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**EU Enlargement:
Economic Impacts
on Austria, the
Czech Republic,
Hungary, Poland,
Slovakia and Slovenia**

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Executive summary

This overview paper deals with selected economic aspects of EU enlargement related to Austria and the five Central European countries: Czech Republic, Hungary, Poland, Slovakia and Slovenia (CEC-5). Since the fall of the Iron Curtain, Austria has been enjoying over-proportionate gains from liberalized trade and capital flows. EU enlargement will cement and further increase these gains. However, the current weakening of the EU economy could adversely affect the climate for enlargement just at a time when accession negotiations are entering their most difficult phase. The CEC economies will grow by about 3 to 4% on average in both 2001 and 2002, a marked deceleration of growth is forecast only for Poland. Most CECs suffer from high and growing unemployment. In Austria, economic growth is set to decelerate to 1.3% in 2001 and may pick up slightly next year while unemployment will remain low.

*CEC candidates' benefits from EU accession will be large in the short and medium run, though their costs associated with the takeover of *aquis communautaire* will also be considerable. Estimates of the implications from the full participation in the European Single Market show that EU enlargement is a win-win situation. The CECs will on average gain around ten times more than the EU. Hungary and Poland may increase their real GDP by an additional 8 to 9% over a ten-year period (including the pre-accession period 2001 to 2004), the Czech Republic gains somewhat less (4 to 6%), just as Slovakia and Slovenia. Austria is probably the biggest enlargement winner among the EU member states; it could additionally gain some 0.7% of GDP. The stronger growth impact of enlargement in the CECs spurs their income convergence and thus reduces the migration potential. The overall impact on the EU labour market should be limited. For Austria, the number of residents from CECs is estimated to increase from around 1.3 % of the Austrian population to 5.5% in 2030. Due to similar demographic trends in both the present EU and the CEC candidates, migration/labour shortages may become a major source of concern in CECs as well. Blocking inward migration while outward migration continues could negatively affect both economic growth and the stability of social security systems. Political considerations play a crucial role in this segment of accession negotiations.*

Austria is among the leading trading partners of the CECs. Exports to this region amounted to nearly EUR 8.5 billion in 2000, the Austrian trade balance with the CECs has traditionally been in surplus. Trade with CECs has a clearly positive impact on both Austrian output and employment. By the end of 2000, nearly USD 80 billion of FDI entered the CEC-5, of which about USD 6 billion (7% of the total) came from Austria, creating favourable conditions for further economic expansion. Additional trade effects of EU enlargement are bound to be limited. FDI-related trade exchanges will grow and one may expect increases in services trade. Intense economic co-operation shows that the current political disputes between Austria and some CECs apparently do not affect decision-making processes at company level. In sum, economic data confirm the growing importance of regional integration in Central Europe and its benefits for all countries concerned.

Peter Havlik

EU Enlargement: Economic Impacts on Austria, the Czech Republic, Hungary, Poland, Slovakia and Slovenia

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 periphery to the centre of Europe and joined the European Union 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 from Eastern markets towards the EU, and cross-border flows of investments and people have increased remarkably.

The EU concluded Association and Cooperation 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 EU accession. 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 and the observance of human rights and the respect for minorities.

Both the EU and the CEC candidate countries have on the whole already enormously benefited from the far-reaching liberalizations of trade and capital flows, as well as from the intensification of mutual contacts resulting from the implementation of the Europe Agreements. It is expected that these benefits will be cemented and may even increase after the CECs' 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 gains from the opening of the CECs. But the process of European integration and the related adjustments – just as the transition to a market economy in the CECs and

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

globalization as a whole – have not only winners. The losers include those who are ill-prepared for rapid changes, usually the less educated and older citizens in both 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 may be adversely affected or feel threatened. Furthermore, a communication strategy between decision makers and citizens in both EU member states and CEC candidates is needed in order to ensure the participation of citizens in the 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 short and medium run, provided the new members enjoy completely free access to the European market and become beneficiaries of the European redistribution schemes. But the new members' costs will also be substantial even before the formal accession with the preparation to take over the *acquis communautaire*. The stake at the accession negotiations will be the main stages and the speed of the accommodation of both EU members and applicants. Temporary exemptions and well-calibrated 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 of a successful accession strategy and also of a 'smooth landing' in the EU.

This short 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, before the formal EU accession – are significant as well. After a brief outline of the current economic situation in Austria and the CEC candidates, we discuss the main macroeconomic effects of enlargement, selected issues of 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

In several respects, the year 2000 was exceptionally good. The CEC region as a whole expanded faster (average GDP increased by 3.8%) than the EU average (3.4%). GDP growth was fuelled mainly by exports as the world economy was booming and the global

demand for goods produced in the region increased. 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 has even slid into a recession. The current pronounced weakening of the EU economy – GDP growth forecasts for 2001 have been scaled down to below 2% – is worrying. These gloomy news may have serious implications for the CEC economies. With around 70% of exports destined for the EU, these highly open economies may suffer if Western Europe (especially Germany) reduces imports – unless they manage to gain further market shares as a consequence of improved competitiveness. Last year's volume of total West European imports increased by about 10%. CEC exports to the EU grew by nearly 20% in volume and by 30% in value during 2000. The available evidence suggests that CEC countries which have attracted large amounts of outward-oriented FDI have subsequently improved their qualitative competitive position. As a result, they have so far avoided feeling adverse effects of the recent weakening of EU growth.

In addition, most CECs now report expanding domestic demand, which is thus taking over the growth stimulus from declining net exports. With the notable exception of Poland (and here mainly for domestic reasons), there are no signs of deceleration of GDP growth yet – despite somewhat weaker external demand. However, in several countries imports are growing even faster than exports and external balances are deteriorating. As of mid-2001, there are few signs that the current global economic slowdown will immediately affect CECs' *short-term* growth prospects. Domestic demand is robust, though the growth of industrial production somewhat decelerated during the first months of the year. If there is a noticeable growth slowdown, as in Poland, then domestic factors are largely to blame. Inflation is in the single-digit range and mostly declining. But unemployment in the whole region is stubbornly high, and in several countries even increasing, as are current account deficits. Of course, should Western Europe's growth stay sluggish for some time (or even turn into a recession) then the CECs will 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.²

Despite the recent considerable worsening of the external economic environment, especially in the EU, the CEC economies will grow by about 3 to 4% on average in both 2001 and 2002 – only marginally less than during 2000. A more pronounced deceleration of GDP growth is forecast only for Poland, and here largely for domestic economic policy reasons. Inflation will slowly recede, but will remain higher than in the EU – just as unemployment. Current account deficits, though generally quite high and growing, are of no immediate concern yet, but should be closely watched (for more details see Havlik et al., 2001 and Country Tables in the Annex).

² For more details see Havlik et al. (2001).

With per capita real GDP at around 60% of the EU average level (53% of the Austrian level – see Table 1), the *Czech Republic* is the second (after Slovenia) most developed CEC even though the pre-transition GDP level has not been reached yet. After overcoming the second transitional recession of 1997-1999, GDP grew by 2.9% last year, but quarterly data show that there was an acceleration of growth over time. This tendency continued in the first half of 2001 as business activities boomed. In the short run, GDP growth is likely to continue and even to strengthen. Confidence indicators are confirming this positive trend. Up to the end of 2000, more than USD 21 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 more severe recession in the EU, the export growth will probably weaken, whereas the internal business boom, with domestic demand as its engine, is likely to persist for the time being. Such a development may push the current account deficit to an unsustainable level in 2002.

The *Hungarian* economy has been successfully catching up, especially after 1996. Last year, GDP growth exceeded 5% (industry expanded by nearly 20%) 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 expected to have a considerable impact on the economy in the second half of 2001. Investments will accelerate. Household consumption may increase by 5% in the whole year, and the current account deficit will deteriorate to a significant extent. A deteriorating net export position, due to the combined effects of modest growth performance in the main export markets and cheaper imports caused by the real appreciation, may allow a GDP growth rate of above 4% in both this year and in 2002.

