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**EU Enlargement:
Economic Impacts
on Austria and
the Five Acceding
Central European
Countries**

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Executive summary

Focusing on Austria and five countries in Central Europe [the Czech Republic, Hungary, Poland, Slovakia and Slovenia (CEC-5)], the paper reviews selected economic developments related to the enlargement of the European Union. Over the past decade, Austria has enjoyed disproportionate gains from the liberalization of trade and capital flows with the CECs. EU enlargement will merely consolidate those gains, not increase them. Apace with the recent global economic downturn, the climate conducive to enlargement has also worsened – just at a time when the accession negotiations were finally coming to a head. Average economic growth in the CECs will be of the order of 3% in both 2002 and 2003; sluggish growth is forecast for Poland alone. After experiencing a setback to its economic recovery, Austria estimates that its GDP growth rate next year will be 2%. Unemployment will also increase, albeit only slightly and still far below CEC levels.

*In the medium and long term the candidate countries in Central Europe stand to benefit greatly from entering the EU, although the more immediate costs associated with the adoption of the *acquis communautaire* will impose an appreciable burden at the outset. None the less, it is quite conceivable that some of the new member states may even become net contributors to the EU budget in the initial post-accession period. On closer study, the outcome of full participation in the European Single Market could well be that EU enlargement is a win-win game. In terms of GDP growth, the CECs on average may well outstrip their EU counterparts by a factor of ten. Of the present EU member states, Austria has gained most from enlargement – and will probably continue to do so. Delaying enlargement would be both costly and politically damaging for Europe as a whole. The marked impact of enlargement on growth will induce income convergence in the CECs, thereby reducing potential migration. Given the similar demographic trends in both the present EU member states and the candidate countries in Central Europe, migration and the associated labour shortages may also become an issue of major concern to the CECs. The overall impact on the EU labour market should, however, be limited. Political considerations will play a crucial role in this segment of the accession negotiations.*

Austria is one of the CECs' main trading partners. Trade with the CECs has a pronounced positive impact on both Austrian output and employment. By the end of 2001, the FDI inflow into the CEC-5 amounted to nearly USD 100 billion, of which some USD 7.7 billion (8%) came from Austria, thus facilitating further economic expansion on the part of Austrian companies. The additional trade effects of EU enlargement will doubtless remain within certain limits. FDI-related trade will display a certain measure of growth and increases are to be expected in trade in the service sector. The close economic ties show that to all intents and purposes the current political disputes between Austria and certain CECs would seem to have no impact on decision-making processes at the company level. In sum, economic data confirm the growing importance of regional integration in Central Europe and the benefits it yields for all countries concerned.

Keywords: *EU enlargement, macroeconomic effects, migration, foreign trade, foreign direct investment*

JEL classification: *F15, F21, F47, I61, P27*

Peter Havlik

EU Enlargement: Economic Impacts on Austria and the Five Accessing Central European Countries

Introduction

The fall of the Iron Curtain in 1989, followed by the collapse of the Soviet Union in 1991, brought about a dramatic change in the political and economic landscape of Europe. Austria and the Central European countries (CECs – we deal here only with the Czech Republic, Hungary, Poland, Slovakia and Slovenia) have been profoundly affected by these changes. Austria has moved from the European periphery to the centre and joined the EU in 1995. The Central European countries, largely isolated from democratic and economic developments in the West under the previous regime, rapidly embarked on radical economic and political reforms. CEC borders were opened, foreign trade was liberalized and re-oriented towards the EU, and cross-border flows of investments and people have increased remarkably.

The EU concluded Association and Co-operation Agreements (Europe Agreements) with the CECs already at the beginning of the 1990s. These agreements include among others far-reaching and asymmetric trade liberalizations,¹ EU financial assistance and support for the CEC reform process. The CECs have applied for EU membership, which – as a step of enormous symbolic importance – should conclude these countries' path of 'return to Europe' that started in 1990. The European Council in Copenhagen, in December 1993, underlined the EU's political commitment to enlargement; it also formulated the criteria the applicant countries have to meet before their accession to the EU. The Copenhagen criteria include, apart from economic conditions such as the establishment of a functioning market economy and the capacity to cope with competitive pressures in the common market, also political criteria such as a democratic political system, the observance of human rights and the respect for minorities.

Both the EU and the CEC candidate countries have on the whole already benefited enormously from the liberalization of trade and capital flows, as well as from the intensification of mutual contacts which resulted from the implementation of the Europe Agreements. Now it is expected that these benefits will be cemented and may possibly even increase after the CECs' formal accession to the EU. Austria – as a frontier EU member state which has common borders with most CEC candidates – has been enjoying over-proportionately large economic gains from the opening of the CECs. But the process of European integration and the associated adjustments – just as the transition to a market

¹ The trade liberalization affecting mainly industrial products was essentially completed by the EU in 1997. The CECs have fully liberalized their industrial trade with the EU only at the beginning of 2002.

economy in the CECs and globalization as a whole – do not have only winners. There have also been losers, including those who are ill-prepared for rapid changes, usually the poorly educated, less flexible and older citizens both in EU member states and CEC candidates. It is therefore crucial for a successful completion of the European integration to adopt adequate measures that take care of the diverse concerns of those who are adversely affected or even for those who just feel threatened. Furthermore, an efficient communication strategy between decision makers and citizens both in EU member states and CEC candidates is needed in order to ensure the participation of citizens in the integration process and to win popular support for the unification of Europe.

In a historical perspective, the participation in the European integration process cannot be considered but beneficial. However, it is also clear that accession will be an enormous challenge. CECs' benefits will no doubt be considerable in the medium and long run, after the new members enjoy completely free access to the European market and become beneficiaries of the European redistribution schemes. But the new members' immediate costs have also been substantial – even before their formal accession – as they are preparing to take over the *acquis communautaire*. The accession negotiations are now in their final stage where the speed of the accommodation of both EU members and applicants are being addressed. Temporary exemptions and transitory regulations may significantly diminish the pains of adjustment – but also reduce the potential gains. A good understanding of these costs and benefits, and the ability to perceive them in a comprehensive way, is the precondition for a successful completion of the accession negotiations by the end of 2002, and also of the candidate countries' 'smooth landing' in the EU in 2004.

This paper deals only with selected *economic* aspects of EU enlargement and draws heavily on the existing literature on the subject. It must be stressed at the outset that economic aspects are not the only – and perhaps not even the main – benefits of enlargement. The key benefits are *political and social*: the overcoming of old divisions on the continent and bringing stability, democracy and peace to Europe. It is perhaps no accident that the CEC candidates for EU membership – despite all their remaining problems – have in this respect a better record than the other transition countries. But the economic consequences of EU enlargement – though they have to a large part already materialized in the course of the implementation of the Europe Agreements, that is before the formal EU accession – are significant as well. After a brief outline of the current economic situation, including growth forecasts, in Austria and the CECs, we discuss the main macroeconomic effects of enlargement, selected issues related to the labour market and migration, as well as the effects on trade and foreign direct investment (FDI).

Current economic situation in the region and outlook

After an exceptionally good performance during the year 2000, the CECs' aggregate GDP growth slowed down substantially in 2001 (from 3.9% to just 2.2%). During 2000, CEC growth was fuelled mainly by exports as the world economy boomed and the global demand for goods produced in the region increased. But this favourable external climate started to *deteriorate* towards the end of the year 2000, first in the USA and later on also in Western Europe, while Japan even slid into a recession. The current pronounced weakening of the EU economy – GDP increased by just 1.5% in 2001 and virtually stagnated during the first half of 2002 – is worrying since it has serious implications for the CEC economies as well. With nearly 70% of their exports destined for the EU, the highly open CEC economies may suffer if Western Europe (especially Germany) reduces imports – unless they manage to gain further market shares as a consequence of improved competitiveness. CEC exports to the EU expanded by nearly 30% during 2000, but only 14% in 2001. In the first half of 2002, export growth slowed down even more. The available evidence suggests that those countries which have attracted large amounts of outward-oriented FDI (mainly the Czech Republic and Hungary) have subsequently improved their qualitative competitive position and record a somewhat better export performance. As a result, they have so far been spared the full adverse impact of the recent weakening of EU growth and appreciating domestic currencies.

In addition, most CECs have recently been benefiting from expanding domestic demand, which is thus taking over the growth stimulus from declining net exports. With the notable exception of Poland, there have in fact been few signs of marked deceleration of GDP growth yet. As of mid-2002, the global economic slowdown thus does not seem to affect CECs' *short-term* growth prospects seriously. Domestic demand is robust, though the growth of industrial production and investments somewhat decelerated during the first months of the year. If there was a noticeable growth slowdown, as recently in Poland, then domestic factors were largely to blame. Inflation is in the low single-digit range and mostly declining. But unemployment in the whole region is stubbornly high, and in several countries even increasing.² Of course, should Western Europe's growth stay sluggish for a longer period (or even turn into recession) then the CECs would eventually suffer as well. And it would perhaps not be their economic growth that would be affected most. The main victim could easily be the *climate for enlargement in the EU*, and this just at a time when accession negotiations are entering their final and most difficult phase. The latest growth forecasts for the European (and especially the German) economy are not overly optimistic so that many uncertainties remain.

² For more details see Podkaminer et al. (2002) and *The Vienna Institute Monthly Report* 10/2002.

Despite the recent worsening of the external economic environment, especially in Germany, the majority of the CEC economies is expected to grow by about 3% to 4% on average in both 2002 and 2003 – only marginally less than during 2000-2001. A more pronounced slowdown occurred only in Poland, and here largely for domestic economic policy reasons, but a modest recovery seems to be underway. Inflation will slowly recede, but will remain higher than in the EU – just as unemployment. Current account deficits, though generally quite high, are of no immediate concern as their financing is secured by steady capital inflows.

With per capita real GDP currently at 62% of the EU average level (57% of the Austrian level – see Table 1), the *Czech Republic* is the second (after Slovenia) most developed CEC. After overcoming the second transitional recession of 1997-1999, the Czech economy has been growing by roughly 3% per year during the last couple of years. This tendency continued in the first months of 2002, despite weaker exports. Severe floods hit the country in August; the damage caused is estimated to reach nearly 5% of GDP. The growth forecast for the year 2002 was scaled down by about ½ percentage point, but in the medium run, GDP growth is likely to continue and even to strengthen thanks to massive FDI inflows. Up to the end of 2001, almost USD 27 billion FDI entered the country, pushing it into a top position among the transition countries in terms of accumulated FDI per capita. In case of a prolonged stagnation in the EU, the export growth would definitely weaken, whereas the internal business boom, with domestic demand as its engine fuelled by the appreciating currency, is likely to persist for the time being. Expansion of investment and private consumption will support GDP growth of around 3% in 2003. Ongoing improvements in the business sector will compensate the effects of weak foreign demand and the appreciating currency.

The *Hungarian* economy has been successfully catching up, especially after 1996. Last year GDP growth slowed down to 3.8% (after more than 5% in 2000) and the per capita GDP level reached 53% of the EU average (47% of Austria – see Table 1). The economic policy has undergone substantial changes recently: a new expansionary stance and the departure from the earlier exchange rate regime are exerting a considerable impact on the economy. Investments and household consumption have been growing prior to and after the general elections held in April 2002. With a deteriorating current account, largely due to a worse net export position, GDP growth rate may still exceed 3% in 2002. An upturn in exports and acceleration of overall growth may come in 2003 – in line with the expected modest upturn in the EU. However, the recent appreciation of the forint and huge hikes in wages may have an adverse impact on both industrial output and the foreign balances in future.

