets of the candidates could cope only partly with these problems. Owing to postponed structural reforms and the 2001 recession, the budgets of many countries deteriorated (the

Czech Republic, Hungary, Poland, Slovakia and Romania) and deficits increased well above the magic figure of 3%. Of course, the financing of adjustments should be done mostly on a commercial basis, but this depends on several economic and political factors. The budgetary implications were probably the most complicated dilemmas of economic policy on both sides.

Under these circumstances, question arose, was it realistic to assume that new CEE members should meet not only the 3% budget deficit ceiling, and according to *the Stability Pact* they should aim at balanced budget? On the one hand, there was a broad agreement that the objective of a balanced budget for the new members is irrelevant. Consequently, the "golden rule" should be considered particularly concerning these countries, and on capital investments even lasting deficits could be accepted. "Rather, the logic of the "golden rule" should apply: distinguishing between current and capital spending. Since public investment increases the growth capacity of the economy, part of the cost can be safely spread over a longer period via deficit financing, without adversely affecting the sustainability of public finances." (Financial Times, July 31 2002) It was felt, however, that the flexible application of the Pact rules was satisfactory enough, and no special treatment was needed for the new members. It was clear while the balanced or positive budget should be rejected for the new CEE members, the satisfactory compromises can be found by flexible application of the rules. As all new members were bellow the 60% debt ceiling, in case, it could give them enough manoeuvring room for allowing transitory surpassing the budget ceiling under the strict conditions that deficits are related to restructuring, and on longer run by recovering they do not increase the indebtedness of the country.

2.3. EMU assumes the joining of ERM, in which the stability of central rate for 2 years is one of the conditions. There were broad discussions about *the participation in ERM2*. Should the new member countries immediately join the ERM2 as they aim for rapid euro-zone membership, or could they choose the policy of free floating, which could better save them from speculative attacks against their currencies? In case, in reality, the necessary exchange rate stability required for euro-zone membership could be achieved this way as well, it is an other question, that even if it is proved, would it be excepted by the Union? It was a further question whether the +/-15% band was applicable, or new CEE members should be required to spend the two years in a +/-2.25% band for demonstrating the stability and convergence. Some suggested that CEE countries should spend more than two years in ERM-2 prior to EMU entry, and keep their exchange rate within a 2.25% band (unlike, for example, Greece, which enjoyed the 15% band). In favour of rapid joining, the averting of danger of speculative attacks was particularly stressed. "The accession countries worry that until they join the euro-zone their borrowing costs will be higher, their currencies more vulnerable to attack, and their political heft diminished within the EU." The Economist, May 24 2003). There was an agreement that for the new members, two years participation in ERM2 is a condition of their euro-zone membership, and with a narrow margin.

After launching the Euro, only Greece and Denmark remained in the ERM2, but in 2001, Greece stepped further into the euro-zone. Denmark accepted the narrow margin of +-2,25%, but in the reality, the Danish mark was kept in a 1% margin. Sweden and the UK are out of ERM2.

Concerning *participation in ERM-2* the new members took differing views. As a first step toward gradual approaching to the euro-zone, the CEE candidates pegged their currencies to the euro from early 2000s (Hungarian forint rate was pegged fully to euro on January 1 of 2000). Full pegging to the euro meant that Hungarian monetary policy "will be more strongly related to the monetary processes of the euro-zone and the monetary policy of the European Central Bank. As a result of closer relations, the monetary and real-economy shocks of the euro-zone will be more strongly transferred to the forint than in the previous years." (*Világgazdaság*, *October* 19, 1999.) By that, the monetary policy of the Central Bank became more transparent, inasmuch as the effects of changes in cross rates were eliminated. The exchange-rate risks were reduced substantially.

From the new members, Slovenia, Lithuania and Estonia joined the ERM2 in 2004, while Latvia, Cyprus, Malta and Slovakia in 2005.

Hungary, till February of 2008, used an ERM imitating system, with a broadened +-15% margin, and with unilateral intervention by the Hungarian National Bank. After 2008, Hungary turned to a free floating exchange rate system, similar to Czech Republic, Poland and Romania. Bulgaria fixed it currency in the framework of currency board.

In terms of *joining of euro-zone, and replacement of their national currencies with the euro* (the third stage of EMU) the CEE members took different way. The member countries gave themselves 3 years for the accomplishment of this task. It was clear that CEE candidates do not have to stick to the same schedule and pace, although, they may have to face some difficulties. It turned out, that the preparation of the micro- (especially the commercial banks) and the macro-spheres may be done continuously and it was possible that the technical transition (replacement of the currencies) can be completed quickly. It proved that the introduction of the euro can happen in one stage (immediately in cash form, unlikely to the present member countries).

From the 12 new members, Slovenia joined the euro-zone in 2007, Cyprus and Malta in 2008, Slovakia 2009, Estonia in 2011. Latvia in 2014, and Lithuania in 2015. The others can follow them in the coming years, but with uncertain schedules.

II. MONETARY INTEGRATION MATURITY OF CENTRAL EUROPE

1. *Theoretical frameworks*

Every integration organization set certain membership conditions or criteria for those who wish to join it. It raises the question of *integration maturity* of a given country or group of countries.[1] It relates to several factors; level of integration and the type of the countries, which want to join the given integration

In EC, in relation to the earlier stages of market integration (free trade agreements, customs union, common market – Bela Blassa), the question of maturity for integration could at the outset be left out of consideration for many reasons. There was no need to examine integration-maturity, because especially in the initial period the countries joining were basically similar in their economic development level and structure. On the basis of these the participating countries qualified as mature for integration.

In subsequent enlargements, political considerations were given priority to such an extent that the meeting of economic membership criteria was not taken into consideration. In the given world political situation the accession of the three Mediterranean countries in the 1980s was basically a political question.

From the 1990s, examination of questions of integration maturity became timely in relation to *monetary integration and full membership for the Central and East European countries.* Considering the huge differences in development and the number of CEE candidates, it was clear, that enlargement will have far-reaching consequences for the development of the whole Union. The question has also arisen more and more unavoidably in connection with the increasingly close forms of integration, and the program of economic and monetary union (‘positive integration’) has shown that at this level, integration maturity cannot be left out of consideration.

Although, market liberalization (‘negative integration’) is not without consequences, but they are mostly unilateral and asymmetric (the less developed, weaker partner could lose more) and the retroactive effects are not manifested in a direct manner. The situation changed with

[1] The question of integration maturity was analyzed by a research group of Department of World Economy at Corvinus University of Budapest and in a program financed by the Hungarian National Research and Development Plan between 2002-2004. (Palankai: 2004 and 2005.)

economic union. The reciprocal effects are heightened and become direct. The less developed partner's economic difficulties (budget deficit or regional inequalities) have repercussions on the economy of the more developed, and can destabilize it (e.g. by triggering inflation) in more direct way. The decision to join in an economic union has fundamental affects on the institutional and political structure of the country in question. In this connection *maturity or preparedness for integration* is an issue that has to be examined and is a common interest.

Taking into account the complexity of preparation and of the preparedness of countries participating in regional integration arrangements, however, we feel that a distinction should be made among: *accession; membership or integration maturity.*

Membership maturity in a broad sense refer to the conditions and requirements set (usually formally and officially) for participation in an integration arrangement. In case of the EU, it means *a complete acceptance, adoption and compliance with "acquis communautaire"*. The *accession criteria* are narrower, and refer to some concrete integration organization, and they *formulate narrowly only the conditions for becoming a member*. *Membership criteria, on a large extent, should be fulfilled from inside, and may be sanctioned* (Stability Pact or compliance 7. paragraph on democratic principles set out in Lisbon treaty). Thus *accession criteria* mean conditions that have to be fulfilled at the time of joining, naturally depending on what stage integration has reached in the given organization.

Greece and Portugal joined an EC still modeled on the common market, but new members now join a single market on entering, and want to (in fact, have to) match up to the requirements of economic and monetary union. The *more specific accession criteria are officially defined*, and their fulfillment, formally and in reality, is *a condition of membership*

In the early 1990s, the EU set *two type of accession criteria*, which assumed a certain level of integration maturity in the given context. In 1991, the *Maastricht criteria* formulated the basic stability conditions for joining EMU. In 1993, the *Copenhagen criteria* set the requirements for EU membership for CEE candidates. The Copenhagen Criteria were in practice attempting to formulate *a certain desirable minimum transformation* for these countries, while it already referred to the requirement of participation in the single market.

Integration maturity is defined as the capacity or ability to maximally exploit the advantages offered by given integration forms, and at the same time to minimize the costs and disadvantages. Integration maturity can be measured by the balance of the costs and benefits of integration. A country is mature for integration if it is able to turn its membership into a positive-sum game, that is, integration is advantageous for it. Integration maturity can be analyzed for the different basic forms of integration from the free trade area to economic union. Assessment of integration maturity concentrates not only on the conditions and requirements of participation in integration, but also on its outcome and the consequences of that integration.