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 is barely more than 40% of the EU average (37% of Austria). Throughout the year 2000 GDP growth was slowing down, and unemployment was growing. Available information on developments in the first months of 2001 suggests a further slowdown of growth of domestic demand. Under the very high interest rates administered by the National Bank of Poland (the discount rate ranging between 21% at the beginning of 2001 and 17% in August), the credit expansion during the first half was meagre. Continuing strong nominal (and of course even stronger real) appreciation of the zloty has not produced, in the first half of 2001, any deterioration of the trade balance. In actual fact the trade deficit contracted – primarily as a result of a strong expansion of exports. However, given the more fundamental tendencies currently observed in the real economy, neither depreciation nor higher inflation, even if carefully controlled, may meaningfully support stronger output recovery or improve the trade balance, at least in the medium run.

Table 1

GDP per capita at current PPPs (ECU/EUR), from 2001 at constant PPPs

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2005	2010	2015
										projection assuming 4% p.a. GDP growth and zero population growth p.a.		
Czech Rep.	10063	9786	10226	11286	11984	11973	12045	12277	12538	15108	18381	22363
Hungary	7229	7370	7783	8330	8613	9086	9735	10417	11245	13919	16934	20603
Poland	4577	4952	5319	6299	6783	7278	7756	8258	8779	10476	12745	15507
Slovak Rep.	7500	6319	7143	7914	8529	9091	9615	10002	10433	12571	15295	18609
Slovenia	10131	9924	10703	11607	12192	12847	13589	14591	15562	19116	23257	28296
Bulgaria	4871	4455	4652	5007	4600	4378	4583	4823	5237	6372	7752	9431
Romania	5349	4847	5160	5768	6113	5785	5576	5526	5741	6783	8253	10041
Estonia	.	5164	5244	5742	6128	6990	7491	7605	8713	10909	13272	16147
Latvia	.	4019	4198	4392	4659	5131	5465	5738	6348	7760	9441	11487
Lithuania	.	4991	4617	4974	5301	5725	6124	6022	6362	7666	9327	11348
										projection assuming 2% p.a. GDP growth and zero population growth p.a.		
Austria	16074	18144	18938	19974	20679	21079	22021	22931	23733	26204	28931	31942
Germany	15081	17576	18681	19890	19927	20416	21202	21906	22585	24936	27532	30397
Greece	8838	10379	11012	11920	12322	12444	13049	13788	14353	15847	17496	19317
Portugal	9291	11087	11902	12774	13180	13998	14643	15368	15829	17477	19296	21304
Spain	11603	12908	13208	14141	14671	15090	15973	16870	17561	19389	21407	23635
EU(15) avge	14782	16248	17020	18117	18536	18944	19744	20554	21253	23465	25907	28604

European Union(15) average = 100

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2005	2010	2015
Czech Rep.	68	60	60	62	65	63	61	60	59	64	71	78
Hungary	49	45	46	46	46	48	49	51	53	59	65	72
Poland	31	30	31	35	37	38	39	40	41	45	49	54
Slovak Rep.	51	39	42	44	46	48	49	49	49	54	59	65
Slovenia	69	61	63	64	66	68	69	71	73	81	90	99
Bulgaria	33	27	27	28	25	23	23	23	25	27	30	33
Romania	36	30	30	32	33	31	28	27	27	29	32	35
Estonia	.	32	31	32	33	37	38	37	41	46	51	56
Latvia	.	25	25	24	25	27	28	28	30	33	36	40
Lithuania	.	31	27	27	29	30	31	29	30	33	36	40
Austria	109	112	111	110	112	111	112	112	112	112	112	112
Germany	102	108	110	110	107	108	107	107	106	106	106	106
Greece	60	64	65	66	66	66	66	67	68	68	68	68
Portugal	63	68	70	71	71	74	74	75	74	74	74	74
Spain	78	79	78	78	79	80	81	82	83	83	83	83
EU(15) avge	100	100	100	100	100	100	100	100	100	100	100	100

Source: Havlik et al. (2001).

The *Slovak* per capita GDP barely reached 50% of the EU average (44% of Austria) and the unemployment rate (nearly 20%) is the highest in the region. GDP grew by 3% year-on-year in the first half of 2001, mostly fuelled by a recovery of private consumption as well as gross fixed capital formation. Thanks to FDI inflows, exports are gradually shifting to high-value-added branches such as manufacturing of electrical and optical equipment and transport equipment. The government intends to privatize around 40 companies in a book value of some SKK 140 billion, or 15% of GDP. About 14 large companies are to be sold by end-2001 already. A new law on FDI guarantees tax holidays and other benefits, by reducing the corporate tax rate (from 40% to 29%) as well as by cutting the number of the so-called strategic companies previously closed to FDI. The GDP is forecast to expand by 3% in both 2001 and 2002. However, the current account deficit is likely to rise as well.

Slovenia is the smallest and at the same time the most developed CEC. During the last couple of years, the economy has been growing by a remarkable, steady rate of about 4% per year and Slovenia's per capita GDP level (73% of EU average) is about the same as Portugal's. Growth in 2000 (4.6%) was mainly generated by foreign demand. Domestic demand components developed disappointingly with investments up by a mere 1.2%, private consumption by 0.8% and government consumption by 3.1%. Last year's steep rise in energy prices is still exerting a strong impact on inflation in the current year. In the first months of 2001, total exports expanded nearly as fast as during last year while imports increased less and the trade deficit fell. The official Slovenian forecast, posting a GDP growth rate of some 4.5% for 2001, appears somewhat too optimistic. Lower exports to the EU are likely to be offset by expanding exports to the other successor states of former Yugoslavia.

Austria belongs to the richest countries in Europe (per capita GDP is 112% of the EU average). During the first half of the 1990s its GDP growth was faster than the EU average, but this reversed after 1996 as both investments and private consumption weakened. Economic growth is set to decelerate from 3.3% in 2000 to 1.3% this year and may pick up slightly in 2002.³ A further deterioration of business conditions in Europe cannot be excluded, given the hesitant reaction of economic policy. Domestic demand stays relatively robust, although construction activity is showing clear signs of weakness. Inflation forecasts have been revised upwards substantially, both for this year and the next (2.6% and 1.9%, respectively). The decline in unemployment is coming to a halt, though the rate of unemployment (3.6%) is very low by EU standards (more than 8% on average). Over the period 2001-2005, GDP in Austria is projected to grow by 2.4% on an annual average, closely in line with the pace expected for the EU. The rate of unemployment will remain low.

³ Marterbauer (2001).

Macroeconomic effects of EU enlargement

Several recent studies have illustrated the extreme difficulties related to the measurement of costs and benefits related to EU enlargement.⁴ And apart from the detailed evaluation reports by the EU Commission on the progress towards accession made by each of the candidate countries,⁵ there has been a number of studies analysing either regional/sectoral impacts on EU member states (including Austria),⁶ or on industries in the candidate countries⁷. As far as the CEC candidates are concerned, their benefits from accession will no doubt be large in the short and medium run, provided they enjoy free access to the European market and become beneficiaries of the European redistribution schemes. But the new members' costs associated with accession will also be considerable since accession requires a forced adjustment process to norms and standards (*acquis communautaire*) devised for countries which had already undergone a long process of integration with each other and which are, with some exceptions, at a much higher level of economic development.⁸ 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, an exact knowledge of the outcome of the accession negotiations and a careful mapping of the nature and scope of potential costs in each segment of the applicant countries' economy would be necessary.

At the moment, we know that *transitory arrangements* will be or are likely to be applied in sensitive areas such as the free movement of labour and capital, the implementation of EU environmental standards, possibly also in the 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 preparations for EU accession. The separation of the consequences of the transition and the integration process, respectively, is very difficult if not impossible. As of mid-2001, Hungary has provisionally closed 22 chapters (out of 31) in its accession negotiations with the EU, Slovenia 21, the Czech Republic and Slovakia 19, Poland only 17. The Czech Republic, Poland and Slovenia do not want to accept the required (especially by Austria and Germany) seven-year transitory period for the free movement of persons. Several other key issues (agriculture, transport, energy and regional policy) are still under discussion. It is nearly impossible to predict the outcome of the ongoing negotiations.