Table 1

GDP per capita at current PPPs (EUR/ECU), from 2002 at constant PPPs

	1990	1995	1999	2000	2001	2002	2005	2010	2015
							projection assuming 4% p.a. GDP growth and zero population growth p.a.		
Czech Republic	10038	11281	12542	13259	13958	14377	16172	19676	23938
Hungary	7209	8317	10560	11405	11870	12261	13792	16780	20416
Poland	4576	6302	8269	8791	9057	9057	9992	12157	14791
Slovak Republic	7486	8248	10487	10943	11575	11980	13476	16395	19947
Slovenia	10110	11607	14516	15482	16251	16739	18829	22908	27871
Bulgaria	4861	5006	6005	6500	7011	7256	8162	9931	12082
Romania	5342	5768	5054	5263	5660	5830	6558	7978	9707
Estonia	.	5734	7823	9002	9715	10104	11475	13961	16986
Latvia	7106	4447	6086	6689	7376	7782	8922	10855	13207
Lithuania	7352	5088	7305	7802	8470	8851	10051	12229	14879
							projection assuming 2% p.a. GDP growth and zero population growth p.a.		
Austria	15945	19937	22590	23801	24613	25105	26642	29415	32476
Germany	15052	19890	21795	23018	23557	24028	25499	28153	31083
Greece	8767	11920	13999	15014	16079	16400	17404	19216	21216
Portugal	9263	12761	15329	16208	17236	17581	18657	20599	22742
Spain	11500	14141	16806	17922	19037	19418	20607	22751	25119
EU(15) average	14750	18153	20790	21996	22879	23337	24765	27342	30188
European Union (15) average = 100									
	1990	1995	1999	2000	2001	2002	2005	2010	2015
Czech Republic	68	62	60	60	61	62	65	72	79
Hungary	49	46	51	52	52	53	56	61	68
Poland	31	35	40	40	40	39	40	44	49
Slovak Republic	51	45	50	50	51	51	54	60	66
Slovenia	69	64	70	70	71	72	76	84	92
Bulgaria	33	28	29	30	31	31	33	36	40
Romania	36	32	24	24	25	25	26	29	32
Estonia	.	32	38	41	42	43	46	51	56
Latvia	.	24	29	30	32	33	36	40	44
Lithuania	.	28	35	35	37	38	41	45	49
Austria	108	110	109	108	108	108	108	108	108
Germany	102	110	105	105	103	103	103	103	103
Greece	59	66	67	68	70	70	70	70	70
Portugal	63	70	74	74	75	75	75	75	75
Spain	78	78	81	81	83	83	83	83	83
EU(15) average	100	100	100	100	100	100	100	100	100

Sources: BENCHMARK RESULTS OF THE 1996 EUROSTAT-OECD COMPARISON BY ANALYTICAL CATEGORIES, OECD, 1999; PURCHASING POWER PARITIES AND REAL EXPENDITURES, 1999 BENCHMARK YEAR, OECD, 2002; National statistics; WIFO; WIIW estimates. Benchmark PPPs for 1996 and 1999 extrapolated with GDP price deflators. GDP per capita for OECD countries according to OECD Economic Outlook statistics converted into EUR.

Poland is the largest and at the same time the least developed country among the CECs considered here. Despite remarkable catching-up during the last decade its per capita GDP has barely reached 40% of the EU average (36% of Austria). Since the beginning of the year 2000, Polish economic growth has been slowing down and unemployment is growing. At the turn of 2001/2002 the economy was virtually stagnating. Available information on developments in the first months of 2002 suggests a slump in output and especially of investments. Under the still very high interest rates administered by the National Bank of Poland, and continuing strong nominal (and of course even stronger real) appreciation of the zloty, the situation of the bulk of non-financial companies was deteriorating. The precipitously falling investment indicates that the trough has not yet been reached. The deteriorating financial position of non-financial firms was addressed by a set of measures introduced by the new finance minister G. Kolodko. This emergency package may not only prevent massive bankruptcies, but also bring about a modest recovery in 2003.

The *Slovak* per capita GDP exceeds 50% of the EU average (48% of Austria) and the unemployment rate (nearly 20%) is, after Poland's, the second highest in the region. GDP has been growing by around 3% since 2001, mostly fuelled by an expansionary fiscal policy which stimulated higher consumption (and budget deficits). Thanks to FDI-related restructuring, exports are gradually shifting to higher-value-added branches such as manufacturing of electrical and optical equipment and transport equipment, but the trade (and current account) deficit is very high. The government speeded up privatization sales of banks and utilities. FDI inflows surged during the last two years and may reach USD 3.5 billion in 2002 thus securing the financing of the current account deficits. The GDP is forecast to expand by close to 4% in 2002 – largely thanks to a pre-election spending spree which spurred consumption and is probably not sustainable. However, the September 2002 parliamentary elections have cleared the path towards EU and NATO accession and will encourage FDI inflows as well. Still, the new government will have to stabilize public finances, and GDP growth is likely to slow down in 2003.

Slovenia is the smallest and at the same time the most developed CEC. During the last couple of years, the Slovenian economy has been growing by a remarkably steady rate of about 4% per year. The country's per capita GDP level (72% of EU average) is almost at the same level as Portugal's and higher than that of Greece (Table 1). Growth during 2000-2001 (4.6% and 3%, respectively) was mainly generated by foreign demand whereas weaker EU market growth could be largely compensated by exports to other regions (former Yugoslavia and Soviet Union). Domestic demand is strengthening, bank privatizations are in progress and FDI inflows will reach another peak in 2002. Based on the developments during the first months of the year, one may safely assume that the Slovenian GDP will grow by close to 3% in 2002 driven primarily by domestic demand,

while a more pronounced upswing might occur only in 2003, along with an improvement in the EU economy.

Austria belongs to the richest countries in Europe (per capita GDP is 108% of the EU average). During the first half of the 1990s its GDP growth had been faster than the EU average, but this reversed after 1996 as both investments and private consumption weakened. Economic growth decelerated from 3% in 2000 to just 1% in both 2001 and the first half of 2002. According to the WIFO September 2002 revised economic forecast, Austrian GDP growth may pick up to slightly more than 2% in 2003. However, a delayed improvement of business conditions in Europe cannot be excluded, given both the hesitant reaction of economic policy, depressed stock markets, the recent strengthening of the euro and higher oil prices. Domestic demand is fragile, especially investments and construction activity are showing clear signs of weakness. Inflation forecasts have been revised downwards substantially: both for this year and the next prices are expected to increase by less than 2%. However, unemployment has been on the rise, though the Austrian rate of unemployment (slightly more than 4%) is very low by EU standards (more than 8% on average). Over the period 2001-2005, GDP in Austria is projected to grow by around 2% on an annual average, closely in line with the pace expected for the EU.

Taken together, the expected growth rates of the economies in the region would imply that the pace of the CECs' catching-up vis-à-vis the EU in terms of per capita GDP is going to be about 2 percentage points per year – as assumed in the catching-up scenario presented in Table 1. Under these assumptions, CECs will remain less developed regions of Europe for years.

Macroeconomic effects of EU enlargement

Several recent studies have illustrated the extreme difficulties related to the evaluation of costs and benefits associated with EU enlargement.³ Apart from the detailed evaluation reports by the EU Commission on the progress towards accession made by each of the candidate countries,⁴ there has been also a number of studies analysing either regional/sectoral impacts on EU member states (including Austria),⁵ or on industries in the candidate countries.⁶ As far as the CEC candidates are concerned, their benefits from accession will no doubt be substantial in the medium and long run, provided they enjoy free access to the European market and become beneficiaries of the European redistribution schemes. But the new members' immediate costs associated with accession

³ Mortensen and Richter (2000); Breuss (2001).

⁴ See http://www.europa.eu.int/comm/enlargement/report_11_00/index.htm#Pre-Accession.

⁵ See results of the Interreg IIC 'Preparity' project: <http://www.preparity.wsr.ac.at>; OeNB (2002).

⁶ See http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/studies.htm.

will also be considerable since accession requires a forced adjustment process to norms and standards (*acquis communautaire*) devised for countries which have already undergone a long process of integration with each other and which are, with some exceptions, at a much higher level of economic development.⁷ Temporary exemptions and well-calibrated transitory regulations may significantly diminish the pains of adjustment – but also reduce potential gains. For a reliable costs-benefits analysis, however, exact knowledge of the outcome of the accession negotiations and a careful mapping of the nature and scope of potential costs/benefits in each segment of the applicant countries' economy would be necessary.

At the moment, we know that *transitory arrangements* will be applied in sensitive areas such as the free movement of labour and capital, the implementation of EU environmental standards, and very likely also in the full participation in structural funds and in the common agricultural policy. Moreover, the transition to market economy has not been completed yet, and some important reforms that are still part of the transition process coincide with reform steps necessitated by the preparations for EU accession. A distinction between the consequences of the simultaneous transition and integration processes is very difficult if not impossible. As of 1 October 2002, Slovenia has provisionally closed 28 chapters (out of 30) in its accession negotiations with the EU, Poland and Slovakia 27 each, Hungary 26 and the Czech Republic just 25. All CECs have grudgingly accepted the required (especially by Austria and Germany) maximum seven-year transitory period for the free movement of persons. But several key and most disputed issues (agriculture, finance and budget, in most CECs also competition policy) are still under discussion. It is nearly impossible to predict the outcome of the ongoing negotiations (and therefore to estimate the economic effects of accession). The final decision on the most difficult chapters, which are related to financial transfers (agriculture, finance and budget), will most likely be adopted only at the forthcoming Copenhagen Summit in December 2002.

Despite the numerous problems, there are already some studies in the literature which analyse the potential welfare effects of EU enlargement.⁸ The shortcoming of most of these calculations is that they do not include all possible integration effects which one can expect from this specific kind of regional integration and, on the other hand, that they mostly analyse the consequences just for the blocks EU and CECs. A recent estimation of the macroeconomic effects emanating from the process of EU enlargement tries to remedy these shortcomings, and we shall first present its main assumptions and findings below.⁹

⁷ However, the recent ECOTEC study stresses substantial benefits from the full implementation of EU environmental directives for health, resources and eco-systems, especially in the medium and long run – see ECOTEC et al. (2001).

⁸ For a survey of model simulations, see Breuss (1999).

⁹ For details see Breuss (2001) and the 'Preparity' project quoted in footnote 5 above.

The integration of a group of highly developed economies with a group of poorer countries which are still in the process of transition not only determines the trade flows, but also induces factor movements (labour and capital). Due to the fact that the economic size of the new member countries is quite small compared to the EU-15 (the combined real GDP of the CEC-5 is just 8% of the EU-15 and only 4% in nominal terms), the derived impact of their own development on the present Union is always likely to be small. The new members will enter into the highest stage of economic integration with the EU (customs union, Single Market and lastly Economic and Monetary Union – EMU). For the time being, it is realistic to assume that the new members will enter the EU only on the level of the Single Market.¹⁰ The estimations therefore refer to the implications of entering into the Single Market of the EU (by assumption in the year 2005) and deal with the following specific effects:

- *trade effects: abolition of remaining import tariffs and of trade costs;*
- *Single Market effects: improvement in efficiency and more price competition;*
- *factor movements: foreign direct investment (FDI) from the West to the East; labour migration in the opposite direction;*
- *costs of enlargement/transfers to the CECs.*

The main simulation results (cumulated deviations from the baseline growth scenario in per cent of GDP) are presented in Table 2. Due to the fact that nearly 70% of CEC exports go to the EU, but only 4% of total trade of the EU is transacted with the CECs, we get asymmetric trade effects that are larger for the CECs than for the EU. The trade effect leads to an increase of real GDP in the EU of roughly 0.05% cumulative over the period 2005 to 2010. Austria, Ireland and the Netherlands would gain the most (cumulative around ¼ percentage point of their real GDP), some countries (Spain, the United Kingdom) would lose. The trade-induced GDP effect in the CECs is much bigger. In Hungary, real GDP would be boosted by around 4% (again cumulated over the period 2005 to 2010), in Poland and the Czech Republic by about half of that. The elimination of the remaining import tariffs will result in lost budget revenues of about 1% of GDP. The trade effects do not imply major disturbances in other macroeconomic variables: generally, prices and employment increase, unemployment rates decrease. However, in the CECs the budget and the external positions deteriorate.

Enlargement will contribute to a widening of the European Single Market. This will result in increasing competitive pressure on the accession countries but also – to a lesser degree – on the present members of the EU. Taking the experiences with the Single Market programme as a benchmark, this should result in an increase of productivity (exploiting

¹⁰ A participation in EMU right after accession is neither possible (because most of the candidate countries do not yet fulfil the convergence criteria) nor probably desirable.

economies of scale) and also in a decrease of the price levels (via reduced mark-ups). Together, this will *increase the growth potential* in the CECs as well as in the EU. Due to the assumed asymmetry in the productivity shocks, real GDP develops better in small EU countries: Belgium, Austria, Finland and Ireland will see an increase of GDP by around 0.5%, cumulated until 2010, although with decreasing speed. Increased labour productivity has a trade-off on the labour market: employment decreases, unemployment increases. Competitiveness, measured by the real exchange rate (relative unit labour costs), improves. Improved labour productivity implies also a redistribution of income from labour to capital. For the CECs, the macro effects are similar in structure to those described for the old EU member states, but much larger in size, due to the higher productivity shock. Real GDP increases by around 1% in the CECs (cumulated 2005 to 2010), although with a different time pattern in each of these countries (see Table 2).