Both, membership (accession) criteria and integration maturity can be analyzed in *four main dimensions: e*conomic, political, social and institutional one.

This applies, particularly to the Copenhagen, but we can structure the analysis of integration maturity also along these lines. The Maastricht criteria are all basically of an economic character. As they focus on stabilization (monetary and fiscal) and convergence. The accession, membership criteria and integration maturity cannot be separated; in fact, they overlap.

In our analysis we concentrate on economic aspects of integration maturity. Of course, political, social and institutional aspects can not be neglected. In case of monetary integration, such institutional questions as independence of central bank or public acceptance of yielding national sovereignty, are equally important. In relation to the different basic forms of integration the following *basic economic criteria of integration maturity* could be formulated:

- Market economy ("functioning");
    - Competitiveness (structural and development aspects);
    - Macro-stability and stabilization;

- Convergence (real or financial convergence);
- Financing or financeability.

Social and regional integration and cohesion aspects are equally important, but they are rather about the consequences of integration than pre-conditions..

Thus, beyond the simple fulfilment of Maastricht convergence criteria, the candidates should meet the several structural and institutional requirements of integration maturity. In some sense, the main criteria of economic maturity are many respects, closely related to the requirements of the 'optimum currency area'. We have to emphasize that *fulfilment of these maturity criteria is not only a precondition of integration but also the only way in which the advantages of integration outweigh its costs*. This is the only way in which integration serves their interests, and it is an expression of integration maturity.

2. Market economy criteria of integration

A *normally functioning* market economy is a starting condition in relation to every form of integration. The whole theoretical and analytical system of integration economics is based on this assumption. Only with the proper functioning of market mechanisms can the advantages of internal free trade be exploited.

We know there is no such thing as a "perfectly" functioning market. It is no accident that the customs union and common market were accompanied from the outset by stringent supervision and regulation of competition, and internally *competition policy had to be raised also to community level*, this being associated later with wide-ranging law harmonization to ensure freedom and equality in trade. Thus to achieve a "functioning market economy" many measures were applied. The 1992 program of the *single European market* seeks systematically to *eliminate all the real obstacles in the way of the "four freedoms"*, and ultimately *extends and in practice creates the conditions for a really "functioning market economy"*. For EU membership, the CE countries achieved the status of "functioning market" by the end of 1990s (Hungary in 1999).

The requirement of a functioning market economy (based on OCA theory as flexible factor markets and prices for factors of production) was not formulated in the EMU as an accession or membership criterion. They were analyzed in informal theoretical discussions. We also refrain from that. We have to stress, however, that the establishment of a single market is a starting condition of EMU, namely in this case a "functioning market economy" as a criterion should be understood in a much wider sense. "In the economic sense a country's EU maturity can ultimately be conceived as its ability to fit smoothly into the single market." (M. Rácz, 2000: 812.)

The movement of capital has been liberalized by the candidates upon their entry to the EU. The development of capital and financial markets, however, is still behind the developed EU members. The *weakness of transmission*, which is an expression of structural problems of capital markets, is one of the major question marks about the *"maturity" for monetary integration*. As concerning the mobility of the labour force, while the *regional mobility* of the Hungarian labour force even inside the country has proved to be modest, the situation was different on a sector basis (*inter-sector mobility*). There has been a substantial shift from industry and agriculture to services in the last ten years.

Concerning the *flexibility of 'factor prices'*, the years of transition proved that wages were much more flexible in the CEE countries that wished to join than had been assumed. What was more, they were more flexible than in the majority of the EU countries. The great decreases in real wages in the CEE region, accompanied by intra-sector mobility, took place without any serious social turbulences. Real wages dropped in Hungary by nearly 14% between 1993 and 1996, and showed positive growth only in 1994 (election year). As is

proved by the demonstrations against the closing down of certain factories in Belgium, France and Germany, the social and political limits of wage-flexibility were stricter in the EU countries than in CEE. The labour market regulations of CEE countries introduced after 1990 were generally more liberal than those existing in the EU members, and the recent labour laws secure rather satisfactory market flexibility. At the same time, the post-2007 crisis proved that, the CE societies are growingly "transformation fatigue", and the acceptance of austerity measures have decreased. In general, by inclusion into the single market, the CEE new members were no less prepared to monetary integration than the old ones, particularly as far as some of them were concerned (Southern members).

3. **Competitiveness (development and structural requirements)**

The *competitiveness is one of the most important integration maturity criteria*. *Developmental and structural requirements* were from the outset the focus of attention even in connection with *the free trade areas.* These loose and simple forms of market integration already mattered, particularly in relation to attempts at integration by developing countries. Regarding the "more highly developed basic forms" this was even more the case.

The differences in level of development lead us to question of *competitiveness*, which is a market dimension of the issue. The structural and developmental problems basically arise on the market, and they are nothing else then different positions of the actors in the process of competition.

We felt, that *it is necessary to analyse competitiveness in a comprehensive way, and basically from the point of view of integration maturity.* We shall focus on macroeconomic competitiveness, but we choose the most important parameters in a complex approach. On the basis of these we can draw conclusions not only about a given country's competitiveness but also about the development of its position in the global economy.

It was clear from the beginning that the countries of Central and Eastern Europe can hope for *long-term modernisation of their economies only through their integration with developed countries.* From the point of view of structural modernization the EU, as a highly developed economic region, was considered as a *natural 'centre of gravity' or 'modernization anchor'* for the CEE countries, which believed integration will enable them to break out of their centuries-old peripheral situation. *Europe* – especially the EU – *possessed the technologies necessary for modernization of the economies of Central and Eastern Europe.* This applies equally to European companies, which are integral parts of the global economy, and to the transnational companies from outside Europe, that operate in the EU countries.

In their EU association, most of *the candidate countries faced competitive disadvantage*, based on the free trade models of the European Agreements. In this case, moderately developed (CEE) countries entered into market integration with the industrially developed (EU) countries. There was no doubt that this partnership had many advantages for the CEE countries' economies, contributing to strong growth in exports, which provided a proper basis for "export-led" growth, improved levels of employment and efficiency, and assisted structural modernization.

After the association agreements came into force, however, a sizeable deficit developed in the balance of trade between the EU and these countries, which indicated that the balance of advantages was tipped in favour of the EU. It is another question whether these advantages have been less significant in relation to the EU's economy and foreign trade (it represented 13% of their foreign trade) than the more modest benefits from the point of view of the CEE countries' economy (2/3 of their trade is with EU countries). Most of CEE countries succeeded in reversing the deterioration of its balance of trade from the end of 1900s as a result of very substantial foreign capital investments.

As main source of the improvement of competitiveness of CEE economies, *the level of productivity and its relative development* (comparative advantages) were important, as were *the relatively good quality and low cost of their human capital.*

Besides structural changes, the catching up in terms of competitiveness was also *marked by the development of productivity.*

That is well demonstrated by the productivity growth between 1998 and 2008, in terms of per capita outputs and also per working hours. Due to a rapid growth, in ten years, in term of per capita outputs, the *Central European countries caught up from the previous 40-50% to 60-70% of the EU27 average*.

Labour productivity in the EU between 1998 -2009

Country	Per capita output 1998 EU 27 – 100	Per capita output 2004 EU 27 – 100	Per capita output 2008 EU 27 – 100	Output per working hours 2007 EU 15 -100
Core countries				
Belgium	134	132	125	-
Austria	111	112	115	102
Netherlands	111	112	115	121
Luxemburg	165	170	161	166
Germany	112	108	107	112
France	126	121	121	117
Italy	130	112	108	89
Ireland	125	135	134	111
U. K.	109	114	111	-
Scandinavian EU				
Denmark	109	109	101	96
Finland	114	112	110	97
Sweden	112	113	112	103
Southern EU				
Greece	91	101	102	-
Spain	108	102	105	94
Portugal	68	67	71	55
Cyprus	82	83	86	67
Malta	-	90	88	-
Baltics				
Latvia	37	46	51	-
Lithuania	41	53	61	47
Estonia	41	57	64	48
East-Central Europe				
Hungary	63	72	74	55
Czech Rep.	60	68	72	55
Poland	51	62	63	44
Slovakia	56	66	79	63
Slovenia	75	82	84	-
East-Balkans				
Romania	-	34	48	31
Bulgaria	27	34	36	31
EU27	100	100	100	89

Source: Europe in Figures, Eurostat Yearbook 2009. Eurostat.