⁴ Mortensen and Richter (2000); Breuss (2001).

⁵ See http://www.europa.eu.int/comm/enlargement/report_11_00/index.htm#Pre-Accession.

⁶ See results of the Interreg IIC 'Preparity' project: <http://www.preparity.wsr.ac.at>.

⁷ See http://europa.eu.int/comm/enterprise/enterprise_policy/enlargement/studies.htm.

⁸ 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).

Despite numerous problems, there are already some studies in the literature which analyse the potential welfare effects of EU enlargement.⁹ The shortcomings of all these calculations are 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 only the consequences for the blocks EU and CECs. A recent new estimation of the macroeconomic effects emanating from the process of EU enlargement tries to remedy these shortcomings and we shall first present its main findings below.¹⁰

The integration of a group of highly developed economies with a group of poorer countries which are still in the process of transition determines not only the trade flows, but also induces factor movements. Due to the fact that the size of the new member countries is quite small compared to the EU-15 (the combined real GDP of the CEC-5 is less than 8.4% of the EU-15), 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 in 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.¹¹ 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 other direction;*
- *costs of enlargement/transfers to the CECs.*

The main 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 partial 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 1/4 of a percentage points of 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% (cumulated over the period 2001 to 2010), in Poland and the Czech Republic about half of that. The elimination of the remaining import tariffs will result in lost

⁹ For a survey of model simulations, see Breuss (1999).

¹⁰ For details see Breuss (2001) and the 'Preparity' project quoted in footnote 6 above.

¹¹ A participation in EMU right after accession is neither possible (because most of the candidate countries do not yet fulfil the convergence criteria), nor desirable. We will turn briefly to CEE exchange rate policy dilemmas below.

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.

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-13	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).

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 economies of scale) and also in a decrease of the price levels (via reduced mark-ups). Together, this should *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).

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'. Therefore, both important factor movements (capital movements from the West to the East and labour migration from the East to the West) are analysed. 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 only an indirect dampening effect via higher interest rates.¹² As a consequence, we 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 impulse for real GDP, strongest in Hungary with up to 1%, 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 are 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 most 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 famous 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 – of course relatively strongest in Germany (+1/4% in 2010) and Austria (+0.15%) – and it declines in the CEC-3 (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

¹² 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.

CECs). Over time – also after the reduced migration flow – 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 (Table 2).

Apart from migration, the *costs of enlargement* represent a potential cause for concern on the part of EU citizens. Breuss (2001) estimates the costs of enlargement for 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 Agenda 2000 excludes an increase of own resources from the present 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 structural funds areas. 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' calculations explicitly costs 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 are below the EU average (average 2005 to 2010 is 0.17% of GDP), the cohesion countries have a higher cost burden: Portugal 1.5% of GDP, Greece 1%, Ireland 0.75% and Spain around 0.4% of GDP. A deterioration in the budget balances and current account balances in the EU is accompanied with small decreases in real GDP. In the CEC-3, however, not only the budget and current account balances improve, but more importantly, the stimulus for infrastructure investment leads to higher real GDP.¹³ Real GDP would increase by around 3% in Poland and by over 2% in Hungary and the Czech Republic (Table 2).

For the EU on average, and even more so for the CECs, *EU enlargement is 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% to 9% 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 (4% 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

¹³ This takes into account the ceiling of 4% of GDP in the case of structural funds, agreed upon in the Agenda 2000.

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, or 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, the country which is probably the *biggest enlargement winner from the EU*, 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.

Monetary policy in Euroland is becoming more challenging shortly after enlargement. In particular, devising appropriate exchange rate policies for CECs prior to EU and then EMU membership is a complicated and tricky issue. There are potential dangers in all the options available to CECs. The prospect of accession will increase the pressure to adopt an exchange rate regime that is less 'flexible' than the one that would be chosen if EU membership (and the conditions associated with it) were less immanent. Although the Maastricht criteria are not membership criteria, the CECs will be expected to demonstrate their 'ability to adhere to the aims of EMU', i.e. their ability to pursue stability-oriented macro policies that gradually lead to the fulfilment of the Maastricht criteria. But even apart from this, given that the CECs are tightly linked through trade and capital flows to the euro zone, the growing convergence/unification of institutional features as well as of the conduct of fiscal and monetary policy in the EU countries will exert a strong pressure upon the CECs to conform likewise. An analysis of the macroeconomic consequences of this is complex, but certainly that process will lead to stronger pressure to adopt targets of monetary stability and fiscal prudence than was the case for countries at a similar stage of economic catching-up in the past (think about the positions of Spain, Portugal and Greece at the time of their accession or Italy at an earlier stage). Simulation results show that – as forecast by the Balassa-Samuelson effect – *real appreciation pressures* on CEC currencies grow after joining the EU.

Labour market and migration¹⁴

Ten years of transition have brought about drastic changes on the labour markets in the CECs.¹⁵ 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 a slight recovery observed only in Hungary and Slovenia over the past two years. The last decade witnessed significant changes in the economic structure and

¹⁴ Sándor Richter and Hermine Vidovic, both WIIW, contributed to this section.

¹⁵ For more details see, for instance Vidovic (2001).

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. The Czech Republic, Hungary, Slovakia and Slovenia have been gradually adjusting to EU standards. 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 and the Czech Republic – the most advanced countries under review – and Slovakia report the highest share 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 slightly over 50% in Slovenia to 70% in Poland.

Table 3

Registered unemployment, end of period

	in 1000 persons				rate in %					
	1998	1999	2000	2001	1998	1999	2000	2001	2001	2002
				March				June	forecast	forecast
Czech Republic	386.9	487.6	457.4	451.5	7.5	9.4	8.8	8.1	9.4	9.5
Hungary ¹⁾²⁾	313.0	284.7	262.5	245.6	7.8	7.0	6.4	5.8	5.6	5.5
Poland	1831.4	2349.8	2702.6	2898.7	10.4	13.0	15.0	15.8	16.5	17.5
Slovak Republic	428.2	535.2	506.5	545.3	15.6	19.2	17.9	17.8	18	17
Slovenia ¹⁾²⁾	77.0	73.0	68.0	.	7.9	7.6	7.0	.	6	6.5
CEC-5 ³⁾	3086.2	3771.7	4033.5	4244.7	10.4	12.5	13.3	14.0	14.1	14.6
Austria	238.0	222.0	194.0	176.0	4.5	4.0	3.7	3.6	3.6	3.6

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

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

Unemployment, while believed to be of a temporary nature only at the beginning of transition, has become a long-lasting phenomenon. By the end of 2000 unemployment reached two-digit levels in Poland and in Slovakia. Hungary, the Czech Republic and Slovenia witnessed a reduction of unemployment recently (Table 3).

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

- (1) there are huge regional disparities of unemployment (see Figure 1 below);
- (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; and
- (5) unemployment levels among ethnic minorities and other socially disadvantaged groups are above-average and very high.

For the past few years a number of studies have analysed the migration and commuting potential that could result from EU enlargement. The approaches adopted in these studies range from opinion surveys to econometric modelling. 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 practical purposes.

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.¹⁶ 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.¹⁷ 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

¹⁶ Fassmann and Hintermann (1997).

¹⁷ Walterskirchen and Dietz (1998); Birner, Huber and Winkler (1998); Franzmeyer and Brücker (1997); Brücker (1999).

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 higher degree of uncertainty is associated with such forecasts.

The estimated stock adjustments predicted by econometric studies (in the region 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.¹⁸

One of the more detailed recent studies, produced for the European Commission by a consortium of EU research institutes (used in the above-quoted estimates by Breuss),¹⁹ 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 only a few EU member states. 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 residents is estimated to increase from around 100,000 (1998) to about 470,000 after 30 years, corresponding to an increase in

¹⁸ Landesmann (2000a).

¹⁹ Brücker and Boeri (2000).