Table 2

Integration effects of EU enlargement: real GDP growth

(cumulative deviations from baseline scenario in per cent)

	Trade effects		Single Market effects		FDI flows to CECs		Migration to the EU		Costs of enlargement		Total effects	
	A	B	A	B	A	B	A	B	A	B	A	B
Austria	0.20	0.14	0.59	0.64	-0.09	-0.29	0.13	0.16	0.00	0.01	0.83	0.66
Poland	1.95	2.47	1.23	2.07	0.21	0.45	0.02	-0.12	1.87	3.15	5.26	8.02
Hungary	3.95	4.20	1.58	1.25	0.32	0.81	0.03	-0.09	1.45	2.23	7.32	8.40
Czech Republic	1.79	2.84	1.02	0.54	0.14	0.37	-0.03	-0.08	1.10	1.98	4.03	5.65
Germany	0.15	0.01	0.50	0.37	-0.07	-0.12	0.06	0.23	-0.01	-0.01	0.63	0.48
France	0.02	0.12	0.21	0.27	-0.10	-0.21	0.03	-0.03	-0.05	-0.04	0.10	0.11
Italy	0.09	0.16	0.46	0.49	-0.04	-0.09	0.02	-0.03	-0.03	-0.03	0.50	0.50
United Kingdom	0.01	-0.06	0.22	0.19	-0.01	0.02	0.03	0.05	-0.02	-0.02	0.24	0.18
Spain	-0.06	-0.11	0.48	0.37	-0.11	-0.41	0.04	0.05	-0.08	-0.07	0.28	-0.18
Netherlands	0.08	0.17	0.72	0.31	-0.08	-0.21	0.05	-0.08	-0.06	-0.04	0.71	0.15
Belgium	0.06	0.09	0.31	0.40	-0.06	-0.21	0.03	-0.02	-0.01	-0.01	0.33	0.26
Sweden	0.04	0.06	0.65	0.04	-0.06	-0.16	0.07	-0.02	0.00	0.00	0.69	-0.07
Denmark	0.07	0.07	0.35	0.10	-0.07	-0.21	0.02	-0.05	-0.01	-0.02	0.35	-0.11
Finland	0.07	0.08	0.52	0.55	-0.09	-0.33	0.05	0.02	-0.02	-0.02	0.53	0.31
Ireland	0.07	0.20	0.64	0.77	-0.14	-0.40	0.05	-0.05	-0.15	-0.13	0.47	0.40
Portugal	0.04	0.12	0.68	-0.12	-0.09	-0.14	0.05	-0.12	-0.05	0.05	0.63	-0.21
EU	0.07	0.05	0.40	0.33	-0.07	-0.16	0.05	0.06	-0.03	-0.03	0.42	0.26

A = average of 2005/2006

B = average of 2008/2010

Source: Breuss (2001).

The four freedoms of the Single Market (free movement of goods, services, capital and labour) would imply that one deals with factor movement in connection with EU enlargement under the heading 'Single Market effects'. However, both important factor movements (capital movements from the West to the East and labour migration from the East to the West) are evaluated separately. It is indisputable that the CECs will receive more FDI when entering the Single Market of the EU. However, it is less certain how to implement this factor movement on the side of the sender countries. Additional FDI in the CECs may reduce the investment potential in the EU (and/or in the rest of the world), or it may have just an indirect dampening effect via higher interest rates.¹¹ As a consequence, we may see a slight decline of real GDP in the EU on average (by 0.1-0.2% of GDP). Smaller countries (including Austria) will be hit harder than large countries. In the CECs we get a strong positive impulse for real GDP, strongest in Hungary with up to 1% of additional GDP, followed by Poland (+3/4%) and the Czech Republic (+1/2%). Increased capital movement after EU accession results therefore in the CECs gaining a FDI (welfare) surplus, whereas the sender countries in the EU may be confronted with a FDI (welfare) loss (Table 2).

The hottest political potato connected with the enlargement debate is migration (see the special section below). Labour migration may disrupt labour markets if free movement of persons is granted to the new members right from the beginning. The implemented migration scenario is based on the recent estimations for the European Commission, adapted in the model in order to fit into the assumed time schedule for enlargement and to the bilateral CEC-EU trade flows. The model simulations with migration lead to the well-known pattern of immigration surplus in the recipient countries (EU) and to migration losses in the sender countries (CECs). Firms in the EU can produce more with more labour at lower wages. As a result real GDP increases – relatively strongest in Germany (+1/4% in 2010) and Austria (+0.15%) – while it declines in the CECs (Poland, Hungary, Czech Republic) by around the same amount as Austria wins. As a consequence of the increase (decrease) of labour supply the unemployment rate goes up (down) initially in the EU (the CECs). Over time – and after the migration flow has diminished – the disequilibria on the labour market disappear. Migration has of course also to do with redistribution of income: in the recipient countries there is a shift from wages to profits, in the CECs it is the other way round.

Apart from migration, the *costs of enlargement* represent a potential cause for concern on the part of EU citizens. Breuss (2001) estimated the costs of enlargement related to the three CECs (and their distribution on the present EU member states) on the basis of the Agenda 2000 as adopted by the special European Council in Berlin in March 1999. The

¹¹ The reasoning behind is that additional capital demand in the EU will increase interest rates. This may indirectly crowd out investment in the EU countries.

Agenda 2000 excluded an increase of own resources from the present limit of 1.27% of EU GDP. That means that the costs of enlargement have to be borne by the present EU member states by way of savings on transfers in the CAP and on structural funds. The reform of these two policy areas already implies that those countries which were net receivers out of the EU budget will have to bear a higher burden than the so-called net payers (including Austria). The Agenda 2000 has cut the transfers for structural policies much more strongly than those for the CAP. That means that the so-called cohesion countries (Greece, Ireland, Portugal and Spain) will bear the highest burden. The accession of the CEC-3 considered in Breuss' model simulations would cost EUR 134 billion over the period 2000 to 2010 (that is including the pre-accession assistance), or 0.11% of EU GDP (or 2.5% of CEC-3 GDP). While the burden of the costs of enlargement for the majority of the EU member states is below the EU average (average 2005 to 2010: 0.03% of GDP), the cohesion countries have a higher cost burden: The deterioration in the budget balances and current account balances in the EU is accompanied by small decreases in real GDP. In the CEC-3, however, not only would the budget and current account balances improve, but more importantly, the stimulus for infrastructure investment would result in a higher real GDP. Real GDP would increase by around 3% in Poland and by over 2% in Hungary and the Czech Republic (Table 2).¹²

For the EU on average, and even more so for the CECs, *EU enlargement is thus a win-win situation* also in economic terms. One can safely assume that due to the differences in the size of the economies involved in the enlargement process, the CECs will on average gain around ten times more than the EU. Taking together all possible *economic* integration effects associated with the enlargement project, Hungary and Poland may increase their real GDP by around 8% over a ten-year period (including the pre-accession period 2001 to 2004), i.e. achieving nearly 1 percentage point higher yearly growth than without accession. The Czech Republic gains slightly less (up to 6%, or 1/2 to 3/4% higher yearly growth – see Table 2) just as – by assumption – Slovakia and Slovenia. The EU on average would gain less than 1/2% higher real GDP over a six-year period (2005 to 2010), or less than 1/10 of a percentage point higher yearly growth. In particular, those countries with close ties to the CECs, such as Austria, Germany and Italy, will gain more than the EU average; Austria's real GDP could increase by 3/4% of GDP, implying around 0.15% higher yearly growth. For some countries in the EU, however, the costs surpass the benefits (in particular this is true for Spain, Portugal and Denmark). In the case of Austria,

¹² However, a study evaluating the balance between transfers from and contributions to the EU budget by the new members of the EU (on the basis of the EU Commission's financial framework proposal from 30 January 2002 – see EC Information Note from 30 January 2002, Brussels SEC(2002) 102 final) – came to the conclusion that the new member states may become *net contributors to the EU budget* in the first year after accession; see Richter (2002). This was confirmed in a working paper of the EU Commission in September 2002. The EU foreign ministers, however, have on their meeting on 1 October 2002 failed to agree on a deal that would allow all candidate countries to receive more money than they pay into the EU budget after accession – see <http://www.EurActiv.com>.

the country which is probably the *biggest enlargement winner among the present EU members*, the Single Market effects account for 3/4 of the total GDP effects. Trade effects and immigration surplus are much less important, the costs of enlargement are negligible. In any case the stronger growth impact of enlargement in the CECs spurs convergence of GDP per capita and hence reduces the migration potential.

In view of the newly emerged uncertainties related to the date and precise modalities of accession, Breuss (2002) recently attempted to apply his model in order to estimate costs of non-integration (as well as of delayed integration). Apart from the trade effect (which remains by assumption unaffected), the resulting *costs of non-integration* mirror the gains presented in Table 2 above. Austria would lose around 0.8% of the potential GDP as a result of delayed enlargement, the foregone gains would be much larger in Poland (5% of GDP), Hungary (4%) and the Czech Republic (3%). Needless to say, apart from economic costs the associated political damage for the whole of Europe would be substantial.

Labour market and migration

A decade of transition has brought about dramatic changes on the labour markets in the CECs.¹³ The whole process has been accompanied by a sharp contraction of employment, soaring open unemployment, a massive exit from the labour market and only moderate job creation. The employment drop is clearly reflected in falling activity and employment rates in all countries, with slight recovery observed only in Hungary and Slovenia over the past two years. The past decade witnessed also significant changes in the economic structure and consequently in the sectoral composition of GDP and employment. In most countries a reallocation of labour occurred, from agriculture and industry to the services sector. Opposing that trend, in Poland the proportion of those employed in agriculture is still very high, comprising up to a quarter of total employment. Employment in industry has declined in the whole region since 1989, but despite huge job losses, industrial employment is still high compared with western countries. Especially Slovenia, the Czech Republic and Slovakia report high shares of employment in industry, reaching close to 40% of the total. Services sector employment gained momentum from 1992 onwards and accounted for the largest share in total employment by the end of the decade in all CECs. Hungary reports the highest levels of services sector employment, the shares are similar to those in the southern EU countries. Similarly, employment in the private sector, either following the privatization of huge state-owned enterprises or due to the establishment of new firms, rose significantly during transition. Its share in total employment is varying from over 50% in Slovenia to 70% in Poland.

¹³ For more details see, for instance, Vidovic (2001).

Unemployment, while believed to be of a temporary nature at the beginning of transition, has become a long-lasting phenomenon. By mid-2002 unemployment rates reached high two-digit levels in Poland and in Slovakia. A gradual increase of unemployment has recently been observed in the Czech Republic as well. Only Hungary and Slovenia witnessed a reduction of unemployment recently (Table 3).

Table 3

Registered unemployment, end of period

	in 1000 persons				rate in %					
	1999	2000	2001	2002 June	1999	2000	2001	2002 June	2002 forecast	2003 forecast
Czech Republic	487.6	457.4	461.9	454.3	9.4	8.8	8.9	8.7	9.5	9.4
Hungary ¹⁾²⁾	284.7	262.5	232.9	232.5	7.0	6.4	5.7	5.7	5.8	5.7
Poland	2349.8	2702.6	3115.1	3090.9	13.1	15.1	17.4	17.3	18	18
Slovak Republic	535.2	506.5	533.7	507.0	19.2	17.9	18.6	17.6	18	17
Slovenia	114.3	104.6	104.3	100.1	13.0	12.0	11.8	11.3	11	10
CEEC-5 ³⁾	3771.7	4033.5	4447.9	4385.8	12.5	13.3	14.6	15.0	15.3	15.0

Notes: 1) Based on Labour Force Survey data. - 2) Period average. - 3) Unemployment rates estimated by WIIW taking into consideration Hungarian registration data.

Source: WIIW Database incorporating national statistics, forecast: WIIW.

Although there are substantial inter-country differences, several common features of CEC unemployment patterns can be identified:

- (1) there are huge regional disparities of unemployment (see Figure 1);
- (2) the proportion of long-term unemployment is steadily on the increase;
- (3) in most countries women are more affected by unemployment than men;
- (4) youth unemployment has been increasing rapidly;
- (5) unemployment levels among ethnic minorities and other socially disadvantaged groups are above-average and very high.

A number of studies have analysed the migration and commuting potential that could result from EU enlargement.¹⁴ The approaches adopted in these studies range from opinion surveys to econometric modelling of potential migration flows. The findings are not discussed in any detail here. Only a few issues are mentioned to assess the insights gained from these studies and the caution necessary in interpreting them for policy purposes.

¹⁴ See Fassman and Münz (2002) and CEPR (2002) for a recent overview.

The best known study based on survey data attempted to focus on that group of would-be migrants who not only express a general wish to migrate but also have undertaken concrete actions in this direction.¹⁵ The advantage of this procedure is that it narrows the gap between 'migration wish' and its 'realization'. The drawback of such an approach is that it only assesses the supply side of migrant flows. Besides, it only reveals the situation at the point of time of the survey (in this case 1996). As the date of entry of the prospective candidate countries to the EU will be some time around 2005, the insights gained from this type of study are of limited value. In any case, the number of would-be migrants emerging from four CEC candidate countries (Czech Republic, Slovakia, Poland and Hungary) to the EU amounted to about 700,000 persons, of which 150,000 indicated that Austria was their preferred target country. These numbers are, interestingly, in line with estimates obtained in later studies that are using entirely different methodologies.