The closing up of Slovakia was particularly spectacular: from its initial 56%, it caught up to the 79% of the EU average. In light of the Slovenian 84%, it marks a convergence even among the Central European countries. By 2008, Hungary with its 74% and the Czech

Republic with its 72% overtook Portugal (71%), while the Portugal per capita GDP is still above of Central Europe. It is interesting to note the differences between Czech and Hungarian levels of per capita GDP with regard to trade and productivity. While there is a one-third Czech lead in the per capita data, the level of Hungarian productivity is higher than the Czech one. The picture is somewhat tainted by the productivity data, which are expressed in output per working hours. They indicate the differences in activity rates and in the number of working hours.

It can be added, that *labour is under-priced*, and it is a substantial source of comparative advantage. Although, the quality of labour is good, the countries of CEE are still far away of the knowledge-based society. In most of the CEE countries, the R&D expenditures were the main losers of transformation crisis.

4. Macro-economic stability and stabilization meeting convergence criteria

The *economic stability is an important factor in integration maturity.* It is important from the point of view of the normal functioning of the market, and consequently from the point of view of the ability to exploit the advantages of any market integration. For CEE candidates only vague stability requirements were set (Madrid), which cannot be considered as explicit accession criteria. It is somewhat different with Maastricht convergence criteria, which have strong stability references (inflation, budget, debt, exchange rates).

Macro-economic stability and integration are mutually dependent, therefore while it is one of the preconditions of successful integration, at the same time it is also an indicator of the success of that integration. There has been lengthy, chicken-and-egg discussion about the performance of the economies of the EC countries, particularly in the 1960s, when no one could decide which was more important: rapid economic growth promoting smooth and rapid trade integration, or dynamic intra-trade, which was then supposedly one of the main factors in that rapid economic growth.

Achievement of "sustainable growth" (which should not be confused with "sustainable development", which means economic prosperity compatible with maintaining or even improving the state of the environment) is particularly relevant for Hungary, which from the beginning of the 1970s was coping with a "stop-go cycle", resulting in more than 20 years of stagnation. Economic growth was incompatible with the equilibrium of the economy, and higher growth rates (for example, in 1987 and 1993) led to large budget and balance of payments deficits, and consequently to a substantial increase in indebtedness. The restrictions imposed for the sake of equilibrium resulted in slow growth, and the Hungarian economy was able to get out of this vicious circle only after 1996, in fact, as a result of drastic stabilization measures (the Bokros package), and successful restructuring of the economy. After 1997, the Hungarian economy took a sustainable growth path, and relatively rapid growth (about 4%) proved to be maintainable without any serious deterioration of the external and internal balances till the middle of the first decade of 2000s.

After overcoming the transformation crisis (Kornai) in 1990-1994, by the time of entering the EU, the Eastern candidate countries achieved a remarkable level of consolidation in their economies and they made great progress in meeting the Maastricht convergence criteria (see below).

State of fulfilment of convergence criteria by the 8 new members in 2002

	Country	Inflation in %	Budget deficit (GDP %)	Public debt in GDP %	Interests (nominal)
	Czech Rep.	**1.8**	4.1	**23.3**	**4.2**
	Estonia	3.6	**0.4**	**5.1**	**4.3**
	Hungary	5.3	10.2	**57.0**	**7.0**
	Latvia	**1.9**	**1.8**	**13.9**	9.3
	Lithuania	**0.3**	**1.8**	**28.4**	**6.6**
	Poland	**2.2**	5.4	**46.7**	**6.5**
	Slovakia	3.4	**1.0**	**34.6**	7.4
	Slovenia	7.7	**2.8**	**31.0**	10.0
	AC-10*	**2.7**	5.3	**32.0**-	-
	EU-15	**2.5**	**1.9**	-	-
	Reference value	**3.0**	**3.0**	**60.0**	**7.1**

AC – Accession Countries
Eurostat.

The candidates had no problem with public debt, and with the exception of Hungary, they were far below the 60% reference value. The average debt level of the new CEE members was around 32% of their GDP, which was much lower than it was the case with most of the first euro-zone members before their joining. In terms of inflation, only Hungary and Slovenia were behind (with Slovakia and Estonia only slightly). Concerning budget deficits, Hungary, the Czech Republic and Poland had to make serious efforts to comply. (In 2002, Hungary had an extremely high budget deficit, exceeding 10%, but by 2003 it was brought down to 4.8%.)

After gaining full membership, most of the *Eastern countries got relatively close to meeting the Maastricht criteria, and the fulfilment of these in a relatively short time largely depended on the countries' political will and determination.* Most of the analyses agree that the *introduction of the euro corresponded with their national interests*, as the advantages exceeded the assumed costs. (MNB, 2001). The adoption of the euro could also mean savings in transaction costs.

However, *the financial crisis interfered with this process*. Slovenia, Slovakia, Malta and Cyprus managed to join before the outbreak of the crisis. The Baltic countries have stuck to their determination in spite of the crisis. Czech Republic, Hungary and Poland took the question out of agenda, while the prospects of later comers (Bulgaria, Romani and Croatia) remained uncertain.

As *inflation* was concerned, the CE countries, in 2008 had a relatively high inflation (6-7%), which due to general deflation of the Union by 2013 was reduced well bellow of the reference values. Although, the Baltic countries had relatively high inflation in 2008 (10-15%) due overheating of their economies, by 2013, they also met the Maastricht requirement.

CEE performance was remarkably good in terms of *public debt* as their level remained in case of Baltics, Bulgaria and Romania bellow 40%, and only Hungary (77%) Croatia (76%) and Slovenia (70%) exceeded the Maastricht reference value. At the same time, the Euro-zone average crept up from 70% in 2004 to over 90% in 2013. It should be noted that as result of the financial crisis the debt level of all countries increased, (Czech Republic from 28% to 48%), but it was still safely bellow 60%.

State of fulfilment of convergence criteria by the 9 new members (2004 – 2013)

Country	Year	Inflation in %	Budget deficit (GDP %)	Public debt in GDP %	Interests (nominal)
Czech Rep.	2004	2,6	-2,7	28,5	4,82
	2008	6,3	-2,1	28,7	4,63
	2013	1,4	-1,3	45,7	2,11
Hungary	2004	6,8	-6,4	58,8	8,19
	2008	6,0	-3,7	71,9	8,24
	2013	1,7	-2,4	77,3	5,92
Poland	2004	3,6	-6,2	47,1	6,90
	2008	4,2	-1,9	45,0	6,07
	2013	0,8	-4,0	55,7	4,03
Slovakia	2004	7,5	-2,3	42,4	5,03
	2008	3,9	-2,4	28,2	4,72
	2013	1,5	-2,6	54,6	3,19
Slovenia	2004	3,7	-2,2	26,8	4,68
	2008	5,5	-1,8	21,6	4,61
	2013	1,9	-14,6	70,4	5,81
Latvia	2004	6,2	-1,0	14,2	4,86
	2008	15,3	-4,0	18,6	6,43
	2013	0,0	-0,9	38,2	3,34
Lithuania	2004	1,2	-1,5	19,3	4,50
	2008	11,1	-3,3	15,4	5,61
	2013	1,2	-2,6	39,0	3,83
Estonia	2004	3,0	1,7	5,6	2,0
	2008	10,6	2,4	3,7	4,0
	2013	3,2	-0,5	10,1	0,75
Croatia	2004	2,1	-5,1	38,3	6,25
	2008	5,8	-2,7	36,0	6,04
	2013	2,3	-5,2	75,7	4,68
Bulgaria	2004	6,1	1,8	36,1	5,36
	2008	12,0	1,6	13,3	5,38
	2013	0,4	-1,2	18,3	3,47
Romania	2004	11,9	-1,2	18,6	4,0
	2008	7,9	-5,6	13,2	7,70
	2013	3,2	-2,2	37,9	5,41
Eurozone	2004	2,2	-3,1	69,1	2,0
	2008	3,3	-0,6	66,2	4,0
	2013	1,4	-2,9	91,1	0,75

Reference value	2004	3.0	3.0	60.0	6,3
	2008	3.0	3.0	60.0	6,2
	2013	3.0	3.0	60.0	6,4

Eurostat. Staistics.

Due to differences in positions and policies, the development of budget deficits were contradictory, and the same applied to the impacts of financial crisis. By 2013, the budget deficits of most of the CEE countries were bellow the 3% and Hungary, after more than a decade got out of excessive deficit procedure in 2013. The exceptions were Poland (4%) and Croatia (5%), and the Euro-zone member Slovenia with a crisis deficit of nearly 15%. In general, in terms of Maastricht criteria, the CEE countries consolidated their economies, and they got within reach to the Europe-zone. It is an other question, how far they got back to a sustainable growth path, and how far they can be able to maintain their present financial and monetary stability (inflation) on a longer run.