²⁰ As of mid-2001, we already know that the final liberalization of labour migration may be postponed even up to 2011-2012.

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 troubles 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 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 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 maintain 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.

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

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

²³ European Commission (2001).

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 estimates 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

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 the eastern 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 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

²⁴ European Commission (1999).

²⁵ UN Secretariat (2000).

²⁶ European Commission (2001).

²⁷ Fassmann and Hintermann (1997).

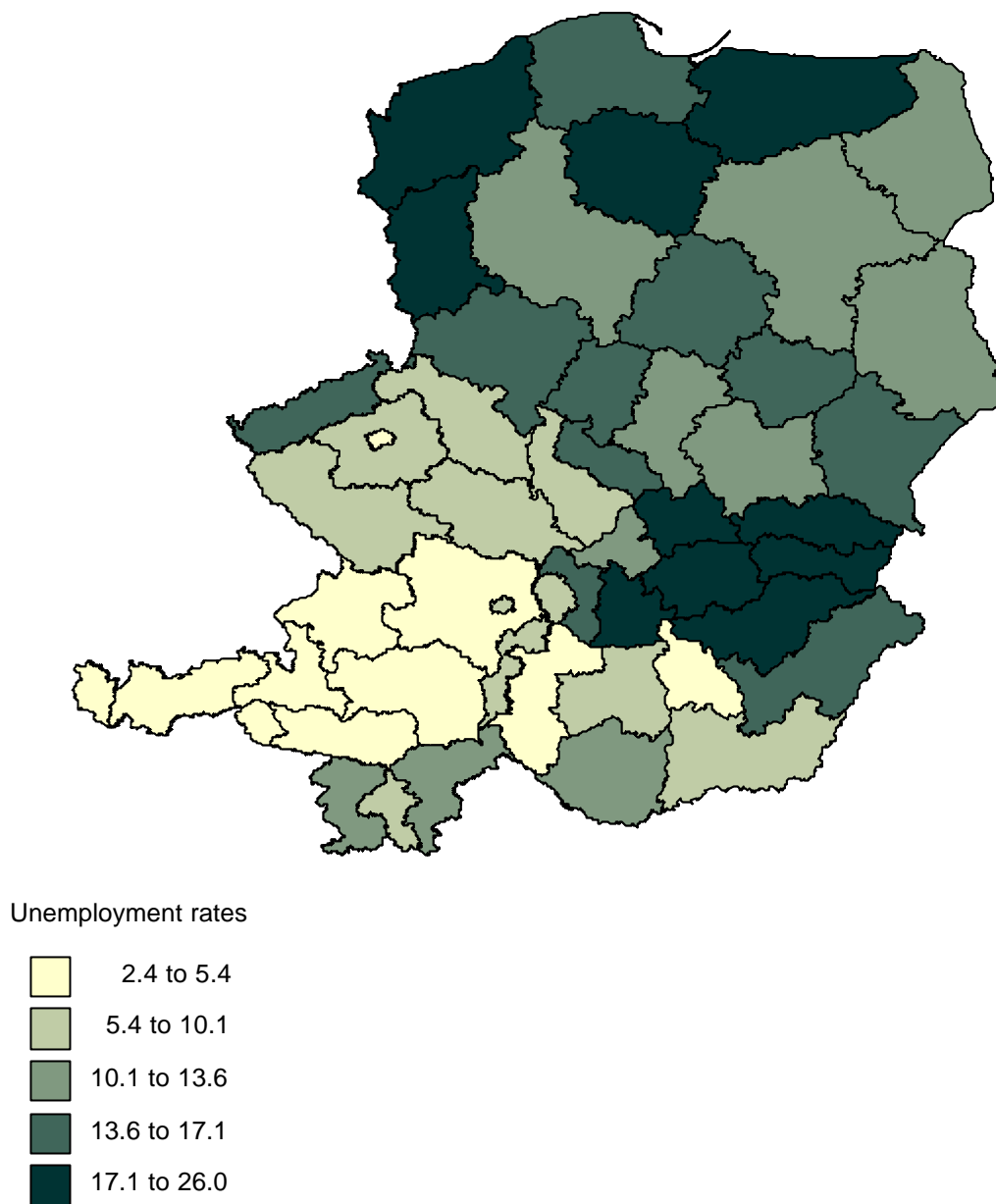
²⁸ Landesmann (2000b).

²⁹ European Commission (2001).

Figure 1

Unemployment rates by regions in Central and Eastern Europe and in Austria

(in %)



Note: Slovakia as of December 1999; Poland, Slovenia as of November 2000; Czech Republic, Hungary as of December 2000; Austria as of July 2001.

Source: Regional statistics from statistical offices of the respective Central and East European countries; WIIW. Austria: Arbeitsmarktservice Österreich.

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 the range of 2/3 to 1/3 for the crowding-out rate, the budgetary impact of migration may amount to -0.2% (worse 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.

After the last EU-CEC negotiation round on 27 July 2001, the migration chapter was (provisionally) closed with three (Hungary, Latvia and Slovakia) of the ten Eastern applicant countries. These countries accepted the EU's request for temporary (maximum seven years) restrictions on 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 applied for Latvia and Slovakia as well. The other applicant countries, especially Slovenia, Poland and the Czech Republic, are unwilling to accept restrictions on migration as yet. The arguments range from political ones (citizens of the applicant countries do not wish to become 'second-class' Europeans) to economic ones pointing to the missing proof of any real danger posed by possible migrants after enlargement. Slovenia argues that its per capita income level (73% of the EU average, 66% of the Austrian average) is about the same as in Portugal and higher than that of Greece.

Certainly, political considerations play a very important role in this segment of accession negotiations. The governments of the exposed 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. 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

³⁰ Nietzsche (2001).

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 CEC's catching-up and financing their social systems.

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 2000. 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 more than 75% (Hungary) of their total exports (Table 4). From this point of view, most CECs are already now more integrated into the EU than many member states (including Austria, where EU exports represented just 61% of the total in 2000). EU-CEC intra-industry trade has been rapidly growing. Most CECs are still having *negative trade balances* with the EU, only Hungary (since 1997) and recently also Slovakia (since 1999) record trade surpluses. The largest trade deficit (growing until the year 2000) with the EU is reported by Poland.

Austria is, usually after Germany and Italy, a leading trading partner 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 more than 12% of total exports and about 9.5% of total imports in 2000 (Table 6). Between 1995 and 2000, Austrian exports to CECs nearly doubled (while its total exports grew by 65%), imports from CECs expanded by 130% (total imports grew by 54%). Last year's Austrian exports to CECs amounted to nearly EUR 8.5 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).³¹ The Austrian trade balance with the CECs has traditionally been in surplus (EUR 1530 million in 2000), thus compensating at least a part (nearly 30% in the year 2000) of the traditional trade deficit. Moreover, the overwhelming part of exports to CECs (85-95%) consists of manufactured goods and the trade with CECs thus has a clearly

³¹ See Statistik Austria (2001), p. 516.

positive impact on both Austrian output and employment: a recent study estimated 3.7% higher production and 2.9% higher employment in 1999 resulting from the gross trade effect with the CECs.³²

Table 4

		CECs' exports by region						
		shares of regions in the total, in %						
		1990	1995	1996	1997	1998	1999	2000
		prelim.						
Czech Rep.¹⁾	EU(15)	38.4	60.5	58.4	59.9	64.2	69.2	68.6
	Austria	5.0	6.6	6.6	6.4	6.3	6.5	6.0
	Total (EUR mn)	7098.8	16501.6	17939.5	20181.7	23515.2	24640.9	31482.7
Slovak Rep.²⁾	EU(15)	40.8	37.4	41.3	41.7	55.7	59.4	59.1
	Austria	7.2	5.0	6.0	7.0	7.5	8.0	8.4
	Total (EUR mn)	2264.2	6634.5	7048.0	7299.0	9540.6	9602.2	12875.6
Hungary³⁾	EU(15)	42.1	62.7	62.7	71.2	73.0	76.2	75.1
	Austria	7.5	10.1	10.6	11.4	10.6	9.6	8.7
	Total (EUR mn)	7500.4	9972.3	10471.6	16910.1	20476.8	23491.0	30544.5
Poland	EU(15)	52.7	70.0	66.2	64.0	68.3	70.5	69.9
	Austria	3.7	2.1	2.0	1.8	2.0	2.0	2.0
	Total (EUR mn)	11250.3	17709.9	19488.2	22798.4	25145.4	25729.3	34382.6
Slovenia⁴⁾	EU(15)	64.8	67.0	64.6	63.6	65.5	66.1	63.9
	Austria	5.4	6.4	6.6	6.8	6.9	7.3	7.5
	Total (EUR mn)	3244.1	6426.3	6640.8	7413.4	8051.9	8037.0	9504.3

Note: 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.