Studies based on modelling approaches are becoming quite numerous; they infer migration flows from actual time series and cross-section data across countries or regions in the EU or other parts of the world.¹⁶ They use as explanatory variables income gaps, labour market conditions in the host and the source countries, stocks of migrants already present in the target country, as well as distance and institutional variables. The estimates turn out to be highly sensitive to econometric specification and the estimation technique. Nonetheless, as they are based on actual data on past migration flows (in more or less liberalized labour market conditions) they are important contributions towards quantifying the potential impact of various determinants of migration. A direct application of the results of these studies to prospective CEC-EU migration flows should however be done very cautiously for a number of reasons:

- first, due to the very restrictive migration policies applied in EU countries (Austria in particular) from the early/mid-1990s onwards, there might be a 'migration (and commuting) backlog' (more technically: a large gap between actual and 'equilibrium stocks');
- second, there might be geographic, cultural-historical and social features which make the relations between particular CECs and EU countries very specific, thus hampering inference from cross-section estimates obtained from other geographic regions;
- third, to apply model estimates to CEC-EU relations at some future date (say, 2005) one needs to forecast the values of the main explanatory variables, such as future income gaps, labour market conditions in target and source countries, etc. Given the still unsettled state of most of the 'transition economies' with respect to the trend growth rates of their economies, as well as labour market conditions, a high degree of uncertainty is associated with such forecasts.

¹⁵ Fassmann and Hintermann (1997).

¹⁶ Walterskirchen and Dietz (1998); Birner, Huber and Winkler (1998); Franzmeyer and Brückner (1997); Brückner (1999).

The estimated stock adjustments predicted by econometric studies (in the range of 150-200,000 migrants from five neighbouring CECs to Austria or yearly migration flows between 23,000 and 40,000 until the 'stock' and 'developmental gaps' have diminished) are to be treated with caution – but they are the only quantitative indicators of potential migration flows that are currently available.¹⁷

One of the more detailed recent studies, produced for the European Commission by a consortium of EU research institutes (used in the above-quoted enlargement effects estimates by Breuss),¹⁸ confirms that the overall impact on the EU labour market should be limited. However, it is important to note that labour migration would be concentrated in just a few EU member states and, therefore, there is an 'option value to waiting before making an irreversible decision such as allowing free movement of labour'.¹⁹ Estimated labour migration flows from CEC applicant countries to the EU after accession would amount to around 70,000 workers annually (or 200,000 people, if we include those who are not working), assuming free movement of labour as from 2002.²⁰ These inflows would fall to half their initial level after ten years. Based on the present distribution of candidate country nationals in the EU, around two thirds of this flow would be directed to Germany (i.e. around 45,000 workers per year in the first few years). The second largest recipient would be Austria with over 10% of the flow (i.e. about 8,000 workers per year). For Austria, the number of CEC residents is estimated to increase from around 100,000 (year 2000) to about 350,000 in 2010 and 470,000 in 2030, corresponding to an increase in the share of migrants from the CECs in the Austrian projected population from 1.3% in 1998 to 5.5% in 2030.

For the EU member states located in the immediate geographical neighbourhood of several of the CEC candidate countries, *commuting* is seen as a potential source of trouble in border regions. Unfortunately, as regards estimates of the 'commuting potential', the situation is even more difficult than with migration. There is a clear research deficit here and there are singularities in the particular situation of Austrian-CEC relations which make it very difficult to draw inferences from other historical experiences. The very large nominal earnings gaps between Austrian and CEC border regions (at times in the order of 15-25:100) could imply non-linear behavioural responses which could not so far be tested in other historical circumstances. Furthermore, the geographic closeness of large urban agglomerations on both sides of the current Austrian-CEC borders is unique. Existing estimates of the commuting potential between Austria and its CEC neighbours (between 50,000 and 70,000 persons over the first five years after liberalization, with some estimates going up to 150,000

¹⁷ Landesmann (2000a).

¹⁸ Brücker and Boeri (2000).

¹⁹ CEPR (2002), p. 23.

²⁰ We know already that the final liberalization of labour migration may be postponed even up to 2011-2012.

over a ten-year period) apply a framework similar to that used for estimating the migration potential.²¹ However, the emphasis is here on nominal earnings gaps (rather than real income gaps) and 'border regions' have to be clearly defined as commuting distance is limited. Important explanatory variables are left out of the existing studies, such as the existence of traffic infrastructure and conditions with respect to housing (for weekly, monthly or seasonal commuters). Furthermore, more detailed regional development indicators on the Austrian-CEC borders would need to be more carefully integrated into the models. CEC border regions usually have below-average unemployment rates (see Figure 1) and companies in e.g. West Hungary, Bratislava or South Bohemia already now face difficulties getting the workers needed since the mobility of labour in CECs is rather low. Lastly, there has been no attempt to analyse to which extent migration and commuting flows are substitutive for or complementary to each other.²²

Europe is facing an ageing population and the challenge of maintaining a sufficient workforce in order to preserve economic growth and to safeguard the viability of pension and social security systems is huge.²³ With regard to demographic trends there are basically three main ways of maintaining a sufficient labour force and a sustainable dependency ratio:

- to reduce the unemployment rate;
- to increase the labour participation rate;
- to import additional labour through migration.

A Commission Communication of 1999 outlined a possible development assuming that net migration remains stable (at around 600,000 persons annually) and that the first two options can be fully exhausted rather quickly.²⁴ Even then, labour force declines set in at a certain stage. A recent UN study estimated that, other things being equal, an average net migration of 1.4 million people per year would be needed between 1995 and 2050 to maintain a stable working-age population in the EU (in 2005-2010: 550,000 per year; in 2010-2015: 1.6 million per year).²⁵

²¹ Huber (1998); Walterskirchen and Dietz (1998).

²² Landesmann (2000a) and WIIW (2000); see also <http://eu-enlargement.org/discuss/default.asp?topic=research&forumid=21>

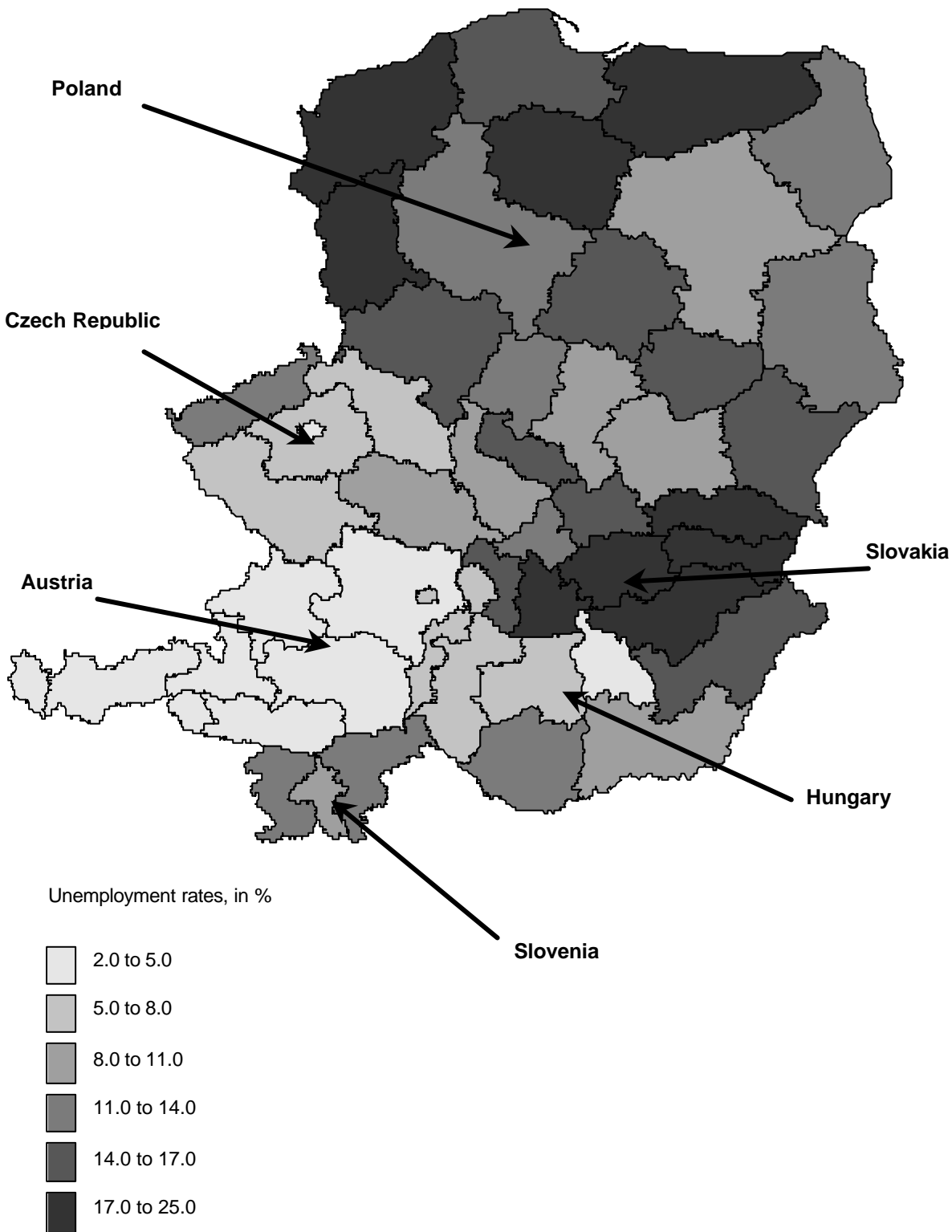
²³ European Commission (2001).

²⁴ European Commission (1999).

²⁵ UN Secretariat (2000).

Figure 1

**Unemployment rates by regions in Central and Eastern Europe
and in Austria**
(in %)



In the light of the similar demographic trends in both the present EU and the CEC candidate countries, migration/labour shortages may become a major source of concern in CECs as well. The solution may be either rapid catching-up of wages with the EU (with the potential for deteriorating the competitiveness of CEC candidate countries) or opening up these economies to migration from other parts of the world. Blocking inward migration while outward migration continues (due to prevailing huge wage differentials between old and new EU members) would negatively affect both economic growth and the stability of social security systems in CECs.

Generally, most research results suggest that immigration confers small net gains in terms of per capita output to the host country, but the benefits are not necessarily distributed evenly across the population. Research also shows that past immigration has had little effect on native unemployment.²⁶ The short-term negative impact of EU enlargement on the Austrian labour market is assumed to be moderate. Even if calculated with extreme conditions concerning the development of migration, the impact is tolerable. If the total potential migration (about 150,000 persons) came to Austria within one year,²⁷ which is highly unlikely and would be equal to an increase in the share of foreign labour in the total labour force by 4 percentage points, the unemployment rate would rise by about 1.3 percentage points. On the income side the wages of the low-skilled employees would decline by 0.4% but the wages of the high-skilled employees would rise by 0.4%.²⁸

The Information Note of the European Commission assumes that net immigration impacts on government expenditures and revenues at the national level are negligible.²⁹ In a longer-term perspective, immigration can limit the adverse impact on living standards and government budgetary positions due to declining and ageing populations, but immigration cannot on its own resolve the problem. In a recent study about the budgetary impact of the eastern enlargement in Austria a balance was drawn between additional revenues due to increased tax and social security contributions and additional expenditures via increased unemployment benefits paid to those residents who will be crowded out from the domestic labour market by migrants and commuters.³⁰ The balance depends on assumptions regarding the future rate of crowding-out (the number of Austrian residents losing their job to new migrants and commuters combined related to the number of total jobs occupied by new migrants and commuters in a given period). Applying a range of 2/3 to 1/3 for the crowding-out rate, the budgetary impact of migration may amount to -0.2% (worst case) to +0.1% (best case) of the Austrian GDP. The study underlines the importance of the actual crowding-out rate compared to the actual number of migrants and commuters.

²⁶ European Commission (2001).

²⁷ Fassmann and Hintermann (1997).

²⁸ Landesmann (2000b) and OeNB (2002).

²⁹ European Commission (2001).

³⁰ Nietsche (2001).

The migration chapter was (provisionally) closed with all CECs at the end of 2001. These countries have accepted the EU's request for temporary (maximum seven years) restrictions on labour migration, delegating the decision on a possible lifting of these restrictions to the competence of the individual member states. Hungary, which closed this chapter as the first of the CECs, required the right to treat the persons willing to migrate to Hungary from the individual EU members according to the prevailing Hungarian national regime as long as the individual source country does not apply the *acquis* on free movement of persons to Hungary. This solution was also applied for Slovakia. The other applicant countries, especially Slovenia, Poland and the Czech Republic, initially unwilling to accept restrictions on migration, have finally agreed to accept transitory restrictions in December 2001 as well.