5. Convergence or divergence

Convergence can be examined in real and in monetary and fiscal terms (monetary union), and it is, in a certain sense, *a necessary condition of efficient and successful integration.* In general, however, there is only a loose relation between levels of development and maturity for integration. According to integration theories, *convergence is considered as an important feature of integration processes.* According to these concepts, *integration itself means the closing up of levels of developments or the gradual disappearance of differences.* The lack or disappearance of these differences is taken *partly as a criterion or precondition, or partly as a desirable consequence, of integration.* In charters of many integration organisations, convergence is fixed as a general political objective or priority. In EU Treaties, cohesion and solidarity is a basic political commitment.

The history of 20th century Europe was marked by relatively strong convergence and divergence processes. In the longer run, the Northern and the Southern peripheries closed up on the Western European Centre, though this process was not unbroken and also showed strong fluctuations. The convergence of the North was particularly strong, but there was an undeniable catching up of the South as well.

The *history of the relation of the Eastern periphery* to the Western Centre took different path. According to historic data, the level of development of Hungary and Spain were about the same in 1960, while the Hungarian level was about 50% higher than that of Portugal or Greece. But for Hungary, and in fact for the whole Central and Eastern European region, the following 30 years could be labeled as lost decades. Following the intention of Soviet policies, these were the decades of “peaceful competition”, during which the Soviet leadership wished to catch up to the American level by 1980. The basis of this complacent conceit was the assumed superiority of “socialism” over capitalism. This, however, was far from reality, and, on the contrary, from the 1970s onwards, emerging globalization brought more and more to the forefront the complete in-aptitude of the bureaucratic and closed central planning systems in face of the global challenges. The result was a humiliating defeat and further peripherialisation. The differences were further aggravated by the 1989-1993 transformation crisis. By the 1990s, the proportions turned around, and Portugal and Greece were 50% above the Hungarian average, while Spain almost doubled its lead over Hungary.

Per capita GDP of some EU countries between 1960 and 2012
(on ppp - EU27 – 100%)

Country	1960	1973	1990	2004	2012
Austria	-	-	117	127	131
Germany	-	-	115	117	121
Belgium	113	112	115	121	119
Finland	111	115	118	116	115
Greece	44	71	88	94	75
Portugal	41	59	62	77	75
Ireland	63	61	74	143	129
Spain	59	77	76	101	97
Hungary	60*	-	41	63	66
Czech Rep.	-	-	61	75	79
Slovenia	-	-	74**	85	82
Slovakia	-	-	61	57	75
Poland	-	-	33	46	66
Lithuania	-	-	18	52	70
Latvia	-	-	15	47	62
Estonia	-	-	22	57	68
Romania	-	-	15	34	49
Bulgaria	-	-	12	35	47

*Estimated data in comparison to the Western European countries. It is not an EU average.

**1995

*** The new members' data are for 1992, which was the peak year of the transformation crisis.

Sources: Statistical Annex of European Economy, 2003. Spring. Europe in Figures, Eurostat Yearbook 2009. Eurostat. Statistical Books. European Commission. 2012.

As results of Eastern enlargement the diversity of the EU greatly increased. The differences in levels of development became much greater (the divergence of 20-30% from the average increased to about 60-70%), and the difference between the two extremes (Bulgaria on the one hand, and Denmark on the other) is of a magnitude of nearly more than 3 times. At the same time, the levels of development of the most developed new candidates and the less developed members are very close, in fact, identical. This means that the Eastern candidates represent a highly diverse group, not only in terms of economic and social development but also concerning their historical and cultural traditions.

After overcoming the transformation crisis from the mid-1990s, new trends appeared, and the East joined catching up processes of other peripheries. Catching up was particularly rapid in the case of the candidates and later the new EU member countries. On average, these countries produced about a ca. 2-2.5% growth surplus, which would have been sufficient for 20-30 years of convergence (depending on the level of the individual countries). Some countries, in various periods, achieved a spectacular growth performance (such as the ca. 10% growth of the Baltic countries in the early 2000s), which accelerated their convergence. After 2004, there was a certain diversification in the catching up performances. The convergence of Slovenia and Hungary slowed down and eventually halted, while the Baltic countries, Poland and Slovakia overtook it. Hungary was caught up by Poland; it was also overtaken by Slovakia, Lithuania and Estonia.

Concerning the economic structures the *convergence of the new members was more marked.* The structural changes were initiated by the transformation crisis, which meant that these countries rapidly approached to the structural patterns of developed EU countries.

In Hungary, between 1989 and 2001, the share of the agriculture in GDP fell from 16% to 4%, while the share of services grew from 42% to 67.5%, which could be considered as a remarkable convergence to the EU averages. Similar processes can be observed in the other new members as well. In fact, if we look at the 2009 data, while certain differences have remained, they are far from being qualitative in character, particularly as far as the Core and the Central European members are concerned.

Structure of gross value added in 2009

(EU27 15 %)

Countries	I,	II,	III,	IV,	V,	VI,	Dev,*
EU27s	1.7	17.7	6.3	20.9	29.2	24.0	10.60
Western Europe.							
Austria	1.5	21.8	7.3	23.5	23.7	22.1	9.69
Belgium	0.7	16.3	5.4	21.7	30.5	25.4	11.62
France	1.7	12.4	6.4	19.0	33.7	26.7	12.20
Germany	1.8	22.2	4.3	17.5	31.1	24.1	11.56
Italy	1.8	18.8	6.3	22.2	28.8	22.11	10.40
Scandinavian EU							
Denmark	1.1	17.4	4.9	19.5	27.4	29.8	11.64
Finland	2.7	21.2	7.0	19.5	25.0	24.7	9.50
Sweden	1.7	19.7	5.4	20.0	25.0	28.2	10.71
East-Central Europe							
Czech Republic	2.2	30.3	7.4	24.2	18.3	17.5	10.40
Poland	3.6	23.0	7.5	27.1	20.2	18.6	9.16
Hungary	3.0	24.9	4.8	21.2	23.6	22.5	9.98
Slovakia	2.6	25.5	8.8	24.3	21.9	16.9	9.20
Slovenia	2.4	23.2	7.9	22.0	23.3	21.2	9.12
Eastern Balkans							
Bulgaria	5.6	21.4	8.9	25.4	23.0	15.7	8.03
Romania	7.0	26.4	10.9	23.6	16.8	15.4	7.36
Southern EU							
Greece	3.2	13.3	4.6	33.1	20.1	25.7	11.85
Portugal	2.3	16.8	6.1	25.7	23.6	25.5	10.25
Spain	2.6	15.3	10.8	24.6	23.6	23.0	8.78

Europe in Figures – Eurostat Yerarbook, 2011, 48,p.,

- Standard deviation to average of EU27s.

I: Agriculture, hunting, forestry and fishing
II: Industry
III: Construction
IV: Services (trade, transport, communication
V: Business and financial services
VI: Other services

The structural convergences are also reflected in trade structures and the intensity of relations. Needless to say, the averages can cover large qualitative differences. The fine-tuning of structural convergence takes a longer time.

It is generally agreed that the per capita GDP data in themselves are not sufficient, and they can even give a distorted picture. Lately, several institutions (or banks) ventured to produce so-called *complex convergence indicators*, which can give a slightly more appropriate and accurate picture about the state of convergence. What this complex approach means is that instead of a unilateral concentration on the per capita GDP, several other indicators are also taken into account.

The *Deutsche Bank Research* published its convergence report every 6 months, which calculated a convergence indicator for each candidate country. The *convergence web* was computed by 5 groups of indicators, based on a composite of 16 variables. These variables covered the real economy (per capita GDP, unemployment, share of private sector in GDP, agriculture and industry in the GDP), the growth dynamics (GDP and productivity growth), legal, regulatory and institutional elements (legal system, liberalization index, banking and foreign exchange, harmonization of policies), external factors (current account balance in GDP, in flow of FDI, and EU trade shares) and, last but not least, monetary and fiscal indicators (inflation, fiscal balance and public debt). If the EU 15 is taken as 100, the first group of candidate countries were around a three-fourths level (Slovenia – 75.6.7%, Czech Republic – 74.6%, Hungary – 73.2% and Estonia 72%), the second close to 2/3 (Latvia – 67.7%, Slovakia 67.5%, Lithuania and Poland - 65.2%), while the remaining two countries were somewhat below 60% (Bulgaria 58.7% and Romania 57.5%). (Data for the second half of 2001 provided by the Deutsche Bank Research.) The similar indices of Spain (76.2%) and Portugal (74.4%) aptly demonstrate that the less developed old members and the most developed new ones were at the same level and in the same category. (It should be noted that this is the case when ranking inside of the above roughly three groups is almost meaningless, as the differences are in the band only around 1-2%.) The report unfortunately has not been published in recent years.) (Palankai 2011).