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 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 (lower) external EU tariffs.³³ Last but not least, one may expect increases in services trade. In producer services (especially financial services), Austria is

³² The net trade effect was about 1% additional production and employment – see Mayerhofer and Palme (2001).

³³ Francois and Rombout (2001).

likely to expand existing trade surpluses³⁴ due to its already strong position in many CECs (Bank Austria, Erste Bank, Raiffeisen, Wiener Städtische Versicherung, etc.).³⁵ Last but not least, 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 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.³⁶ The reasons for this are: increased confidence in the direction in

Table 5

		CECs' imports by region						
		shares of regions in the total, in %						
		1990	1995	1996	1997	1998	1999	2000
		prelim.						
Czech Rep.¹⁾	EU(15)	40.5	61.0	62.1	61.5	63.5	64.2	62.0
	Austria	6.9	6.9	6.3	6.0	5.9	5.7	4.9
	Total (EUR mn)	7697.7	19403.7	22318.0	24321.9	25689.7	26387.4	34875.7
Slovak Rep.²⁾	EU(15)	44.8	34.8	37.3	39.4	50.1	51.7	48.9
	Austria	12.3	5.1	4.8	4.9	4.7	4.8	3.9
	Total (EUR mn)	2513.2	6782.6	8877.7	9119.0	11634.7	10627.7	13870.1
Hungary³⁾	EU(15)	43.1	61.5	59.8	62.8	64.1	64.4	58.4
	Austria	10.0	10.7	9.5	10.6	9.6	8.9	7.4
	Total (EUR mn)	6770.9	11905.2	12911.6	18779.5	22871.2	26287.8	34856.3
Poland	EU(15)	51.1	64.6	63.9	63.8	65.6	64.9	61.2
	Austria	4.9	2.5	2.2	2.0	1.9	1.9	1.9
	Total (EUR mn)	7484.4	22490.9	29677.1	37484.2	41539.3	43151.2	53121.9
Slovenia⁴⁾	EU(15)	69.0	68.8	67.5	67.4	69.4	68.9	67.8
	Austria	9.0	9.7	8.9	8.4	7.9	8.0	8.2
	Total (EUR mn)	3684.4	7327.0	7536.3	8289.7	8999.4	9482.0	10994.8

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.

³⁴ Römisch (2001).

³⁵ According to OeNB, the total balance sheet of subsidiaries of Austrian credit banks in CECs amounted to EUR 30 billion at the end of 2000, their estimated market share was about 15%. Austrian banking affiliates in CECs employed 32,700 persons and reported excellent returns on investments – see OeNB (2001).

³⁶ Landesmann and Pöschl (1997).

Table 6

Austrian foreign trade with CECs

in EUR million

		1995	1996	1997	1998	1999	2000 prelim.
Czech Rep.	Exports	1154.1	1290.1	1526.5	1585.5	1698.0	1999.4
	Imports	917.8	1043.8	1277.7	1448.7	1625.6	1921.1
	Balance	236.3	246.2	248.8	136.7	72.5	78.3
Slovak Rep.	Exports	414.2	562.3	700.7	689.9	672.0	767.8
	Imports	383.8	475.2	588.4	657.2	764.3	1042.3
	Balance	30.4	87.1	112.3	32.7	-92.3	-274.5
Hungary	Exports	1534.6	1768.7	2542.0	2779.8	2966.3	3466.4
	Imports	914.5	1391.8	1774.1	2007.9	2176.1	2604.7
	Balance	620.1	376.9	767.9	771.9	790.2	861.6
Poland	Exports	574.2	658.3	859.2	900.8	953.2	1109.8
	Imports	463.1	411.6	512.3	586.7	594.4	756.9
	Balance	111.1	246.7	346.9	314.2	358.8	352.9
Slovenia	Exports	713.3	716.9	937.8	942.0	1051.0	1229.0
	Imports	382.4	431.9	491.0	544.0	579.9	717.7
	Balance	330.9	285.0	446.8	398.0	471.1	511.3
CEC(5)	Exports	4390.4	4996.2	6566.3	6898.0	7340.5	8572.4
	Imports	3061.6	3754.3	4643.5	5244.5	5740.3	7042.8
	Balance	1328.8	1241.9	1922.7	1653.5	1600.2	1529.6
Total trade	Exports	42151.3	44489.6	51962.3	56302.4	60266.1	69692.3
	Imports	48547.7	51798.3	57429.8	61199.8	65315.5	74935.2
	Balance	-6396.4	-7308.7	-5467.5	-4897.4	-5049.4	-5242.9

shares of CECs in the total, in %

Czech Rep.	Exports	2.7	2.9	2.9	2.8	2.8	2.9
	Imports	1.9	2.0	2.2	2.4	2.5	2.6
Slovak Rep.	Exports	1.0	1.3	1.3	1.2	1.1	1.1
	Imports	0.8	0.9	1.0	1.1	1.2	1.4
Hungary	Exports	3.6	4.0	4.9	4.9	4.9	5.0
	Imports	1.9	2.7	3.1	3.3	3.3	3.5
Poland	Exports	1.4	1.5	1.7	1.6	1.6	1.6
	Imports	1.0	0.8	0.9	1.0	0.9	1.0
Slovenia	Exports	1.7	1.6	1.8	1.7	1.7	1.8
	Imports	0.8	0.8	0.9	0.9	0.9	1.0
CEC(5)	Exports	10.4	11.2	12.6	12.3	12.2	12.3
	Imports	6.3	7.2	8.1	8.6	8.8	9.4

Source: ÖSTAT.

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 hence permits a higher rate of (quantitative) growth/catching-up. This is one of the important mechanisms by which EU enlargement positively contributes to the CECs' economic development. Moreover, there is clear evidence that FDI has a positive impact on output, productivity growth and efficiency improvements in CECs' industry.³⁷

By the end of 2000, nearly USD 80 billion of FDI came into the CEC-5, of which about USD 6 billion (7% of the total) came from Austria.³⁸ Austria's FDI position is particularly strong in Slovenia, Slovakia and in the Czech Republic (Table 7). As far as the overall 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). In 2000, Austria achieved one of its best results ever in its business relations with the CECs since that region's political change in 1989. The upswing in 2000 reflects, primarily, more favourable exogenous economic conditions (abatement of the financial crisis, higher growth), which generated more greenfield investment and plant expansions in the CECs, as well as some special factors (privatization of the banking sector in the Czech and Slovak Republics). Austria has strengthened its position in the CECs and created favourable conditions for further economic expansion. Intense economic co-operation shows that the current political turbulence between Austria and some CECs (restriction of free movement of labour following EU accession, energy policy) apparently do not affect decision-making processes at the company level.³⁹

While until about the mid-1990s Hungary was the most important target country for Austrian FDI, the Czech Republic has been ranking first since 1998. Hungary completed its privatization of state enterprises already some years ago, and direct investment is now predominantly in the form of greenfield investment and plant expansion. In the Czech Republic, on the other hand, much of the financial sector is only now being privatized, with

³⁷ Havlik (2001).

³⁸ For more detailed data see Hunya and Stankovsky (2001).

³⁹ Austrian investment rose in almost all CEE countries, which in 2000 were by far the most important target region for Austrian FDI: they received 54%, whereas 'only' 18% went to EU countries – see Hunya and Stankovsky (2001).