Certainly, political considerations play a very important role in this segment of the accession process. As indicated again by the recent EU summit in Seville in June 2002, the governments of EU member states cannot neglect the fears of the population or fragments of the population in their country even if a sober economic assessment of the possible migration-related problems does not give any reasons for concern.³¹ On the other side, the applicant countries cannot easily retreat from requiring equal treatment for their citizens in the enlarged EU without the danger of losing face in the domestic political arena either. Apart from the political considerations there is no clear picture about the costs and benefits of the applicant countries from unrestricted migration. Additional incomes from transfers by emigrants or domestic spending of incomes earned by commuters abroad must be weighed against the social costs of investment into the human capital that may be partially lost due to emigration. Commuters may pay taxes and social security contributions in the country where they work but use certain public services in their home country where they do not pay taxes. Although the societies of the source countries may also gain from a later return of a part of the emigrants who 'import' new work culture, skills and occasionally accumulated starting capital for new ventures, increased brain drain may become a painful consequence of the liberalization of the movement of persons. Nevertheless, temporary restrictions will not influence this process as those persons whose skills are needed in the EU have already had and further on will have access to the EU labour market. Needless to say, introducing selective immigration quotas for highly qualified workers from CECs (e.g. IT specialists) while keeping general labour migration restrictions in place is highly problematic for the CECs' catching-up and financing their social systems. More labour market flexibility and reforms in EU-wide redistribution policies will be needed in order to more effectively absorb the potential shocks associated with EU enlargement.³²

³¹ See <http://ue.eu.int/newsroom/up.asp?MAX=&BID=76&DID=71212&File=/pressData/en/ec/71212.pdf&LANG=1>.

³² See CEPR (2002).

Trade and foreign direct investment (FDI)

Trade integration between the EU and the CEC candidate countries progressed with remarkable speed during the 1990s. Developments were rather dynamic: EU exports to the region increased about eight times, imports more than seven times, between 1990 and 2001. After trade liberalization and re-orientation, the EU is nowadays the most important trading partner for all candidate countries, accounting for nearly 60% (Slovakia) to 75% (Hungary) of their total exports (Table 4). From this point of view, most CECs are thus already now more integrated into the EU than many member states (including Austria, where EU exports represent just 60% of the total). EU-CEC intra-industry trade has been rapidly growing. Meanwhile, Hungary (since 1997), Slovakia (since 1999) and the Czech Republic (since 2001) record surpluses in trade with the EU whereas Poland and Slovenia have trade deficits.

Table 4

		CECs' exports by region							
		shares of regions in the total, in %							
		1990	1995	1996	1997	1998	1999	2000	2001
Czech Republic¹⁾	EU(15)	38.4	60.5	58.6	59.8	64.0	69.2	68.6	68.9
	Austria	5.0	6.6	6.5	6.5	6.4	6.5	6.0	5.8
	Total (EUR mn)	7098.8	16501.6	17691.3	19811.8	23070.4	24640.9	31482.7	37254.6
Slovak Republic²⁾	EU(15)	40.8	37.4	41.3	41.7	55.7	59.4	59.0	59.9
	Austria	7.2	5.0	6.0	7.0	7.5	8.0	8.4	8.1
	Total (EUR mn)	2264.2	6634.5	7048.0	7299.0	9540.6	9602.2	12879.5	14100.8
Hungary³⁾	EU(15)	42.1	62.7	62.7	71.2	73.0	76.2	75.1	74.3
	Austria	7.5	10.1	10.6	11.4	10.6	9.6	8.7	7.9
	Total (EUR mn)	7500.4	9972.3	10471.6	16910.1	20476.8	23491.0	30544.5	34082.0
Poland	EU(15)	52.7	70.0	66.2	64.0	68.3	70.5	69.9	69.2
	Austria	3.7	2.1	2.0	1.8	2.0	2.0	2.0	2.0
	Total (EUR mn)	11250.3	17709.9	19488.2	22798.4	25145.4	25729.3	34382.6	40374.7
Slovenia⁴⁾	EU(15)	64.8	67.0	64.6	63.6	65.5	66.1	63.8	62.2
	Austria	5.4	6.4	6.6	6.8	6.9	7.3	7.5	7.5
	Total (EUR mn)	3244.1	6426.3	6640.8	7413.4	8051.9	8037.0	9505.1	10347.9

Notes: 1) From 1995 new methodology. - 2) From 1998 according to new methodology. - 3) From 1997 including trade of firms with customs-free legal status. - 4) From 1992 including exports and imports for commission processing.

Source: WIIW database incorporating national statistics.

Austria is, usually after Germany and Italy, a leading trading partner of CECs - especially for Hungary, Slovakia and Slovenia, while it is less important for Poland (Tables 4 and 5). From the Austrian point of view, CECs accounted for nearly 12% of total exports and about 9.5% of total imports in 2001 (Table 6). Between 1995 and 2001, Austrian exports to CECs doubled (while its total exports grew by 77%), imports from CECs expanded by 150% (total imports grew by 60%). Last year's Austrian exports to CECs amounted to nearly EUR 8.9 billion and thus exceeded its combined exports to the USA and Switzerland (in fact exports to Hungary alone were nearly equal to exports to the USA). The Austrian trade balance with the CECs has traditionally been in surplus (EUR 1370 million in 2001), thus compensating at least a part (nearly one third in the year 2001) of the traditional trade deficit. Moreover, the overwhelming part of Austrian exports to CECs (85-95%) consists of manufactured goods and the trade with CECs thus has a clearly positive impact on both

Table 5

		CECs' imports by region							
		shares of regions in the total, in %							
		1990	1995	1996	1997	1998	1999	2000	2001
Czech Republic¹⁾	EU(15)	40.5	61.0	62.4	61.8	63.5	64.2	62.0	61.8
	Austria	6.9	6.1	6.0	5.9	5.8	5.7	4.9	4.6
	Total (EUR mn)	7697.7	19403.7	22189.7	24014.3	25289.4	26387.4	34875.7	40693.0
Slovak Republic²⁾	EU(15)	44.8	34.8	37.3	39.4	50.1	51.7	48.9	49.8
	Austria	12.3	5.1	4.8	4.9	4.7	4.8	3.9	4.1
	Total (EUR mn)	2513.2	6782.6	8877.7	9119.0	11634.7	10627.7	13859.8	16483.8
Hungary³⁾	EU(15)	43.1	61.5	59.8	62.8	64.1	64.4	58.4	57.8
	Austria	10.0	10.7	9.5	10.6	9.6	8.9	7.4	7.4
	Total (EUR mn)	6770.9	11905.2	12911.6	18779.5	22871.2	26287.8	34856.3	37654.1
Poland	EU(15)	51.1	64.6	63.9	63.8	65.6	64.9	61.2	61.4
	Austria	4.9	2.5	2.2	2.0	1.9	1.9	1.9	2
	Total (EUR mn)	7484.4	22490.9	29677.1	37484.2	41539.3	43151.2	53121.9	56222.7
Slovenia⁴⁾	EU(15)	69.0	68.8	67.5	67.4	69.4	68.9	67.8	67.7
	Austria	9.0	9.7	8.9	8.4	7.9	8.0	8.2	8.3
	Total (EUR mn)	3684.4	7327.0	7536.3	8289.7	8999.4	9482.0	10995.7	11341.9

Notes: 1) From 1995 new methodology. - 2) From 1998 according to new methodology. - 3) From 1997 including trade of firms with customs free legal status. - 4) From 1992 including exports and imports for commission processing.

Source: WIIW database incorporating national statistics.

Table 6

Austrian foreign trade with CECs

in EUR million*

		1995	1996	1997	1998	1999	2000	2001
Czech. Rep.	Exports	1154.1	1290.1	1526.5	1585.5	1698.0	1999.4	2149.7
	Imports	917.8	1043.8	1277.7	1448.7	1625.6	1921.1	2119.3
	Balance	236.3	246.2	248.8	136.7	72.5	78.3	30.4
Slovak Rep.	Exports	414.2	562.3	700.7	689.9	672.0	767.8	945.6
	Imports	383.8	475.2	588.4	657.2	764.3	1042.3	1112.3
	Balance	30.4	87.1	112.3	32.7	-92.3	-274.5	-166.7
Hungary	Exports	1534.6	1768.7	2542.0	2779.8	2966.3	3466.4	3305.4
	Imports	914.5	1391.8	1774.1	2007.9	2176.1	2604.7	2611.8
	Balance	620.1	376.9	767.9	771.9	790.2	861.7	693.6
Poland	Exports	574.2	658.3	859.2	900.8	953.2	1109.8	1214.9
	Imports	463.1	411.6	512.3	586.6	594.4	756.9	903.2
	Balance	111.1	246.7	346.9	314.2	358.8	352.9	311.7
Slovenia	Exports	713.3	716.9	937.8	942.0	1051.0	1229.0	1264.9
	Imports	382.4	431.9	491.0	544.0	579.9	717.7	761.0
	Balance	330.9	285.0	446.8	398.0	471.1	511.3	504.0
CEC(5)	Exports	4390.4	4996.3	6566.2	6898.0	7340.5	8572.4	8880.5
	Imports	3061.6	3754.3	4643.5	5244.4	5740.3	7042.7	7507.6
	Balance	1328.8	1242.0	1922.7	1653.6	1600.2	1529.7	1372.9
Total trade	Exports	42151.3	44489.6	51962.3	56302.4	60265.9	69692.3	74450.7
	Imports	48547.7	51798.3	57429.8	61199.8	65315.5	74935.2	78656.6
	Balance	-6396.4	-7308.7	-5467.5	-4897.4	-5049.6	-5242.9	-4205.9
shares of CECs in the total, in %								
Czech Rep	Exports	2.7	2.9	2.9	2.8	2.8	2.9	2.9
	Imports	1.9	2.0	2.2	2.4	2.5	2.6	2.7
Slovak Rep.	Exports	1.0	1.3	1.3	1.2	1.1	1.1	1.3
	Imports	0.8	0.9	1.0	1.1	1.2	1.4	1.4
Hungary	Exports	3.6	4.0	4.9	4.9	4.9	5.0	4.4
	Imports	1.9	2.7	3.1	3.3	3.3	3.5	3.5
Poland	Exports	1.4	1.5	1.7	1.6	1.6	1.6	1.6
	Imports	1.0	0.8	0.9	1.0	0.9	1.0	1.1
Slovenia	Exports	1.7	1.6	1.8	1.7	1.7	1.8	1.7
	Imports	0.8	0.8	0.9	0.9	0.9	1.0	1.0
CEC(5)	Exports	10.4	11.2	12.6	12.3	12.2	12.3	11.9
	Imports	6.3	7.2	8.1	8.6	8.8	9.4	9.5

* Note: ATS converted by 13.7603 ATS/EUR into Euro.

Source: Statistik Austria, WIFO.

Austrian output and employment: a recent study estimated 3.7% higher production and 2.9% higher employment resulting from the gross trade effect with the CECs.³³

Due to the already existing far-reaching liberalization, *additional* trade effects of EU enlargement are bound to be rather small, albeit positive. There will be some savings from the elimination of border controls, agricultural trade may increase since it has not been liberalized yet (the ultimate effects depend on the shape of future CAP reforms), and FDI-related trade exchanges will grow. For Austria (and even more so for the EU) the estimated trade effects of EU enlargement are small (but positive), the effects of the Single Market are much more important (see Table 2 above; Mayerhofer and Palme, 2001). Trade (and Single Market) effects on CECs are much bigger, though they will lose some customs revenues after taking over the (lower) external EU tariffs.³⁴ Last but not least, one may expect increases in services trade. In producer services (especially financial services), Austria is likely to expand existing trade surpluses³⁵ due to its already strong position in many CECs (Bank Austria, Erste Bank, Raiffeisen, Wiener Städtische Versicherung, etc.).³⁶ Finally, Austria's 'east competence' and the strong presence of Austrian companies in CECs increases the market value of these firms, attracts multinational investments to Austria and therefore contributes to the creation of new qualified and highly paid jobs.

Longer-term sustainability of the catching-up process in the CECs requires a steady (but sustainable) influx of capital flows which matches their (structural) deficit in the trade accounts. Indeed, one of the most important channels through which EU enlargement will affect the growth prospects of CECs is that the expectation of, the preparations for and the actual accession could favourably affect the stability and sustainability as well as the level of such capital inflows.³⁷ The reasons for this are: increased confidence in the direction in which institutional and legal change is moving, which in turn means access to international capital at more favourable conditions, and this in turn means tighter integration into international production and trade linkages. The production effects of increased FDI flows imply an increased speed of (product) quality up-grading, which in turn means improved terms of trade and more symmetry in income elasticities of imports and exports in relation to the more advanced trading partners in the EU. All of this reduces the pressures towards devaluation and improves the structural determinants of the trade accounts. Qualitative up-grading hence alleviates the balance of payments constraint and thus permits a higher rate of (quantitative) growth/catching-up. This is one of the important mechanisms by which

³³ The net trade effect was about 1% additional production and employment – see Mayerhofer and Palme (2001).