As the crisis after 2009 hit most of the new members seriously, the process of convergence was broken, which warns us to be cautious about long-term expectations.

III. CENTRAL EUROPE AND VARIABLE GEOMETRY OF INTEGRATION

1. State of real-integration (integratedness) of East Central European countries

The creation of a common or single currency is closely related to the state and level of integration of the given integration organisation. High level of that integration can offer *savings in transaction cost*, and as the analyses on the Euro show, they are substantial. The introduction of the Euro was an important factor in *increasing competitiveness* of the EU companies and countries. A collapse of the Euro would be a fatal blow to the competitiveness of the EU and would lead to maginalisation of continent.

The level of integration can be examined *in real-economic and in institutional-regulatory terms.* The real-integration can be analysed and measured by *intensity of relations (trade or factors), interdependence, interconnectedness and transnationalisation of company sector.*

The real-integration can be measured by great number of indices and parameters. We use only few of them, but they largely represent and indicate , where the real integration processes stand and how they developed in the last decades.

1. *Share of export and import to GDP*, which can be related to total (Xt or Mt) or intra-regional trade (Xi or Mi). The former indicates the intensity of global integration (integratedness), while the latter is a demonstration of the intensity of regional trade integration. The annual data and their change express the *intensity and integratedness*, i.e., the state and the dynamics of the integration process. The indices, besides intensities, also indicate openness and dependencies. The higher the indices, the greater is a country's *openness and its dependence* on external factors and processes. By *comparison of per capita trade*, either in terms of total or regional trade can extend the picture.

2. *Share of regional trade to total(Xi or Mi to Xt or Mt)*. It indicates the interconnectedness and regional concentration of the relations in the integration organisation.

3. The *balance of integration trade* (balancedness) is *a qualitative indicator*, which refers to the structure, the level of development and the competitiveness of countries. It gives a picture about the symmetries or asymmetries of integration processes, and advantages or disadvantages of integration..

4. *The share of capital import (Cm) and export (Cx) to GDP and to each other (Cx/Cm).* In our present analysis, we concentrate on capital movements while that of labour force is left out.

5. Transnationalisation processes of company sector and transnational network. Beside the intensity relations it indicates also the symmetries of integration.

When analyse the *intensity of cooperation* in terms of trade or capital in relations to GDP, we propose *five different categories (clusters).*

The below 10% trade share in GDP can be considered as the indication of no external dependence, a structurally closed economy, and a lack of intensity. Low intensity is considered here between 10-20%, moderately low intensity between 20-40%, high intensity between 40-70%, while very high intensity (dependence and openness) above 70%. These ranges can be disputed, but in accordance with the literature, we accept 10% as a minimum dependency threshold, and 40% as a threshold of high dependence. The *scaling is relative*, in absolute terms, as a 25% of share of trade in GDP is already a sign of high openness and dependence. This analysis can be carried out for goods or goods and services, export and import, and internal or external import and export. As export reflects competitiveness, export data is preferred.

1. The about 5 decades of European integration has shown a very rapid intensification of trade relations.

The trade of the EC/EU (both total and internal) has expanded rapidly, and the growth of the total export of goods and services was around twice more rapid than that of the GDP. Due to these processes, the intensity of trade relations expanded substantially, and in half a century it increased from a low to a high level. The same happened in terms of the internal trade, its share in GDP from about 8% (no intensity) trebled to nearly 25%; and the structural openness, particularly for some smaller countries, reached a particularly high level.

Development of external trade in GDP, 1960-2008

(in % of GDP

	1960	1970	1980	1990	2000	2004	2008
Total export (EU15)	9,6	21,8	27,2	28,1	37,4	36,9	42,0
Total import (EU15)	9,2	21,4	28,6	27,5	36,9	35,4	41,2
Internal export	7,7	9,9	13,2	14,4	20,3	19,8	21,5
Internal import	7,9	11,0	13,2	14,6	21,8	22,2	22,3

Source: European Commission: 2001 Broad Economic Policy Guidelines. Europe in Figures, Eurostat Yearbooks 2009. Eurostat. 2010.

In the past 50 years, *the economy of the member states has strongly internationalised.* This is *a new quality, which is none other than integration.*

Share of trade of goods and services in GDP in the EU (2008, in %)

Country	Export of goods	Export of goods and services	Import of goods	Import of goods and services	Internal export in total	Internal export in GDP
Very high intensity countries						
Luxemburg	39.7	167.9	51.4	126.8	88.9	147.0
Belgium	73.4	91.0	76.5	92.9	75.9	57.3
Slovakia	73.5	82.4	74.6	84.3	85.4	70.4
Hungary	68.3	81.2	68.2	80.3	78.2	63.5
Ireland	43.9	81.2	31.1	71.3	62.8	50.0
Malta	36.1	80.2	57.0	83.9	46.8	37.5
Czech Rep.	66.5	76. 7	63.7	75.7	84.9	64.7
Estonia	53.8	76.1	65.7	80.4	70.1	53.3
Netherlands	60.7	72.7	54.3	64.8	78.9	57.3
Bulgaria	44.8	70.5	70.4	8.3.7	60.0	42.3
Slovenia	40.7	68.0	33.6	41.4	63.3	30.0
High intensity countries						
Austria	45.0	60.2	45.2	55.5	67.5	40.7
Lithuania	49.8	60.0	61.4	70.6	60.3	36.2
Denmark	33.6	54.7	34.0	52.3	69.8	23.5
Sweden	38.5	53.5	34.7	46.1	60.1	23.1
Cyprus	7.7	49,8	42.3	62.1	69.3	34.5
Germany	40.7	47.4	33.6	41.4	63.3	50.0
Finland	35.5	46.0	32.3	42.0	55.9	19.8
Latvia	28.0	41.4	45.0	54.4	68.6	28.4
Poland	33.2	39.9	37.8	43.5	77.8	34.4
Moderately low intensity countries						
Portugal	23.0	33.8	35.8	42.6	74.4	25.1
Romania	24.5	30.9	37.9	43.7	70.5	21.7
Italy	23.6	28.9	23.6	29.4	58.9	17.0
UK	17.4	28.1	23.8	31.4	57.0	16.0
Spain	17.7	26.6	25.7	32.2	69.6	18.1
France	20.9	26.5	24.0	28.9	63.9	17.0
Greece	8.2	22.2	26.3	33.3	62.5	13.9
EU27					67.5	
Japan	38.0	48.0	18.8	28.6	-	-
USA	15.3	18.4	14.5	18.0	-	-

Source: Europe in Figures, Eurostat Yearbook 2009. Eurosat.

The *intensity of the trade integration (goods and services) of EU members shows plenty of differences and extremities*. There are extremely high intensity countries with above 80% trade share in GDP (LU, BE, SK, HU, and ML), while Greece is close to the low intensity (22%), and in terms of goods she is in the no intensity (8%) band and in this respect the same is with Cyprus. In some sense, this is some of the dimensions of peculiarities of Greek membership in the Euro-zone. There is no rule that the same level of integratedness is required for a monetary integration, but the great extremities can create tensions.

In general, *the developed small countries* have high intensity of external economic relations and high openness of their economies, both in term of their regional and global integration. This is supported by the different attempts of measuring integration (Globalisation or Interconnectedness Indices- KOF)), and beyond the EU members, we can mention such countries as Switzerland, Norway or Singapore. It should be noted that besides the Benelux and the Scandinavian countries in spite of their somewhat lower level of development (per capita GDP), *East-Central Europe and the Baltic countries belong to this very high intensity group*. Some countries owe this status to their service economies (Luxemburg, Ireland, Malta, Cyprus) as in terms of their goods export, they have more modest qualification. The same applies to Greece. Besides the developed large countries (except Germany), the Mediterranean EU members fall into the moderately low intensity countries, with their 22-34% GDP-trade shares.

2. The strengthening of integration relations has meant an increase of the share of intra-trade among the member countries. The growth of cooperation, however, was not proportional, as the *process was characterised with sub-regional concentration*, particularly among the neighbouring countries. This is a general characteristic of European integration, and the process was further strengthened by the various enlargements.

When *measuring sub-regional concentrations or connectedness*, we can depart from the *proportions of external and internal trade*. These proportions for the whole Union are roughly 67-33%, as far as internal and external trade are concerned, and can be used as a basis of comparison.

We wish to introduce the *notion of strategic partnership*; that is, when *the proportion of the other country is more than 10%* in the trade of a country or a region. *If these proportions are mutual, then, in spite of certain dependence asymmetries, we can speak about a relatively balanced interdependence.*

The EU *internal trade is highly concentrated sub-regionally.* The *Western European EU members*, besides the high intensity of their trade, are characterised by *a high level of connectedness* (which is above 67%) as well. In the case of Belgium and Ireland, about 85-86% of their intra-export goes to the sub-regional partners, but this proportion is close to 65% in case of the UK. About 75% of the intra-trade takes place within the Western European core countries.