Table 7

Austria's market share in Central and Eastern Europe: stock
share of Austrian FDI in total FDI¹⁾

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Czech Republic	6.8	8.6	13.4	17.4	13.5	12.3	11.6	8.8	7.5	9.7
Slovak Republic	.	.	.	17.7	16.4	14.5	19.6	17.2	16.3	15.9
Hungary	38.3	31.6	24.2	22.8	13.3	10.4	9.2	8.1	6.8	8.1
Poland	9.3	3.2	3.4	2.8	2.2	2.1	2.3	1.8	2.0	2.3
Slovenia	.	.	.	11.4	14.5	16.1	14.2	16.9	21.3	20.8
Central Europe	.	.	.	16.0	10.7	8.9	8.2	6.8	6.1	7.0
EU-associated countries (10)	.	.	.	14.4	9.7	8.1	7.2	6.0	5.3	6.2
Eastern Europe	.	.	.	11.9	7.8	6.2	5.3	4.6	3.9	4.6

Note: 1) Austrian FDI as reported by Austrian National Bank.

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	.	2,200	2,500	2,900	3,200	3,200	3,000	3,210
Slovak Republic	.	934	1,323	1,324	1,429	1,475	1,764	1,820
Hungary	490	4,167	5,000	5,400	5,500	5,500	2,250	2,250
Poland	54	485	577	520	549	600	750	850
Slovenia	.	127	200	284	385	459	581	569
Central Europe	544	7,913	9,600	10,428	11,063	11,234	8,345	8,699
EU-associated countries (10)	672	8,001	9,807	12,143	12,923	13,216	10,337	10,428
Eastern Europe	921	8,865	10,799	13,490	14,498	14,746	11,497	11,833
World total	3,412	11,437	13,149	16,493	17,583	17,869	14,824	15,710

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

Source: Austrian Chamber of Commerce.

the participation of foreign countries, and greenfield investments are growing as well.⁴⁰ The long-term negative trend of Austrian FDI in Hungary was at last broken in 2000. Peaking in 1990 at ATS 4 billion, new investment in Hungary has since been falling, to just ATS 0.4 billion in 1999, only to leap to ATS 5.7 billion (USD 0.4 billion) in 2000. The surge

⁴⁰ In 2000, Austrian FDI in the Czech Republic reached a record value of ATS 12.2 billion (USD 0.8 billion), which corresponds to a share of almost 40% in total investment in Eastern Europe.

of FDI in Poland was only partly shared by Austria. Yet even so, with investments of ATS 3.9 billion (USD 0.3 billion), Poland ranked third in 2000 among CEC target countries. The investment projects currently in the pipeline could well produce a substantial rise in the volume of Austrian FDI (e.g. by OMV refinery). For a long time, Slovakia had been markedly less attractive to foreign investors than Hungary and the Czech Republic, although economic indicators for Slovakia are generally favourable. Once the disputed Meciar government was replaced, the new coalition has been able to make notable progress in the EU accession negotiations and the economic consolidation contributed considerably to the wave of FDI surging into the country in 2000. Austrian firms had in the past shown more confidence in the Slovak economy than companies from other western countries and thus always contributed the largest number of investors. In 2000, Austrian FDI achieved a new peak at a volume of ATS 2.4 billion (USD 0.2 billion).⁴¹ In Slovenia, Austrian direct investments in 2000 accounted for ATS 1.4 billion, a decline against 1999.

Whereas total FDI in CECs during 2000 increased by 16% (USD 10 billion), capital exports from Austria to this region grew by 30%. 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. Austria's market share of new FDI in the CECs increased from 4% in 1999 to 9.8% in 2000. This share was the highest since 1992; back then, however, there were 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. According to Austrian statistics, Austria in 2000 contributed almost one fifth to the total FDI in Hungary and the Czech Republic and was therefore among the most important investors in these countries. In the Czech Republic, the Austrian market share in new investment climbed from 3.8% in 1999 to 17.8% in 2000, in Hungary from 1.4% to 22.3%. In Slovakia, Austria's market share in 2000 (7.9%) fell somewhat below the value for 1999 (13.2%). As in the preceding years, Austria's position in Poland was rather weak (market share: 2.9%) in 2000. But in sum, all these data confirm the growing importance of the regional integration in Central Europe and its benefits for all countries concerned.

⁴¹ The recent privatization of Slovak Savings Bank (Slovenska Sporitelna) at the start of 2001 was decided in favour of Austria's Erste Bank, which paid ATS 5.8 billion (USD 378 million) for a stake of 87%.

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ANNEX

Table A/1

Czech Republic: Main economic indicators

	1996	1997	1998	1999	2000 ¹⁾	2001	2002 forecast
Population, th pers., mid-year	10315.4	10303.6	10294.9	10282.6	10272.6	.	.
Gross domestic product, CZK bn, nom.	1567.0	1679.9	1837.1	1887.3	1959.5	2120	2270
annual change in % (real)	4.3	-0.8	-1.2	-0.4	2.9	3.7	3.0
GDP/capita (USD at exchange rate)	5596	5142	5530	5305	4943	.	.
GDP/capita (USD at PPP - WIIW)	12990	13050	13070	13270	13500	.	.
Employment total, th pers., average	5044.4	4946.6	4869.2	4693.1	4587.0	.	.
annual change in %	0.7	-1.9	-1.6	-3.6	-2.3	.	.
Employment in industry, th pers., average	1614.7	1608.8	1602.6	1550.9	1507.0	.	.
annual change in %	-0.8	-0.4	-0.4	-3.2	-2.8	.	.
Unemployed reg., th, end of period	186.3	268.9	386.9	487.6	457.4	.	.
Unemployment rate in %, end of period	3.5	5.2	7.5	9.4	8.8	9.4	9.5
Average gross monthly wages, CZK ²⁾	9676	10691	11693	12655	13491	.	.
annual change in % (real, gross)	8.9	2.0	-1.2	5.9	2.6	.	.
Consumer prices, % p.a.	8.8	8.5	10.7	2.1	3.9	4.9	3.5
Producer prices in industry, % p.a.	4.7	4.9	4.9	1.0	4.9	3.0	3.0
Central government budget, CZK bn							
Revenues	482.8	509.0	537.4	567.3	586.2	.	.
Expenditures	484.4	524.7	566.7	596.9	632.3	.	.
Deficit (-) / surplus (+)	-1.6	-15.7	-29.3	-29.6	-46.1	-50	-50
Deficit (-) / surplus (+), % GDP	-0.1	-0.9	-1.6	-1.6	-2.4	.	.
Current account, USD mn	-4292	-3211	-1336	-1567	-2369	-3100	-3300
Gross reserves of NB incl. gold, USD mn	12435	9774	12617	12825	13139	.	.
Gross external debt, convert. curr. USD mn	20845	21352	24047	22613	21290	.	.
Exports total, fob, USD mn ³⁾	22476.4	22784.7	26349.8	26264.6	29054.1	32500	36000
annual change in %	5.4	1.4	15.6	-0.3	10.6	12	11
Imports total, fob, USD mn ³⁾	27962.2	27459.0	28786.5	28126.3	32242.6	36500	40500
annual change in %	11.5	-1.8	4.8	-2.3	14.6	13	11
Average exchange rate CZK/EUR (ECU)	34.01	35.80	36.16	36.88	35.61	34.3	34.2
Purchasing power parity CZK/EUR, WIIW	12.68	13.62	14.81	14.95	15.21	.	.