³⁴ Francois and Rombout (2001).

³⁵ Römisch (2001).

³⁶ According to OeNB, the total balance sheet of subsidiaries of Austrian credit banks in CECs amounted to EUR 46 billion at the end of 2000, their estimated market share was about 16%. Austrian banking affiliates in CECs employed 32,700 persons and reported excellent returns on investments – see OeNB (2002), pp. 123-125.

³⁷ Landesmann and Pöschl (1997).

EU enlargement positively contributes to the CECs' economic development. Moreover, there is some evidence that FDI has a positive impact on output, productivity growth and efficiency improvements in CECs' industry.³⁸

By the end of 2001, nearly USD 100 billion of FDI came into the CEC-5, of which about USD 7.7 billion (7.8% of the total) originated in Austria.³⁹ Austria's FDI position is particularly strong in Slovenia and in the Slovak Republic (Table 7). As far as the overall

Table 7

Austrian market share in Eastern European FDI stocks

Share of Austria's FDI in total FDI

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	8.6	12.0	16.7	12.9	12.5	11.8	9.1	7.4	9.4	8.5
Slovak Republic	.	.	17.1	16.0	15.2	20.9	18.4	18.1	15.5	20.4
Hungary	31.7	24.9	23.3	13.4	11.3	10.2	9.2	8.7	9.9	9.7
Poland	3.6	3.2	2.6	2.1	2.1	2.6	2.0	2.2	2.4	2.3
Slovenia	.	.	12.0	15.6	17.8	17.5	19.2	21.2	22.4	25.9
Central Europe	.	.	16.0	10.6	9.4	8.9	7.4	6.8	7.5	7.6
EU-associated countries (10)	.	.	14.4	9.7	8.5	7.8	6.5	6.0	6.7	6.8
Eastern Europe	.	.	12.0	7.8	6.5	5.7	4.7	4.4	4.9	5.1

Source: WIIW-WIFO Database: Foreign Direct Investment in Central and Eastern European Countries and the former Soviet Union – with Special Attention to Austrian FDI Activities, WIIW and WIFO, July 2002.

number of Austrian FDI projects is concerned, the importance of the CECs is evident: more than half of all Austrian FDI projects is located in CECs (Table 8). During 2000-2001, Austria achieved its best results ever in its FDI-related business with the CECs since that region's political change in 1989: Austrian FDI increased by USD 2.8 billion (Table 9). The upswing reflected, primarily, more favourable exogenous economic conditions (abatement of the financial crisis, higher growth), which generated more green field investment and plant expansions in the CECs, as well as some more recent special factors (privatization of the banking sector in the Czech and Slovak Republics). Austria has thus strengthened its position in the CECs and created favourable conditions for further economic expansion of Austrian companies in the region. The close economic co-operation shows that the current political turbulence between Austria and some CECs apparently does not affect decision-making processes at the company level.⁴⁰

³⁸ Havlik (2001).

³⁹ For more detailed data see Hunya and Stankovsky (2002).

⁴⁰ Austrian investment rose in almost all CEE countries, which in 2001 were by far the most important target region for Austrian FDI: they received 80% of total new direct investment abroad – see Hunya and Stankovsky (2002).

Table 8

Austrian FDI in Central and Eastern Europe

number of projects by recipient country: stock

	1990	1993	1994 ¹⁾	1995 ¹⁾	1996 ¹⁾	1997 ¹⁾	1998 ²⁾	2000 ²⁾
Czech Republic	.	2200	2500	2900	3200	3200	3000	3210
Slovak Republic	.	934	1323	1324	1429	1475	1764	1820
Hungary	490	4167	5000	5400	5500	5500	2250	2250
Poland	54	485	577	520	549	600	750	850
Slovenia	.	127	200	284	385	459	581	569
Central Europe	544	7913	9600	10428	11063	11234	8345	8699
EU-associated countries (10)	672	8001	9807	12143	12923	13216	10337	10428
Eastern Europe	921	8865	10799	13490	14498	14746	11497	11833
World total	3412	11437	13149	16493	17583	17869	14824	15710

Notes: 1) Czech Republic and Hungary partly estimated. - 2) Poland, Slovak Republic, Czech Republic and Hungary partly estimated.

Source: Austrian Chamber of Commerce.

Table 9

**Austrian FDI in Central Europe –
stock of cumulated balance of payments outflows since 1989**

USD million, end of period

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	218	340	513	629	643	737	1,081	1,153	1,904	2,136
Slovak Republic	39	58	114	180	236	257	418	413	549	1,082
Hungary	1,084	1,274	1,582	1,989	2,055	2,025	2,399	2,117	2,369	2,658
Poland	50	53	55	137	164	406	586	678	918	1,006
Slovenia	78	106	156	226	267	286	374	482	556	809
Central Europe	1,469	1,831	2,420	3,161	3,365	3,710	4,857	4,843	6,296	7,691
EU-associated countries (10)	1,475	1,839	2,443	3,186	3,403	3,806	5,038	5,057	6,692	8,185
Eastern Europe	1,549	1,919	2,587	3,361	3,617	4,163	5,386	5,660	7,469	9,170

Source: Austrian National Bank.

Whereas total FDI in CECs during 2000 increased by 13% (USD 18.2 billion), capital exports from Austria to this region more than doubled. In 2001, total FDI inflows to CECs declined (by about 5%, to USD 17.3 billion), but Austrian FDI stayed at a high level. As a consequence, Austria was able to stop the position losses of the past several years and strengthened its stance as a leading investor in CECs.⁴¹ Austria's market share of new FDI in the CECs increased from 4% in 1999 to 9.8% in 2000 and 10.2% in 2001. This share

⁴¹ In the first half of 2002, Austrian FDI in CECs reached with more than EUR 1.6 bn a new record – see *Der Standard*, 8 October 2002, p. 19.

was the highest since 1992; back then, however, there had been few firms from the West beside Austrian ones which ventured the risk of capital commitment in the 'new East'. Austria's advantage then was based on personal relations, better information, but also on instruments tailored specifically to cover investment risks. Austrian-based companies are among the most important investors in these countries. In the Czech Republic and Hungary, the Austrian market share in total FDI stock is about 10%, in the Slovak Republic 20%, and in Slovenia more than 25%. As in the preceding years, Austria's position in Poland was rather weak (market share: 2.3%) in 2001. But in sum, all these facts confirm the growing importance of the regional integration in Central Europe and its benefits for all countries concerned.

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ANNEX

Table A/1

Czech Republic: selected economic indicators

	1997	1998	1999	2000	2001 ¹⁾	2001 January-June	2002	2002 forecast	2003
Population, th pers., mid-year	10303.6	10294.9	10282.8	10272.5	10288.6	.	.	.	.
Gross domestic product, CZK bn, nom.	1679.9	1839.1	1902.3	1984.8	2157.8	1041.1	1102.4	2260	2375
annual change in % (real)	-0.8	-1.0	0.5	3.3	3.3	3.5	2.6	2.4	3.0
GDP/capita (USD at exchange rate)	5142	5536	5347	5007	5514	.	.	.	.
GDP/capita (USD at PPP - WIIW)	13160	13340	13660	14460	15170	.	.	.	.
Gross industrial production									
annual change in % (real)	4.5	1.6	-3.1	5.4	6.5	8.6	4.5	4.0	5.0
Gross agricultural production									
annual change in % (real)	-5.1	0.7	0.6	-4.5	2.5	.	.	.	.
Goods transport, mn t-kms	62460	53639	54620	57343	57800	.	.	.	.
annual change in %	.	-14.1	1.8	5.0	0.8	.	.	.	.
Gross fixed capital form., CZK bn, nom.	514.5	535.5	528.3	561.5	610.9	277.9	285.9	.	.
annual change in % (real)	-2.9	0.7	-1.0	5.4	7.2	7.6	3.5	3	5
Construction industry									
annual change in % (real)	-3.9	-7.0	-6.5	5.3	9.6	14.6	3.1	.	.
Dwellings completed, units	16757	22183	23734	25207	24759	9539	11578	.	.
annual change in %	15.7	32.4	7.0	6.2	-1.8	-2.1	21.4	.	.
Employment total, th pers., average ²⁾	4936.5	4865.7	4764.1	4731.6	4750.2	4743.8	.	.	.
annual change in %	-0.7	-1.4	-2.1	-0.7	0.4	0.6	.	.	.
Employment in industry, th pers., average ²⁾	1550.4	1519.9	1468.7	1429.4	1470.6	1460.1	.	.	.
annual change in %	-3.0	-2.0	-3.4	-2.7	2.9	.	.	.	.
Unemployed reg., th, end of period	268.9	386.9	487.6	457.4	461.9	420.3	454.3	.	.
Unemployment rate in %, end of period	5.2	7.5	9.4	8.8	8.9	8.1	8.7	9.5	9.4
Average gross monthly wages, CZK ³⁾	10691	11693	12666	13490	14642	13985	.	.	.
annual change in % (real, gross)	2.0	-1.2	5.9	2.6	3.6	4.4	.	.	.
Retail trade turnover, CZK bn	.	.	.	.	.	.	.	.	.
annual change in % (real)	-0.4	-7.1	2.4	4.3	4.3	4.0	3.3	.	.
Consumer prices, % p.a.	8.5	10.7	2.1	3.9	4.7	4.5	3.0	2.2	2.0
Producer prices in industry, % p.a.	4.9	4.9	1.0	4.9	2.9	4.0	-0.2	-0.5	0.0
Central government budget, CZK bn									
Revenues	509.0	537.4	567.3	586.2	626.2	292.0	348.5	.	.
Expenditures	524.7	566.7	596.9	632.3	693.9	321.7	349.4	.	.
Deficit (-) / surplus (+)	-15.7	-29.3	-29.6	-46.1	-67.7	-29.7	-0.9	.	.
Deficit (-) / surplus (+), % GDP	-0.9	-1.6	-1.6	-2.3	-3.1	-2.9	-0.1	.	.
Money supply, CZK bn, end of period									
M1, Money ⁴⁾	418.9	404.0	447.8	497.7	583.6	544.1	617.5	.	.
M2, Money + quasi money ⁴⁾	1177.8	1241.4	1337.5	1412.3	1596.0	1514.1	1580.5	.	.
Discount rate, % p.a., end of period	13.0	7.5	5.0	5.0	3.8	4.0	2.8	.	.
Current account, USD mn	-3564	-1255	-1462	-2718	-2625	-1260	-985	-2800	-3400
Current account in % of GDP	-6.7	-2.2	-2.7	-5.3	-4.6	-4.7	-3.1	-4.0	-4.2
Gross reserves of NB incl. gold, USD mn	9774	12617	12825	13139	14464	12819	21441	.	.
Gross external debt, convert. curr., USD mn	21352	24047	22613	21372	21696	21156	.	.	.
Exports total, fob, EUR mn ⁵⁾	19811.8	23070.4	24640.9	31482.7	37254.6	18596.4	20354.7	40000	43000
annual change in %	12.0	16.4	6.8	27.8	18.3	24.3	9.5	7	7.5
Imports total, cif, EUR mn ⁵⁾	24014.3	25289.4	26387.4	34875.7	40693.0	20068.2	21010.2	42500	46000
annual change in %	8.2	5.3	4.3	32.2	16.7	24.5	4.7	4	8
Average exchange rate CZK/USD	31.71	32.27	34.60	38.59	38.04	38.45	34.67	.	.
Average exchange rate CZK/EUR (ECU)	35.80	36.16	36.88	35.61	34.08	34.55	31.08	30.7	29.5
Purchasing power parity CZK/USD, WIIW	12.39	13.39	13.54	13.36	13.83	.	.	.	.
Purchasing power parity CZK/EUR, WIIW	13.39	14.62	14.75	14.58	15.03	.	.	.	.