Inside the core, *Germany is a central and strategic partner.* On average, 23.2% of the EU total trade is provided by Germany. The two extremes in this respect are Estonia with 8.84% and Austria with 43.1% of the German share. In spite of the high German participation, the countries of the region are also strategic partners of Germany, as their share is above 10% in the export trade of Germany. In terms of internal export, this is the case with France, Italy, The Netherlands and the UK, with Belgium and Austria close to this position. Consequently, despite of the German preponderance, *the core countries' relations are characterised by relatively balanced interdependence*.

The other main region that is *highly connected with the Western European Centrum is East Central Europe* (60-74%). *In fact, East-Central Europe* is *connected to the West largely through West-Central Europe* (Austria, Germany and Italy), and this *connectedness of Central Europe in total is quite high.*

East-Central Europe is *particularly closely connected to Germany* (accounting for around a third of the trade relations). Beyond that, the relations are balanced in the region and there are no unilateral dependences. The only exceptions are the Czech–Slovak relations, and the strategic dependence of Slovenia on Austria, France and Italy. In a similar vein, Central Europe is also a strategic partner for Austria (20%) and Italy (11%).

Germany is the number one partner for 21 countries. It is number two for Cyprus, Lithuania, Portugal and Spain, and comes as third for Latvia (12%) and fourth for Estonia (8.8%).

The intra-trade relations among the Baltic countries are more contradictory; nevertheless, they are important strategic partners for one another Lithuania: 44%; Latvia: 28%; Estonia: 21%). The Northern interconnectedness (relations between the Scandinavian EU and the Baltics) is high in the case of Estonia (70%) and Latvia (60%), while it is only 40% for Lithuania (in the latter case, the Western European partners with their 30% share are more important).

The intensity of interconnectedness can be measured by confronting shares of trade and population. For the different sub-regions, their share in internal trade and total population is compared:

*Xia/Xt × 100/Pa/Pt × 100 (*Xi-internal export; P – population, and "a" stands for the country or the region)

The quotient of the two indicates the interconnectedness of the region by filtering out the differences that arise from the size of the regions. However, differences arising from the levels of development remain.

The data reflect *the minimal above average interconnectedness of East-Central Europe.* If we take into account the differences in the levels of development, this interconnectedness is intensive as compared to Western Europe and Scandinavia. The low interconnectedness of the Southern EU is striking. The picture does not change if we consider only "Latin" countries of the sub-region.

Intensity of interconnectedness for internal export in the main sub-regions of the EU in 2009

Region	Share of export in total in %	Share of population in total in %-	Interconnectedness quotient
EU 27s	100	100	1
Western Europe	74.8	60.1	1.25
Scand. EU	6.0	5.0	1.20
East-Cent. E.	10.5	10.3	1.02
Baltic c.	0.7	0.8	0.93
Southern EU	6.6	13.8	0.47
Latin EU*	23.9	36.2	0.66

* FR, IT, ES, PT.

Source: Europe in Figures, Eurostat Yearbook 2011. Eurostat.

As the sub-regional trade relations indicate, *the distance or the geographic closeness of the countries does count*. This is further strengthened by traditions, historic ties, or cultural or linguistic similarities. Somewhat more moderate sub-regional and partner-country connectedness characterises *the distribution of foreign investments* according to the country of origin.

In general, *European integration does not represent a monolithic economic bloc*; it is *structured by sub-regional concentrations in which Germany plays a dominant connecting role. East Central European integration to the West-European means close connection to the Euro-zone.*

3. Balancedness of trade integration is one of the main indicators of success or failure of integration of a country. In this respect, the EU members have quite diverse performance.

Until 1990, the new Eastern members, as formerly centrally planned economies, had a more-or-less balanced trade with the EC. After they opened their economies and established free trade agreements with the EU, they produced a spectacular trade expansion with their Western European partners, but this was accompanied with an accumulation of growing trade deficits. From the early 2000s these trends changed; the trade balances of the new Central European members improved and turned to a surplus. This was mostly due to the large inflow of FDI. The trade surpluses were produced mostly by the companies of the Western partners, as they re-allocated large capacities to the Central European region through their investments.

In relative terms (trade balance in % of GDP), the EU members can be placed into four categories:

High surplus (HS) countries with more than 3% in GDP;
Low surplus (LS) countries between 0 and +3%;
Low deficit (LD) countries between 0 and -3%; and
High deficit (HD) countries with more than -3%.

In terms of both internal and external trade, *the high surplus countries are* The Netherlands, Ireland and Belgium (with Germany as a border case); and from Central Europe they are Hungary, Slovakia and the Czech Republic.

At the other extreme, the *high deficit regions* are the Southern EU countries (except Spain), the Baltic countries (except Lithuania), and the two new members from the Eastern Balkans.

Summary of trade balances of EU countries in 2009

Country	Share in EU trade (%)	Balance of internal trade	Internal trade balance in GDP %	Balance of external trade	External trade balance in GDP %	Trade balance with Germany
Surplus countries						
Belgium	9.2	+	HS	+	HS	+
Netherlands	12.6	+	HS	+	HS	+
Ireland	2.3	+	HS	+	HS	+
Germany	23.2	+	HS	+	HS	NO
Hungary	2.1	+	HS	+	HS	+
Czech R.	3.1	+	HS	+	HS	+
Slovakia	1.6	+	HS	+	LS	+
Mixed performances						
Denmark	2.1	+	LS	+	HS	-
Poland	3.6	+	LS	-	LD	-
Slovenia	0.6	-	LD	+	LS	+
Luxemburg	0.6	+	LS	-	HD	-
Finland	1.1	-	LD	+	LS	-
Sweden	2.5	-	LD	+	LS	-
Deficit countries						
Italy	7.6	-	LD	-	LD	-
Spain	4.9	-	LD	-	HD	-
UK	6.4	-	LD	-	HD	-
Lithuania	0.3	-	LD	-	HD	-
France	9.8	-	HD	-	LD	-
Austria	3.2	-	HD	-	LD	-
Greece	0.4	-	HD	-	HD	-
Portugal	1.1	-	HD	-	HD	-
Malta	0.0	-	HD	-	HD	-
Cyprus	0.0	-	HD	-	HD	-
Latvia	0.2	-	HD	-	HD	-
Estonia	0.2	-	HD	-	HD	-
Bulgaria	0.3	-	HD	-	HD	-
Romania	1.0	-	HD	-	HD	-

HS – High Surplus; LS – Low Surplus; LD – Low Deficit; HD – High Deficit

With regard to trade balances, t*he Central European integration performance is favourable*, Czech Republic, Hungary, Slovakia and Slovenia are among those few countries that had trade surpluses in all of its relations, including Germany. From points of view of *their participation in the Euro-zone, this is a positive factor*.

4. Factor market integration is important in terms of the efficient allocation of resources and the exploitation of the benefits offered by integration. The export and import of

capital (Cx and Cm) indicates the dynamics of integration, and their share in the GDP at a given moment is an important indicator of the intensity of integration:

From the points of view of the level of development and balancedness, the *relations of capital export and capital import* are also important. In any given country, high level of foreign investments can express the high intensity of global or regional integration. However, if its capital export is minimal or is lacking, it indicates *unilateral dependences and an asymmetry in its integration*. In highly developed countries, these indicators are balanced, and this balance is on a high level of intensity in both dimensions. While they receive a substantial amount of foreign investments, they actively invest in other countries. Mutual investments are indicators of interdependence and the balancing of global integration. In analysing FDI, we use similar scaling as in case of foreign trade.

In terms of capital import, *Belgium (200%), Ireland (111%), Sweden, Estonia and The Netherlands (above 80%), and Hungary, Czech Republic, Slovakia and Bulgaria are characterised by a very high intensity*. The high Central European proportions are the results of massive investments in the region. In the case of The Netherlands, what is reflected is the traditional foreign investor role. The foreign investments are *highly intensive* in the UK, Denmark, Portugal Austria. Spain and Poland. Most of the other countries are characterised *by average intensity*, and again the size of Germany and France should be mentioned, but also Finland, Slovenia and Romania can be listed into this category. Only Italy and Greece are in *the low intensity category*, but Greece with its 13% is close to the marginal level. The low level of Greece's global and European integration is also expressed in these respects.

Besides high intensities, the *most developed countries are characterized with net external investment positions.* In most of these countries, the capital export is about a third higher than the stock of received capital.

In some countries remarkable changes can be noticed. In the last 15-20 years, Spain and Portugal have become capital exporters. In 1998, the capital export was only 60% of the Spanish capital import. In ten years it reached almost 100%, and Spain has become one of the main investors in Latin America. Out of the old members, only a few are net capital importers, with Belgium having high intensity in this respect. Austria has a more balanced position with lower levels. Out of the old members, Ireland and Greece are also net importers; the former is at a high intensity level, while in the case of the latter intensity is practically lacking.