Notes: 1) Preliminary. - 2) Enterprises with more than 100, from 1997 with 20 and more employees. - 3) Converted from the national currency to USD at official exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Table A/2

Hungary: Main economic indicators

	1996	1997	1998	1999	2000 ¹⁾	2001	2002 forecast
Population, th pers., end of period	10174.4	10135.4	10091.8	10043.2	10005.0	10000	9950
Gross domestic product, HUF bn, nom.	6893.9	8540.7	10087.4	11393.5	12876.8	14800	16500
annual change in % (real)	1.3	4.6	4.9	4.2	5.2	4.3	4.5
GDP/capita (USD at exchange rate)	4433	4504	4651	4769	4551	.	.
GDP/capita (USD at PPP - WIIW)	9340	9910	10570	11260	12110	.	.
Employment total, th pers., average ²⁾³⁾	3648.1	3646.3	3697.7	3811.5	3849.1	.	.
annual change in % ²⁾³⁾	-0.8	0.0	0.7	3.1	1.0	1	1
Employees in industry, th pers., average ⁴⁾	789.0	783.5	795.9	834.0	844.8	.	.
annual change in %	-5.3	-0.7	1.6	0.8	1.3	.	.
Unemployed, th pers., average ²⁾	400.1	348.8	313.0	284.7	262.5	.	.
Unemployment rate in %, average ²⁾	9.9	8.7	7.8	7.0	6.4	5.6	5.5
Average gross monthly wages, HUF ⁴⁾	46837	57270	67764	77187	87645	.	.
annual change in % (real, net)	-5.0	4.9	3.6	2.5	1.5	4.5	4.5
Consumer prices, % p.a.	23.6	18.3	14.3	10.0	9.8	9	6.5
Producer prices in industry, % p.a.	21.8	20.4	11.3	5.1	11.7	.	.
Central government budget, HUF bn ⁵⁾							
Revenues	2079.3	2364.6	2624.4	3227.6	3679.3	.	.
Expenditures	2209.1	2703.1	3176.6	3565.8	4048.7	.	.
Deficit (-) / surplus (+)	-129.8	-338.5	-552.2	-338.1	-369.4	.	.
Deficit (-) / surplus (+), % GDP	-1.9	-4.0	-5.5	-3.0	-2.9	.	.
Current account, USD mn	-1678	-981	-2298	-2081	-1496	-2100	-2400
Reserves total, incl. gold, USD mn	9751	8429	9341	10854	11229	.	.
Gross external debt, USD mn	27956	24395	27280	29336	30757	.	.
Exports total, fob, USD mn ⁶⁾	13119.6	19099.5	23010.0	25024.3	28139.0	31200	34600
annual change in %	1.7	21.8	20.5	8.8	12.4	11	11
Imports total, cif, USD mn ⁶⁾	16176.5	21211.1	25700.7	28003.7	32111.2	35900	39800
annual change in %	5.0	17.1	21.2	9.0	14.7	12	11
Average exchange rate HUF/EUR (ECU)	191.15	210.93	240.98	252.80	260.04	260	255
Purchasing power parity HUF/EUR, WIIW	78.67	92.74	102.68	108.90	114.46	.	.

Notes: 1) Preliminary. - 2) Based on labour force survey. - 3) From 1998 new sample. - 4) Enterprises with more than 10, from 1999 more than 5 employees. - 5) Excluding privatization revenues. - 6) Converted from the national currency to USD at official exchange rate. From 1997 including trade of firms with customs free legal status.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Table A/3

Poland: Main economic indicators

	1996	1997	1998	1999	2000 ¹⁾	2001	2002 forecast
Population, th pers., end of period	38639	38660	38667	38654	38644	.	.
Gross domestic product, PLN mn, nom.	387827	472350	553560	615115	685597	755300	832600
annual change in % (real)	6.0	6.8	4.8	4.1	4.0	1	0
GDP/capita (USD at exchange rate)	3724	3725	4098	4008	4078	.	.
GDP/capita (USD at PPP - WIIW)	7360	7930	8420	8920	9450	.	.
Employment total, th pers., average	15020.6	15438.7	15800.4	15373.5	.	.	.
annual change in %	1.9	2.8	2.3	-2.7	.	.	.
Employees in industry, th pers., average	3436.0	3433.4	3378.7	3138.4	2918.7	.	.
annual change in %	-0.7	-0.1	-1.6	-7.1	-7.0	.	.
Unemployed reg., th, end of period	2359.5	1826.4	1831.4	2349.8	2702.6	.	.
Unemployment rate in %, end of period	13.2	10.3	10.4	13.0	15.0	16.5	17.5
Average gross monthly wages, PLN ²⁾	874.3	1065.8	1232.7	1697.1	1917.1	2100	.
annual change in % (real, net) ³⁾	5.7	7.3	4.5	4.7	2.6	.	.
Consumer prices, % p.a.	19.9	14.9	11.8	7.3	10.1	6	7
Producer prices in industry, % p.a.	12.4	12.2	7.3	5.7	7.8	.	.
Central government budget, PLN mn							
Revenues	99675	119772	126560	125922	135657	162000	.
Expenditures	108842	125675	139752	138401	151052	182000	.
Deficit (-) / surplus (+)	-9167	-5903	-13192	-12479	-15395	-20000	.
Deficit (-) / surplus (+), % GDP	-2.4	-1.3	-2.4	-2.0	-2.3	-2.6	.
Current account, USD mn	-1371	-4309	-6862	-11558	-9946	-8000	-9000
Gross reserves of NB incl. gold, USD mn ⁴⁾	18220	21403	28275	27314	27464	.	.
Gross external debt, USD mn ⁴⁾	47541	49648	59163	64852	65517	.	.
Exports total, fob, USD mn ⁵⁾	24440.0	25751.3	28228.7	27407.4	31651.5	35400	37900
annual change in %	6.7	5.4	9.6	-2.9	15.5	12	7
Imports total, cif, USD mn ⁵⁾	37136.5	42306.9	47054.3	45911.1	48940.4	51900	55000
annual change in %	27.8	13.9	11.2	-2.4	6.6	6	6
Average exchange rate PLN/EUR (ECU)	3.38	3.71	3.92	4.23	4.01	4.2	4.6
Purchasing power parity PLN/EUR, WIIW	1.48	1.68	1.85	1.93	2.02	.	.

Notes: 1) Preliminary. - 2) From 1999 including mandatory premium for social security. - 3) From 1999 real gross wages. - 4) From 1996 according to IMF methodology. - 5) Converted from the national currency to USD at trade exchange rate.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Table A/4

Slovak Republic: Main economic indicators

	1996	1997	1998	1999	2000 ¹⁾	2001	2002 forecast
Population, th pers., mid-year	5373.8	5383.2	5390.7	5395.3	5400.6	.	.
Gross domestic product, SKK bn, nom.	606.1	686.1	750.8	815.3	887.2	970	1050
annual change in % (real)	6.2	6.2	4.1	1.9	2.2	3	3
GDP/capita (USD at exchange rate)	3679	3791	3953	3654	3556	.	.
GDP/capita (USD at PPP - WIIW)	9250	9910	10430	10810	11230	.	.
Employment total, th pers., average ²⁾	2224.9	2205.9	2198.6	2132.1	2101.7	.	.
annual change in %	3.6	-0.9	-0.3	-3.0	-1.4	.	.
Employment in industry, th pers., average ²⁾	690.0	665.8	662.5	630.3	615.2	.	.
annual change in %	6.1	-3.5	-0.5	-4.9	-2.4	.	.
Unemployed reg., th, end of period	329.7	347.8	428.2	535.2	506.5	.	.
Unemployment rate in %, end of period ³⁾	12.8	12.5	15.6	19.2	17.9	18	17
Average gross monthly wages, SKK	8154	9226	10003	10728	11430	.	.
annual change in % (real, gross)	7.1	6.6	2.7	-3.1	-4.9	.	.
Consumer prices, % p.a.	5.8	6.1	6.7	10.6	12.0	8	6
Producer prices in industry, % p.a.	4.2	4.5	3.3	3.8	9.8	.	.
Central government budget, SKK bn ⁴⁾							
Revenues	166.3	175.8	177.8	216.7	213.5	.	.
Expenditures	191.9	192.8	197.0	231.5	241.1	.	.
Deficit (-) / surplus (+)	-25.6	-17.0	-19.2	-14.8	-27.6	.	.
Deficit (-) / surplus (+), % GDP	-4.2	-2.5	-2.6	-1.8	-3.1	.	.
Current account, USD mn	-2098	-1804	-1982	-982	-713	-1600	-1800
Gross reserves of NB incl. gold, USD mn	3473	3285	2923	3425	4077	.	.
Gross external debt, USD mn	7810	10700	11900	10518	10800	.	.
Exports total, fob, USD mn ⁵⁾	8830.1	8252.1	10721.0	10228.1	11869.5	13200	14000
annual change in %	2.9	-6.5	11.3	-4.6	16.0	11	6
Imports total, fob, USD mn ⁵⁾	11122.4	10309.7	13074.2	11320.4	12786.3	14600	15700
annual change in %	26.8	-7.3	11.6	-13.4	12.9	14	8
Average exchange rate SKK/EUR (ECU)	38.40	38.01	39.60	44.12	42.59	44	49
Purchasing power parity SKK/EUR, WIIW	13.22	14.02	14.48	15.11	15.75	.	.