Notes: 1) Preliminary. - 2) Based on Labour Force Survey data. - 3) Enterprises with more than 100, from 1997 with 20 and more employees. - 4) Excluding extrabudgetary funds, revised data. - 5) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Table A/2

Hungary: selected economic indicators

	1997	1998	1999	2000	2001 ¹⁾	2001 January-June	2002	2002 forecast	2003
Population, th pers., end of period ²⁾	10135.4	10091.8	10043.2	10198.0	10175.0	10187	10162	.	.
Gross domestic product, HUF bn, nom.	8540.7	10087.4	11393.5	13150.8	14876.4	6964.7	.	16200	17600
annual change in % (real)	4.6	4.9	4.2	5.2	3.8	4.2	3.0	3.3	4.0
GDP/capita (USD at exchange rate)	4504	4651	4769	4649	5096	.	.	.	.
GDP/capita (USD at PPP - WIIW)	9980	10840	11500	12430	12980	.	.	.	.
Gross industrial production									
annual change in % (real)	11.1	12.5	10.4	18.6	4.1	8.4	1.1	5	10
Gross agricultural production									
annual change in % (real)	-3.3	0.7	0.5	-7.1	13.2	.	.	.	.
Goods transport, mn t-kms	24789	27144	26339	26399	25941	12290	11890	.	.
annual change in %	-0.3	9.5	-3.0	0.2	-1.7	0.6	-3.3	.	.
Gross fixed capital form., HUF bn, nom.	1898.9	2384.6	2724.5	3179.8	3484.7	1300.1	.	.	.
annual change in % (real)	9.2	13.3	5.9	7.7	3.1	3.1	.	5	10
Construction industry									
annual change in % (real)	8.1	15.3	9.0	7.9	9.9	8.8	22.9	15	10
Dwellings completed, units	28130	20323	19287	21583	28054	8182	10015	.	.
annual change in %	-0.4	-27.8	-5.1	11.9	30.0	42.5	22.4	.	.
Employment total, th pers., average ³⁾⁴⁾	3646.3	3697.7	3811.5	3849.1	3859.5	3850.7	3843.7	.	.
annual change in % ³⁾⁴⁾	0.0	0.7	3.1	1.0	0.3	1.0	-0.2	-0.1	.
Employees in industry, th pers., average ⁵⁾	783.5	795.9	834.0	844.8	832.8	839.7	823.3	.	.
annual change in %	-0.7	1.6	0.8	1.3	-1.4	-0.4	-2.0	.	.
Unemployed, th pers., average ³⁾	348.8	313.0	284.7	262.5	232.9	237.7	232.5	.	.
Unemployment rate in %, average ³⁾	8.7	7.8	7.0	6.4	5.7	5.8	5.7	5.8	5.7
Average gross monthly wages, HUF ⁵⁾	57270	67764	77187	87645	103558	96700	114415	.	.
annual change in % (real, net)	4.9	3.6	2.5	1.5	6.4	4.9	11.3	10	2
Retail trade turnover, HUF bn	2949.1	3682.8	4329.7	4822.0	5394.0	2347.9	2696.4	.	.
annual change in % (real)	-1.6	12.3	7.9	2.0	5.4	5.6	12.5	12	.
Consumer prices, % p.a.	18.3	14.3	10.0	9.8	9.2	10.4	5.9	5.4	4.5
Producer prices in industry, % p.a.	20.4	11.3	5.1	11.7	5.2	8.4	-2.2	.	.
Central government budget, HUF bn ⁶⁾									
Revenues	2364.6	2624.4	3227.6	3681.0	4073.9	1865.7	2002.9	.	.
Expenditures	2703.1	3176.6	3565.8	4049.7	4487.8	1949.9	2362.4	.	.
Deficit (-) / surplus (+)	-338.5	-552.2	-338.1	-368.7	-413.9	-84.2	-359.6	.	.
Deficit (-) / surplus (+), % GDP	-4.0	-5.5	-3.0	-2.8	-2.8	-1.2	.	.	.
Money supply, HUF bn, end of period									
M1, Money	1528.4	1791.1	2135.6	2378.3	2776.3	2331.6	2808.5	.	.
Broad money	4036.3	4635.8	5399.5	6052.0	7090.1	6163.7	7214.0	.	.
Refinancing rate, % p.a., end of period	20.5	17.0	14.5	11.0	9.8	11.0	9.0	.	.
Current account, USD mn	-981	-2298	-2081	-1328	-1105	-888	-1632	-3000	-3200
Current account in % of GDP	-2.1	-4.9	-4.3	-2.9	-2.1	-3.7	.	-4.8	-4.4
Reserves total, incl. gold, USD mn	8429	9341	10854	11229	10766	11524	10191	.	.
Gross external debt, USD mn	24395	27280	29336	30742	33386	32056	36271	.	.
Exports total, fob, EUR mn ⁷⁾	16910.1	20476.8	23491.0	30544.5	34082.0	16860.2	18024.1	35800	38600
annual growth rate in %	35.1	21.1	14.7	30.0	11.6	21.4	6.9	5	8
Imports total, cif, EUR mn ⁷⁾	18779.5	22871.2	26287.8	34856.3	37654.1	18803.2	19466.8	40300	43500
annual growth rate in %	29.9	21.8	14.9	32.6	8.0	20.2	3.5	7	8
Average exchange rate HUF/USD	186.75	214.45	237.31	282.27	286.54	291.09	271.47	.	.
Average exchange rate HUF/EUR (ECU)	210.93	240.98	252.80	260.04	256.68	261.59	243.50	245	244
Purchasing power parity HUF/USD, WIIW	84.30	92.01	98.38	105.54	112.55	.	.	.	.
Purchasing power parity HUF/EUR, WIIW	90.73	100.85	107.17	115.03	122.92	.	.	.	.

Notes: 1) Preliminary. - 2) From 2000 according to census Feb 2001. - 3) Based on labour force survey. - 4) From 1998 new sample. - 5) Enterprises with more than 10, from 1999 more than 5 employees. - 6) Excluding privatization revenues. - 7) Including trade of firms with customs free legal status. Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

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Poland: selected economic indicators

	1997	1998	1999	2000	2001 ¹⁾	2001 January-June	2002	2002 forecast	2003
Population, th pers., end of period	38660	38667	38654	38644	38632	38641	38623	.	.
Gross domestic product, PLN mn, nom.	472350	553560	615115	684982	721575	341961	354178	749200	789300
annual change in % (real)	6.8	4.8	4.1	4.0	1.0	1.6	0.6	0.8	1.3
GDP/capita (USD at exchange rate)	3725	4098	4011	4078	4561	.	.	.	.
GDP/capita (USD at PPP - WIIW)	7550	8490	9010	9590	9890	.	.	.	.
Gross industrial production (sales)									
annual change in % (real)	11.5	3.5	3.6	6.7	-0.1	1.9 ²⁾	-1.1 ²⁾	0	2
Gross agricultural production									
annual change in % (real)	-0.2	5.9	-5.2	-5.6	5.7	.	.	.	.
Goods transport, mn l-kms	329737	317052	310698	282559	253269	.	.	.	.
annual change in %	6.6	-3.8	-2.0	-9.1	-10.4	.	.	.	.
Gross fixed capital form., PLN mn, nom.	110853	139205	156690	170430	155661	62763	57323	.	.
annual change in % (real)	21.7	14.2	6.8	2.7	-9.8	-4.4	-10.6	-6	3
Construction output total									
annual change in % (real)	16.5	12.4	6.2	1.0	-2.8	-7.7	-14.9	.	.
Dwellings completed, units	73706	80594	81979	87789	105967	47616	42367	.	.
annual change in %	18.6	9.3	1.7	7.1	20.7	38.9	-11.0	.	.
Employment total, th pers., average	15438.7	15800.4	15373.5	15017.5	14974.4	.	15100.0	.	.
annual change in %	2.8	2.3	-2.7	-2.3	-0.3	.	.	.	.
Employees in industry, th pers., average	3433.4	3378.7	3138.4	2955.0	2901.5	2677.0 ²⁾	2498.0 ²⁾	.	.
annual change in %	-0.1	-1.6	-7.1	-5.8	-1.8	-4.7 ²⁾	-6.7 ²⁾	.	.
Unemployed reg., th, end of period	1826.4	1831.4	2349.8	2702.6	3115.1	2849.2	3090.9	.	.
Unemployment rate in %, end of period	10.3	10.4	13.1	15.1	17.4	15.9	17.3	18	18
Average gross monthly wages, PLN ³⁾	1065.8	1232.7	1697.1	1893.7	2061.9	2025.5 ²⁾	2109.3 ²⁾	.	.
annual change in % (real, net) ⁴⁾	7.3	4.5	4.7	1.0	3.3	0.7 ²⁾	1.7 ²⁾	.	.
Retail trade turnover, PLN mn	258166	291197	323687	360318	376487	.	.	.	.
annual change in % (real)	6.8	2.6	4.0	1.0	0.5	-1.4 ²⁾	3.1 ²⁾	.	.
Consumer prices, % p.a.	14.9	11.8	7.3	10.1	5.5	6.7	2.8	3	4
Producer prices in industry, % p.a.	12.2	7.3	5.7	7.8	1.6	3.3	0.5	.	.
Central government budget, PLN mn									
Revenues	119772	126560	125922	135664	140527	67730	65111	.	.
Expenditures	125675	139752	138401	151055	172885	86535	90034	.	.
Deficit (-) / surplus (+)	-5903	-13192	-12479	-15391	-32358	-18806	-24923	.	.
Deficit (-) / surplus (+), % GDP	-1.2	-2.4	-2.0	-2.2	-4.5	-5.5	-7.0	-5.4	-5.4
Money supply, PLN mn, end of period									
M1, Money	79203	89837	111384	106456	118288	104614	126069	.	.
M2, Money + quasi money	179342	223596	268701	300424	327588	314287	321941	.	.
Discount rate of NB % p.a., end of period	24.5	18.2	19.0	21.5	14.0	18.0	10.0	9	8
Current account, USD mn	-4309	-6841	-11553	-9952	-7166	-4440	-3935	-7700	-8000
Current account in % of GDP	-3.0	-4.3	-7.5	-6.3	-4.1	-5.2	-4.5	-4.3	-4.3
Gross reserves of NB incl. gold, USD mn	21403	28275	27314	27466	26564	27113	28164	.	.
Gross external debt, USD mn	49647	59135	65397	69558	70815	70438	.	.	.
Exports total, fob, EUR mn ⁵⁾	22798.4	25145.4	25729.3	34382.6	40374.7	19835.6	20851.1	42400	45400
annual growth rate in %	17.0	10.3	2.3	33.6	17.4	26.2	5.1	5	7
Imports total, cif, EUR mn ⁵⁾	37484.2	41539.3	43151.2	53121.9	56222.7	27654.4	28363.8	57400	61400
annual growth rate in %	26.3	10.8	3.9	23.1	5.8	10.2	2.6	2	7
Average exchange rate PLN/USD	3.28	3.49	3.97	4.35	4.09	4.04	4.09	.	.
Average exchange rate PLN/EUR (ECU)	3.71	3.92	4.23	4.01	3.67	3.63	3.67	4.0	4.2
Purchasing power parity PLN/USD, WIIW	1.62	1.69	1.77	1.85	1.89	.	.	.	.
Purchasing power parity PLN/EUR, WIIW	1.67	1.84	1.92	2.02	2.06	.	.	.	.

Notes: 1) Preliminary. - 2) Enterprises with more than 9 employees. - 3) From 1999 including mandatory premium for social security. - 4) From 1999 real gross wages. - 5) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

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Slovak Republic: selected economic indicators