In the last decade, there has been a *start of capital export with regard to the new Eastern members*. The pioneers in this process are Slovenia, Hungary and Estonia. In the case of Hungary, if the ca. €15 bn investments abroad are compared with the €80 bn FDI in the country, the rate is only about 20%. In the case of the other countries, these investments have only just started, and they are typically around or below 10% per cent in relation to the FDI in the country. This is a reflection of the *asymmetry of their integration*. "Capital export is closely related to the level of development, and in the case of an expanding economy, the increase of this activity is a necessity. At the same time, there is no rule to regulate how the level of development and capital export should be related to one another. Therefore, in absolute terms, it cannot be determined whether Hungary is ahead or behind the ''average'. This is dependent on the level of development of geographically close countries (as they are more attractive as a terrain of potential investment) and their capital absorption capacity." (Világgazdaság, June 30 2004. – World Economy – a Hungarian Daily)

FDI in EU countries in 2009 and in 2011

Country	Internal stock 2009 ($ bn)	Internal stock 2009 in % of GDP	External Stock 2009 ($ bn)	External stock 2009 in % of GDP	External stock in % of internal stock in 2009	Internal stock 2011 in % of GDP
Western European countries						
Belgium	947	200	892	188	94	195
Ireland	248	111	289	130	117	116
Netherlands	644	81	953	120	149	68
U. K.	1 104	51	1 580	73	124	50
Austria	173	45	163	43	95	38
France	985	38	1 493	57	150	34
Germany	945	29	1 250	41	141	25
Italy	364	17	486	23	135	15
Scandinavian EU						
Sweden	332	82	353	87	106	63
Denmark	154	50	198	64	128	44
Finland	85	36	130	54	150	32
Southern EU						
Portugal	115	49	69	29	59	46
Spain	632	43	626	43	99	42
Greece	42	13	39	12	93	10
East-Central Europe						
Hungary	100	78	20	16	21	60
Czech Rep.	126	64	15	8	12	58
Slovakia	53	60	3	4	7	53
Poland	185	43	29	7	16	38
Slovenia	15	31	9	19	60	31
Estonia	16	84	6	33	40	75
Eastern Balkans						
Bulgaria*	-	63	-	1	1.5	-
Romania*	-	35	-	1	2	-
EU27	7 598	46.6	8 888	54.5	118	42.8

* Eurostat data

Sources: OECD International direct Investment Database, Eurostat, IMF. OECD/DAF – INVESTMENT: DIVISION. October 2012.

5. From the 1970s onwards, the start of the capital export of European companies was accompanied by *their growing transnationalisation.* From the 1980s, this was strengthened *by rapid integration and the transnationalisation of international financial markets.* Accordingly, the economies of the Centrum EU countries have become highly transnationalised, both in terms of their positions in the national economies, and in the expansion and competitiveness of the global economy. The EU has become one of the main areas of global integration, in which process European TNCs have played a leading role.

In relation to TNCs, it is generally agreed that *transnational networks* is a more suitable term. Transnational networks are large groups of small and medium sized enterprises, which cover research and development, production, financing and various different services. *SMEs*, in this respect, can be placed into *three different categories.*

1. Some are just *subsidiaries*, i.e., daughter companies or direct suppliers of the larger partners. 2. *Some are TNCs on their own rights*, as they have high export shares; they export their capital abroad; they build up close contractual relations with foreign partners, and they follow transnational business strategies. A great number of the SMEs of the Centrum countries follow this pattern. 3. *Local SMEs* fall out of these groups only from a formal point of view; although they operate on local markets, they are dependent on the supply of TNCs, and most of them face direct competition (small shops vis a vis big supermarket chains).

Hungary and the *new Eastern EU members*, as result of the high intensity of their capital integration, are *parts of this transnationalisation process. This is, however, largely one-sided and asymmetric*. *The one-sidedness has started to dissolve*, but the new Eastern EU members still have a long way to go in the process.

In the last years, several Hungarian (Central European) companies (MOL, OTP Bank, Trigranit, Matav, Fornetti, etc.) have aspired for a transnational status and have applied such strategies and positions. Their expansion, however, is mostly limited to the neighbouring countries.

On the basis of their export involvement (more than 10% of the turnover goes to export), two-thirds of the largest 100 Hungarian companies in 2011 qualify for a TNC status. In this list, the first company was MOL, but among the ten largest we can find AUDI, GE, Samsung, Nokia, Philips and TESCO Global. As far as the remaining 36 other companies are concerned, 19 are foreign-owned, operating either in energy (E-On, Shell or GDF Suez) or in the super-market chain sector (Tesco, Auchan, Lidl or Metro) and are subsidiaries that are fully oriented to local markets. There only 14 in the first 100 companies that have a more than one-third share of Hungarian ownership; most of them are from the energy, transport and telecommunication service sector, and are typically large, state-owned companies, such as Magyar Posta (postal service), Budapesti Gázművek (gas), Fővárosi Elektromos Művek (electricity) or Magyar Államvasútak (railways). Out of these 14 companies, there are only four that are related to manufacturing (chemical and pharmaceutical industries) and only one operates in the real estate sector. (HVG, January 2013.) All in all, *the transnational sector in Hungary is dominated primarily by foreign-owned companies.*

Asymmetries are particularly characteristic of transnational networking. Moreover, the absence of established “national” TNCs is accompanied with the low participation of local SMEs in the global integration processes. This is particularly striking in comparison to the Centrum countries. According to a survey on German Companies (Going International), the average German medium-sized company has business relations with 16 countries, and 72% of those that have been surveyed have business partners in the new Eastern member countries. (Világgazdaság, November 28 2007 6. p).

In Hungary and in other CE countries, the reliance of foreign investors on local suppliers is weak (with some exceptions), and there is only a small number of local companies which venture into the transnational type of relations. In 2007, in Hungary, the share of local SMEs in export revenues was less than 20%. “Most of the small Hungarian firms, many of the ‘gazelles’, do not export, while a considerable number is confronted with an intense shrinking of their local market due to import competition” Papanek: 2010:359 (In international literature, the “gazelles” are rapidly expanding firms.) This is even more characteristic in production cooperation and external capital investments.

In spite of differences, the EU belongs to the *most highly integrated regions of the global economy. It is a strong basis for its monetary integration*. In the EU, *by the 1990s, the real-economic conditions for monetary integration had been created.*

Central Europe is integrated into the EU with high intensity and became the part of a highly interdependent cooperation structure. More importantly, *the infrastructure of*

integration was built up gradually (i.e., transport, communication, financial systems, etc.), which created a strong foundation for mutual relations. The integration process has become more and more irreversible. Any secession from the integration process would have catastrophic consequences for any country.

In the last 20 years, the *Central European economies have become one of the most open and integrated economies* in the world economy. About 90% of their trade is conducted *in liberalised frameworks*, and their economy is *fully exposed to global competition*. That is a *favourable condition for their monetary integration.* In terms of real integration, the Central European countries these countries have the potentials to exploit the advantages of that monetary integration.

2. The institutional integration East-Central European members

Parallel with real-economic foundations, by the 1990s, the evolution of institutional integration reached a level which equally called for monetary integration. The monetary union followed logically from the program for a single European market. Complete liberalization of the capital markets threatened the effectiveness of national monetary policies, and the only possible way of "escape forwards" was the creation of a single currency. "The economic advantages of 1992 are certainly not fully achievable without a single currency, especially in the field of financial market integration. In addition the EMS in its present stage of development may not be compatible with complete capital market liberalization as required by 1992." (One Market, One Money. *European Economy*, 1990: 17-18.) According to T. Padoa-Schioppa, the single market tries to undertake an impossible task, that of reconciling the four priorities of economic policy, namely free trade, completely free movement of capital, fixed exchange rates and "national autonomy in following monetary policy". "These four elements form what I call an 'inconsistent quartet': economic theory and historical experience have repeatedly shown that these four elements cannot coexist, and that at least one has to give way."(T. Padoa-Schioppa, 1989: 373.) Thus in the interest of the normal functioning of the single market, monetary integration, or EU-level centralization of monetary policy, is required. This is achieved with EMU. Monetary union is supported by the complete integration of national markets. As the new Central European members practically fully comply with the European internal market, the same considerations apply for them both in terms of conditions and future requirements.

As monetary integration was concerned, it was clear from the beginning that the different countries were not equally prepared, and that meant a certain risk for the future stability and satisfactory operation of the project. There were substantial differences in the interests among the countries. It is not surprising that so far the euro has been introduced only in 19 countries, while the other countries participation is delayed by formal opting out agreements, and by different type of policy choices, which put their joining into the uncertain future. The same applies to some of the reform packages, particularly those which were brought for improving the governance of the euro-zone.