Notes: 1) Preliminary. - 2) Based on labour force survey. - 3) From 1997 new methodology. - 4) From 1997 according to IMF methodology. - 5) Converted from the national currency to USD at official exchange rate; from 1998 new methodology.

Source: WIIW Database incorporating national statistics; WIIW forecasts.

Table A/5

Slovenia: Main economic indicators

	1996	1997	1998	1999	2000 ¹⁾	2001	2002 forecast
Population, th pers., mid-year	1991.2	1986.8	1982.6	1985.6	1990.3	.	.
Gross domestic product, SIT bn, nom.	2555.4	2907.3	3253.8	3648.4	4035.5	4520	4960
annual change in % (real)	3.5	4.6	3.8	5.2	4.6	3.4	4.0
GDP/capita (USD at exchange rate)	9481	9163	9878	10109	9105	.	.
GDP/capita (USD at PPP - WIIW)	13220	14010	14750	15770	16750	.	.
Employment total, th pers., average	741.7	743.4	745.2	758.5	768.2	.	.
annual change in %	-0.5	0.2	0.2	1.8	1.3	.	.
Employees in industry, th pers., average ²⁾	239.2	248.5	246.2	242.8	241.6	.	.
annual change in % ²⁾	-5.2	-2.1	-0.9	-1.4	-0.5	.	.
Unemployed reg., th, end of period	124.5	128.6	126.6	114.3	104.6	.	.
Unemployment rate in %, end of period	14.4	14.8	14.6	13.0	12.0	10.5	10
Average gross monthly wages, SIT	129125	144251	158069	173245	191669	.	.
annual change in % (real, net)	4.4	2.9	1.5	3.0	1.4	.	.
Consumer prices, % p.a.	9.9	8.4	7.9	6.1	8.9	8.5	6
Producer prices in industry, % p.a.	6.8	6.1	6.0	2.1	7.6	.	.
General government budget, SIT bn							
Revenues	1091.8	1222.6	1397.9	1590.0	1726.7	.	.
Expenditures	1083.6	1256.7	1423.5	1613.3	1781.4	.	.
Deficit (-) / surplus (+)	8.2	-34.1	-25.6	-23.3	-54.7	.	.
Deficit (-) / surplus (+), % GDP	0.3	-1.2	-0.8	-0.6	-1.4	.	.
Current account, USD mn	31.4	11.4	-147.2	-782.6	-610.0	-150	-200
Gross reserves of NB excl. gold, USD mn	2297.4	3314.7	3638.5	3168.0	3196.0	.	.
Gross external debt, USD mn	3981	4123	4915	5400	6217	.	.
Exports total, fob, USD mn	8309.8	8368.9	9050.6	8545.9	8731.5	9100	9400
annual change in %	-0.1	0.7	8.1	-5.6	2.2	4	3
Imports total, cif, USD mn	9421.4	9366.5	10110.9	10082.6	10115.1	10200	10300
annual change in %	-0.7	-0.6	7.9	-0.3	0.3	1	1
Average exchange rate SIT/EUR (ECU)	169.51	180.40	186.27	193.63	205.03	.	.
Purchasing power parity SIT/EUR, WIIW	105.26	113.90	120.77	125.93	130.29	.	.

Notes: 1) Preliminary. - 2) Up to 1996 excluding persons employed by self-employed in enterprises with 3 and more employees.

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 estimate	2001 per capita USD
Czech Republic	3423	4547	7350	8572	9234	14375	17552	21095	25000	2440
Hungary	5585	7095	11926	14961	16086	18517	19299	19863	22000	2200
Poland	2307	3789	7843	11463	14587	22479	26075	32000	39000	1010
Slovak Republic	.	897	1268	2000	2025	2787	2817	3700	5500	1020
Slovenia	954	1326	1763	2063	2448	2904	2684	3000	3000	1510
Total (5)	.	17654	30151	39059	44379	61062	68427	79659	94500	1430

Source: WIFO-WIIW Database: Foreign Direct Investment in Central and East European Countries and the Former Soviet Union.

Table A/7

**Austrian FDI in Central Europe –
stock of cumulated balance of payments outflows since 1991**

USD million, end of period

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Czech Republic	84	209	332	504	620	634	729	1,073	1,148	1,890
Slovak Republic	37	37	56	112	178	235	255	417	403	538
Hungary	833	1,084	1,274	1,582	1,989	2,055	2,025	2,399	2,082	2,311
Poland	28	47	50	51	133	161	402	582	653	872
Slovenia	56	63	92	140	209	251	272	359	459	519
Central Europe	1,038	1,440	1,804	2,390	3,128	3,336	3,684	4,829	4,745	6,130

Source: Austrian National Bank.

Table A/8

FDI inflow per capita in USD, 1993-2000

	1993	1994	1995	1996	1997	1998	1999	2000
Czech Republic	63	84	248	138	126	264	497	389
Hungary	228	112	436	224	214	202	194	180
Poland	45	49	95	116	127	165	188	233
Slovak Republic	31	47	38	61	33	105	66	241
Slovenia	57	64	89	97	189	125	91	50
Total (5)	75	64	166	131	134	180	224	244

Source: Own calculations based on WIIW Database.

Table A/9

FDI stock per capita in USD, 1993-2000

	1993	1994	1995	1996	1997	1998	1999	2000
Czech Republic	331	440	711	831	896	1,396	1,580	1,752
Hungary	543	692	1,168	1,470	1,587	1,835	1,919	1,900
Poland	60	98	203	297	377	581	675	828
Slovak Republic	.	168	236	372	376	517	522	686
Slovenia	479	667	887	1,036	1,232	1,464	1,352	1,507
Total (5)	.	265	453	587	668	919	1,011	1,142

Source: Own calculations based on WIIW Database.

Table A/10

FDI inflow as a percentage of gross fixed capital formation, 1993-2000

	1993	1994	1995	1996	1997	1998	1999	2000
Czech Republic	6.6	7.4	15.4	7.7	8	17.3	36	29.7
Hungary	32.1	13.7	49.7	23.5	21.4	18.3	17.1	17.5
Poland	12.6	12.5	15.5	15.1	14.5	16	18.4	24.1
Slovak Republic	4.3	6.1	4.2	4.9	2.4	7	5.9	19.4
Slovenia	4.7	4.4	4.4	4.6	8.8	5.2	3.4	2.2
Total (5)	13.4	10.1	19	12.7	12.4	15	19.4	22.4

Source: WIIW Database incorporating national statistics.

Table A/11

FDI stocks as a percentage of GDP, 1993-2000

	1993	1994	1995	1996	1997	1998	1999	2000
Czech Republic	9.8	11.1	14.1	14.8	17.5	25.8	30.7	35.4
Hungary	14.5	17.1	26.7	33.1	35.2	39.4	40	40.3
Poland	2.7	4.1	6.2	8	10.1	14.2	16.8	19.9
Slovak Republic	.	6.2	6.9	10.1	9.9	13.1	14.3	19.2
Slovenia	7.5	9.2	9.4	10.9	13.4	14.8	13.4	16.1
Total (5)	.	8.6	11.6	13.7	15.8	20.2	22.7	25.5

Source: Own calculations based on WIIW Database.

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