	1997	1998	1999	2000	2001 ¹⁾	2001 January-June	2002	2002 forecast	2003
Population, th pers., mid-year	5383.2	5390.7	5395.3	5400.7	5379.8	.	.	.	.
Gross domestic product, SKK bn, nom.	708.6	775.0	835.7	908.8	989.3	479.5	517.6	1045	1110
annual change in % (real)	5.6	4.0	1.3	2.2	3.3	2.9	3.9	4	3.5
GDP/capita (USD at exchange rate)	3915	4080	3740	3642	3804	.	.	.	.
GDP/capita (USD at PPP - WIIW)	10320	11150	11430	11930	12660	.	.	.	.
Gross industrial production ²⁾									
annual change in % (real)	2.7	5.0	-2.7	8.6	6.9	7.9	3.3	5	5
Gross agricultural production									
annual change in % (real)	-1.0	-5.9	-2.5	-12.3	7.8	.	.	.	.
Goods transport, mn t-kms	17672	17808	19996	19829	17486	.	.	.	.
annual change in %	-5.9	0.8	12.3	-0.8	-11.8	.	.	.	.
Gross fixed capital form., SKK bn, nom.	242.9	280.9	252.9	267.9	309.6	146.7	151.2	.	.
annual change in % (real)	14.3	11.0	-18.5	1.2	9.6	9.9	-0.3	1	5
Construction industry									
annual change in % (real)	9.2	-3.5	-25.8	-0.4	0.8	6.4	1.1	.	.
Dwellings completed, units	7172	8234	10745	12931	10321	.	.	.	.
annual change in %	14.6	14.8	30.5	20.3	-20.2	.	.	.	.
Employment total, th pers., average ³⁾	2205.9	2198.6	2132.1	2101.7	2123.7	2109.6	2109.4	.	.
annual change in %	-0.9	-0.3	-3.0	-1.4	1.0	1.0	0.0	.	.
Employment in industry, th pers., average ³⁾	665.8	662.5	630.3	615.2	628.8	622.0	637.8	.	.
annual change in %	-3.5	-0.5	-4.9	-2.4	2.2	1.1	2.5	.	.
Unemployed reg., th, end of period	347.8	428.2	535.2	506.5	533.7	505.2	507.0	.	.
Unemployment rate in %, end of period	12.5	15.6	19.2	17.9	18.6	17.8	17.6	18	17
Average gross monthly wages, SKK	9226	10003	10728	11430	12365	11690	12808	.	.
annual change in % (real, gross)	6.5	1.7	-2.8	-4.5	0.8	0.1	5.5	.	.
Retail trade turnover, SKK bn ⁴⁾	328.8	379.4	442.1	277.9	301.1	139.4	155.1	.	.
annual change in % (real)	4.8	8.6	9.8	.	4.5	1.3	7.3	.	.
Consumer prices, % p.a.	6.1	6.7	10.6	12.0	7.3	7.1	3.9	4	7
Producer prices in industry, % p.a.	4.5	3.3	3.8	9.8	6.6	8.9	2.0	.	.
Central government budget, SKK bn									
Revenues	180.8	177.8	216.7	213.5	205.4	103.8	102.8	.	.
Expenditures	217.8	197.0	231.5	241.1	249.7	117.3	127.5	.	.
Deficit (-) / surplus (+)	-37.0	-19.2	-14.8	-27.6	-44.4	-13.5	-24.7	.	.
Deficit (-) / surplus (+), % GDP	-5.2	-2.5	-1.8	-3.0	-4.5	-2.8	-4.8	.	.
Money supply, SKK bn, end of period									
M1, Money	166.1	147.2	153.9	187.2	228.5	189.8	218.7	.	.
M2, Money + quasi money	453.5	466.1	523.6	601.5	680.3	625.3	678.9	.	.
Discount rate, % p.a., end of period	8.8	8.8	8.8	8.8	8.8	8.8	8.3	.	.
Current account, USD mn	-1804	-1982	-980	-713	-1756	-785	-868	-1500	-1100
Current account in % of GDP	-8.6	-9.0	-4.9	-3.6	-8.6	-7.9	-8.0	-6.5	-4.2
Gross reserves of NB incl. gold, USD mn	3285	2923	3425	4077	4189	3716	4781	.	.
Gross external debt, USD mn	10700	11900	10518	10804	11043	10700	12032	.	.
Exports total, fob, EUR mn ⁵⁾	7299.0	9540.6	9602.2	12879.5	14100.8	7083.8	7203.5	15000	16500
annual growth rate in %	3.6	11.9	0.6	34.1	9.5	15.6	1.7	6	10
Imports total, fob, EUR mn ⁵⁾	9119.0	11634.7	10627.7	13859.8	16483.8	8039.9	8181.4	17100	18100
annual growth rate in %	2.7	12.3	-8.7	30.4	18.9	26.2	1.8	4	6
Average exchange rate SKK/USD	33.62	35.24	41.42	46.20	48.35	48.34	47.52	.	.
Average exchange rate SKK/EUR (ECU)	38.01	39.60	44.12	42.59	43.31	43.43	42.61	43	42
Purchasing power parity SKK/USD, WIIW	12.75	12.90	13.55	14.11	14.53	.	.	.	.
Purchasing power parity SKK/EUR, WIIW	13.63	14.16	14.77	15.38	15.89	.	.	.	.

Notes: 1) Preliminary. - 2) From 1999 WIIW calculation according to new official statistical base 2000 for index of industrial production. - 3) Based on Labour Force Survey. - 4) From 2000 according to NACE, excluding VAT. - 5) Converted from the national currency to EUR at the official exchange rate; from 1998 new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

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Slovenia: selected economic indicators

	1997	1998	1999	2000	2001 ¹⁾	2001 January-June	2002	2002 forecast	2003
Population, th pers., mid-year	1986.8	1982.6	1985.6	1990.3	1992.0	1992.0	.	.	.
Gross domestic product, SIT bn, nom.	2907.3	3253.8	3648.4	4035.5	4566.2	2205.3	.	5050	5540
annual change in % (real)	4.6	3.8	5.2	4.6	3.0	3.0	.	2.8	3.5
GDP/capita (USD at exchange rate)	9163	9878	10109	9105	9443	.	.	.	.
GDP/capita (USD at PPP - WIIW)	14100	14840	15810	16880	17740	.	.	.	.
Gross industrial production									
annual change in % (real)	1.0	3.7	-0.5	6.2	2.9	3.2	2.1	2.5	3
Gross agricultural production									
annual change in % (real)	0.0	2.2	-1.3	2.4	.	.	.	.	.
Goods transport, mn t-kms ²⁾	37859	36733	40041	37003	41230	20772	17395	.	.
annual change in %	0.1	-3.0	9.0	-7.6	.	.	-16.3	.	.
Gross fixed capital form., SIT bn, nom.	679.5	800.6	999.2	1076.8	1138.7	530.0	.	.	.
annual change in % (real)	11.6	11.3	19.1	0.2	-1.9	-3.7	.	3	4
Construction output, in effect. working time									
annual change in % (real)	-5.2	1.7	10.2	-1.2	-2.1	-1.7	-4.2	.	.
Dwellings completed, units	6085	6518	5142	6460	5611	.	.	.	.
annual change in %	-2.3	7.1	-21.1	25.6	-13.1	.	.	.	.
Employment total, th pers., average	743.4	745.2	758.5	768.2	779.0	773.9	783.1	.	.
annual change in %	0.2	0.2	1.8	1.3	1.4	1.1	1.2	.	.
Employees in industry, th pers., average	248.5	246.2	242.8	241.6	243.5	243.9	.	.	.
annual change in %	-2.1	-0.9	-1.4	-0.5	0.8	1.3	.	.	.
Unemployed reg., th. end of period	128.6	126.6	114.3	104.6	104.3	97.8	100.1	.	.
Unemployment rate in %, end of period	14.8	14.6	13.0	12.0	11.8	11.1	11.3	11	10
Average gross monthly wages, SIT	144251	158069	173245	191669	214561	207544	227621	.	.
annual change in % (real, net)	2.9	1.5	3.0	1.4	3.1	3.6	1.7	.	.
Retail trade turnover, SIT bn ³⁾	1290.0	1346.7	1555.0	1557.4	1684.8	800.5	.	.	.
annual change in % (real) ⁴⁾	1.0	2.1	2.9	7.4	7.8	7.3	8.0	.	.
Consumer prices, % p.a.	8.4	7.9	6.1	8.9	8.4	9.1	7.8	7.5	6
Producer prices in industry, % p.a.	6.1	6.0	2.1	7.6	8.9	10.0	5.7	.	.
General government budget, SIT bn									
Revenues	1222.6	1397.9	1590.0	1726.7	1967.8	856.8	925.3	.	.
Expenditures	1256.7	1423.5	1613.3	1781.4	2031.0	964.3	1098.6	.	.
Deficit (-) / surplus (+)	-34.1	-25.6	-23.3	-54.7	-63.2	-107.5	-173.3	.	.
Deficit (-) / surplus (+), % GDP	-1.2	-0.8	-0.6	-1.4	-1.4	-4.9	.	.	.
Money supply, SIT bn, end of period									
M1, Money	270.5	332.7	399.8	424.0	502.2	437.8	524.3	.	.
Broad money	1411.3	1690.3	1912.9	2206.4	2876.7	2445.9	3025.5	.	.
Discount rate % p.a., end of period	10.0	10.0	8.0	10.0	11.0	11.0	10.0	.	.
Current account, USD mn	50.5	-118.0	-698.4	-547.6	30.9	-35.6	144.1	0	100
Current account in % of GDP	0.3	-0.6	-3.5	-3.0	0.2	-0.4	.	0.0	0.4
Gross reserves of NB excl. gold, USD mn	3314.7	3638.5	3168.0	3196.0	4329.9	3558.5	5384.8	.	.
Gross external debt, USD mn	4123	4915	5400	6217	6717	6459	7259 ^{May}	.	.
Exports total, fob, EUR mn ⁵⁾	7413.4	8051.9	8037.0	9505.1	10347.9	5263.7	5456.8	10800	11300
annual growth rate in %	11.6	8.6	-0.2	18.3	8.9	13.9	3.7	4	5
Imports total, cif, EUR mn ⁵⁾	8289.7	8999.4	9482.0	10995.7	11341.9	5782.9	5761.9	11500	12000
annual growth rate in %	10.0	8.6	5.4	16.0	3.1	7.5	-0.4	1	4
Average exchange rate SIT/USD	159.69	166.13	181.77	222.68	242.75	239.45	250.15	.	.
Average exchange rate SIT/EUR (ECU)	180.40	186.27	193.63	205.03	217.19	214.84	224.10	226	230
Purchasing power parity SIT/USD, WIIW	103.76	110.56	116.20	120.11	129.23	.	.	.	.
Purchasing power parity SIT/EUR, WIIW	113.81	121.15	126.58	130.96	141.05	.	.	.	.

Notes: 1) Preliminary. - 2) From 2001 new methodology in road transport. - 3) Including turnover tax; goods transport services, maintenance and repair of motor vehicles are not covered. - 4) Excluding turnover tax; maintenance and repair of motor vehicles are included. - 5) Converted from the national currency to EUR at the official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Table A/6

Foreign direct investment stock

USD million

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	3423	4547	7350	8572	9234	14375	17552	21644	26764
Hungary	5585	7095	11926	14961	16086	18517	19299	19804	23562
Poland	2307	3789	7843	11463	14587	22479	26075	33603	39000
Slovak Republic	.	897	1297	2046	2083	2890	3188	4504	6000
Slovenia	954	1326	1763	1998	2207	2766	2657	2809	3400
Central Europe	.	17654	30180	39040	44197	61027	68771	82363	98727
EU-associated countries (10)	.	19566	33191	43195	51057	72000	82925	99293	118458
Eastern Europe	.	22253	38340	51971	66627	92420	109020	130174	154888

Source: WIW-WIFO Database: Foreign Direct Investment in Central and East European Countries and the former Soviet Union, June 2002.

Table A/7

FDI inflow per capita in USD, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	84	248	138	126	361	615	485	478
Hungary	112	435	223	214	201	196	163	240
Poland	49	95	116	127	165	188	242	207
Slovak Republic	51	48	67	41	127	72	384	274
Slovenia	64	89	97	189	125	91	88	222
Central Europe	65	167	132	135	196	243	274	260
EU-associated countries (10)	49	115	93	113	167	183	206	195

Source: Own calculations based on WIW Database.

Table A/8

FDI stocks per capita in USD, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	440	712	832	897	1397	1708	2108	2604
Hungary	692	1168	1470	1587	1835	1922	1942	2311
Poland	98	203	297	377	581	675	870	1010
Slovak Republic	167	242	380	387	536	591	834	1115
Slovenia	666	886	1006	1112	1398	1336	1411	1709
Central Europe	265	454	587	665	919	1036	1239	1485
EU-associated countries (10)	186	316	412	488	689	795	952	1138

Source: Own calculations based on WIW Database.

Table A/9

FDI inflow as a percentage of gross fixed capital formation, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	7.4	15.4	7.7	8.0	22.4	41.4	34.3	30.6
Hungary	13.7	49.7	23.5	21.4	18.3	17.2	14.6	20.1
Poland	12.5	15.5	15.1	14.5	16.0	18.4	23.8	21.0
Slovak Republic	6.8	5.4	5.4	3.0	8.6	6.4	35.8	23.0
Slovenia	4.4	4.4	4.6	8.8	5.1	3.3	3.6	9.4
Central Europe	10.2	19.1	12.7	12.5	16.2	20.7	24.1	22.3
EU-associated countries (10)	10.1	17.1	11.9	13.9	18.3	20.9	23.9	22.3

Source: Own calculations based on WIIW Database.

Table A/10

FDI stocks as a percentage of GDP, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	11.1	14.1	14.9	17.4	25.2	31.9	42.1	47.2
Hungary	17.1	26.7	33.1	35.2	39.4	40.2	42.5	45.4
Poland	4.1	6.2	8.0	10.1	14.2	16.8	21.3	22.1
Slovak Republic	5.9	6.8	10.0	9.9	13.1	15.8	22.9	29.3
Slovenia	9.2	9.4	10.6	12.1	14.1	13.2	15.5	18.1
Central Europe	8.6	11.5	13.6	15.7	20.1	23.1	28.1	30.5
EU-associated countries (10)	7.7	10.2	12.4	14.7	18.9	22.5	27.1	29.4

Source: Own calculations based on WIIW Database.

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