By the financial crisis after 2008, it became obvious, that *euro construction needs further development, and fundamental changes are required.* The crisis dramatically demonstrated the deficiencies of monetary integration, and new forms and mechanisms are needed. The decisions on *new architecture of economic governance of the euro and the EU* were taken from September of 2010.

Staying out of the euro-zone and reform measures can be explained by the differing interests and considerations of the respective countries. The reasons for the British, Danish and Swedish attitudes can be clearly defined. All of these countries give priority to their national sovereignty and the public is broadly against joining the euro-zone. In case of Denmark and Sweden, the euro was rejected by referenda. All three countries are highly developed, but their political, social and economic positions and interests are different. The British pound in the last decades lost its exclusive key currency role, but London has

remained a leading global financial centre. This role is not necessarily threatened by euro membership, but its special status might diminish. The two Northern countries have highly developed welfare systems, and the majority of the public is anxious about losing these achievements.

After gaining full membership, most of the *Eastern countries got relatively close to meeting the Maastricht criteria, and the fulfilment of these in a relatively short time largely depended on the countries' political will and determination.* Most of the analyses agree that the *introduction of the euro correspond with their national interests,* as the advantages exceeded the assumed costs. (MNB, 2001). The adoption of the euro could also mean savings in transaction costs. However, *the financial crisis interfered with this process*. Slovenia, Slovakia managed to join before the outbreak of the crisis, and the Baltic countries have stuck to their determination in spite of the crisis.

The *three Central European countries* (the Czech Republic, Hungary and Poland) *took different positions* from the others. The circumstances and the *political considerations are different,* but in their refusal to join and to adopt reform measures there are several common points nonetheless. Their staying out can be *explained mostly by the interests and views of certain leading political and business circles.* These are not organised along party lines, but are strong enough to influence the attitudes of the governments. One can note that as far as the Hungarian experts of the euro issue are concerned, they are overwhelmingly in favour of joining the euro-zone, while in Poland and Czech Republic they are more divided.[2]

In the three countries the rejections are based on *arguments in favour of preserving monetary policy autonomy and possibility of devaluation*. There were anxieties about the high costs of joining in terms of *loss of growth possibilities and welfare as well.* These arguments are not without foundation, but they can be strongly disputed. The anxieties are far from justified by those who did join. One should also call attention to the fact that *monetary policy autonomies have become largely illusory* at a high intensity of integration and in a fully open financial and capital market. In macro-terms, devaluation is no longer an effective tool of improving competitiveness, particularly among countries with highly integrated economic structures (and with high import inputs).

On the company level, the interests are characterised *with a certain duality*. By joining the euro, transnationals and certain national companies can enjoy savings in transaction costs, although for many TNCs, the introduction of the Euro is not at all urgent as large part of their transaction is already conducted in Euro. In fact, for *some leading national business circles this would be against their interests.* What they fear is that by giving up the national currency, the dominance of foreign TNCs could further increase. As many of them have a low level of transnationalisation, the possible savings in transaction costs does not matter too much for them. Devaluation may offer *transitory improvements in their short-term competitive positions*, and through it, in their trade and financial (speculative) affairs they *may realise even substantial extra-profits in the short run.* Through devaluation, the revenues from abroad (from off-shore businesses or EU structural transfers) could be upgraded. The aspects of tax evasions also apply in these spheres.

[2] Európai Unió kapujában: perspektívák és elvárások. Nemzetközi konferencia. Szerk (Ed.). Palánkai Tibor Budapest 2004. április 16-18. ISES. 2006. 132 o. (At the Gate of the EU: Perspectives and Expectations. In International Conference)
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***P*articipation in monetary integration structures**

Countriy	Single Market	Euro-Zone	ERM I – II.	Euro Plus	Fiscal Compact	Bank union	Schengen
Western-Europe							
Belgium	+	+	+ (I)	+	+	+	+
Netherlands	+	+	+ (I)	+	+	+	+
Germany	+	+	+ (I)	+	+	+	+
Ireland	+	+	+ (I)	+	+	+	0
Austria	+	+	+ (I)	+	+	+	+
Luxemburg	+	+	+ (I)	+	+	+	+
U.K.	+	0	+ (I)	0	0	0	0
France	+	+	+ (I)	+	+	+	+
Italy	+	+	+ (I)	+	+	+	+
Scandinavian EU							
Denmark	+	0	+ (I-II)	+	+	+	+
Finland	+	+	+ (I)	+	+	+	+
Sweden	+	0	0	0	C	0	+
Southern EU							
Greece	+	+	+ (I-II)	+	+	+	+
Spain	+	+	+ (I)	+	+	+	+
Cyprus	+	+	+ (II)	+	+	+	0
Malta	+	+	+ (II)	+	+	+	+
Portugal	+	+	+ (I)	+	+	+	+
Baltikum							
Estonia	+	+	+ (II)	+	+	+	+
Latvia	+	+	+ (II)	+	+	+	+
Lithuania	+	0	+ (II)	+	C	+	+
Eastern – Central – Europe							
Hungary	+	0	0	0	C	+	+
Czech Republic	+	0	0	0	0	+	+
Slovakia	+	+	+ (II)	+	+	+	+
Poland	+	0	0	+	C	+	+
Slovenia	+	+	+ (II)	+	+	+	+
Croatia	+	0	0	0	0	+	0
Eastern Balkan							
Bulgaria	+	0	0	+	+	+	0
Romania	+	0	0	+	+	+	0

Sources: Official EU Documents.
C – Conditional, limited with derogations. ERM – Exchange Rate Mechanism

Besides the UK and Sweden, the *Czech Republic and Hungary have pursued a decisive staying out policy*, as compared to the other new members. In 2001, Hungary was fairly close to meeting the Maastricht criteria, and with a decisive policy aiming at euro-zone membership, it could have joined by the end of the decade, similarly to Slovenia and Slovakia. The *stabilisation policies* which would have been necessary anyway *did not happen*, and the possibilities of euro-zone membership faded away. Instead, by 2006, the

country got into a serious crisis. The global financial crisis found the country in a very vulnerably position, and in spite of the consolidation measures that were initiated, the financial performance of the country dramatically worsened. The impacts were somewhat softened by the consolidation, but the dramatic worsening could not have been avoided. The situation was particularly striking in comparison to some new members (such as Poland or Slovakia), and the country could not avoid its eventual downgrading.

While in the single market all the members participate, as the Schengen Agreement is concerned already several countries remain outside. All the euro-zone members participate in the euro reform projects (Euro Plus, Fiscal Compacts, Bank Union or ESM). The Euro Plus Pact was joined by many non-euro-zone countries, in fact only 4 countries (UK, Sweden, Czech Republic and Hungary) remained outside. Hungary, formally, was mainly against the company tax harmonisation. As the general tax harmonisation has no relevance, and in case of company taxes only the harmonisation of tax bases were raised, while the rates would not be affected (which could influence "competitiveness"). On the Fiscal Compact and Bank Union only UK declared its rejection, while the other non-euro-zone countries either joined or conditioned their participation (Sweden, Czech Republic and Hungary, and concerning the Fiscal Compact Latvia and Lithuania).

The increased debt service, the yields of government bonds and the risk premiums together meant a *substantial loss of national income*. The downgraded credit rating kept the foreign investors out of the country. The sovereign debt crisis was avoided, but Hungary slipped further down among the main crisis-hit countries. At the same time, Slovakia or Estonia, which joined the euro-zone, were able to improve their indicators and credit rating.

Poland has kept its euro-zone membership on the agenda; both its national interests and its ambitions to increase its European influences support this policy. With regard to the future, the situation is different with Hungary and the Czech Republic. Their very high intensity of integration and connectedness to the European Centre would suggest different approaches and an early joining.

Hungary's and the Czech Republic's euro-zone membership depends on several external and internal economic and political factors. The endurance of the crisis rather delays the process than helps it in any way. While the UK and Sweden can afford to stay out, this is less of a case with the Czech Republic or Hungary. In particular if Poland joins, and the two countries remain outside of the euro-zone, they could easily get into a difficult situation, due to weaker performance which is particularly the case with Hungary. Its vulnerability and its exposition to speculation on international financial markets could increase substantially and could lead to catastrophic consequences.

As a result of staying out of monetary integration, the possibility of disintegration of these countries would increase. The main aim of these countries' integration, catching up with the rest of Europe, could be endangered. The past twenty-five years have undoubtedly proved that integration with and membership in the EU has largely contributed to the convergence of the countries of the Eastern periphery, offering a historical perspective of a real return to Europe for the whole region. They should not be left out of this process.

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