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EVALUATION OF THE EU MEMBERSHIP OF THE NEW MEMBER STATES

HUNGARY AFTER FIVE YEARS OF EU MEMBERSHIP

When analysing the impacts of EU membership on NMCs, and in particular on the Hungarian economy, we consider integration maturity as a theoretical framework. Integration maturity can be defined as a capability to exploit the benefits of the given form of integration to the maximum, while the costs and drawbacks can be minimised. Integration maturity can be measured by comparing costs and benefits. A country is mature for integration if membership on the whole is advantageous for it.

INTRODUCTION

In the EC/EU, specific accession criteria were defined first in 1991, related to the transition to the economic and monetary union. The so-called Maastricht convergence criteria set requirements of the monetary integration which the member countries assumed to meet as specific indicators of monetary and fiscal stability conditioning their participation in the EMU. Accession criteria related to Eastern enlargements have been defined for new candidates. The so-called Copenhagen criteria were accepted in June 1993, later further specified and completed.

Integration maturity can be analysed in terms of four main dimensions: compliance with

- economic,
- social,
- political and
- institutional aspects and criteria.

In our analysis, we focused basically on economic integration maturity. Basic criteria of integration maturity concerning the economics of integration are as follows:

- functioning market economy;
- competitiveness (structural and development requirements);
- macroeconomic stabilisation/stability;
- convergence;
- financing and financiability (capability of being financed).

The parameters of integration maturity are more complex than the ones generally used for accession and membership criteria. These criteria constitute the general frameworks for normal operation of the given form of integration; these form the conditions of successful integration.

1. FUNCTIONING MARKET ECONOMY

In Copenhagen, the creation a *"functioning market economy"* was set as a basic condition for accession. Normal operation of the market economy is a starting con-

dition for all forms of integration. The whole theoretical and analytical system of the economics of integration is based on assuming this. Liberalization eliminates the obstacles to these in terms of trade or economic policy. The advantages of internal free trade can only be utilised alongside properly operating market mechanisms. The issue of a functioning market economy was added to the agenda as an official membership criterion pertaining to the accession of Central and Eastern European countries (CEECs); however, it does not mean that it had no relevance earlier. It is obvious that this issue is assigned various emphases at the various levels of integration, and cannot be avoided in case of closer forms of integration (such as the EMU), not even for the most developed countries. It is a different question that the requirement of a functioning market economy (flexible factor markets and factor prices) was not set as a membership criterion for the EMU, either, but was only analysed in informal theoretical debates (for example, related to the theory of the optimal currency area). Central and Eastern European countries in the early 1990s were still in the middle of the transformation, and what was formulated in June 1993 in Copenhagen was practically no other than the completion of transformation from a centrally planned economy to a market economy.

"Ability to function" presupposes the free movement, without artificial barriers, of market participants and prices. The main actors in an economy, in a given economic situation and economic policy environment respond appropriately and rationally to the influences of the market. Company profit becomes profit in the true sense of the word, a measure of the company's contribution to the efficiency of the whole economy. The creation of a market economy demands the use of policies, institutions and economic policy instruments that are in harmony with the functioning of the market, and attempt to harmonize the broader interests of society, taking these all into account. In circumstances of globalization, particularly in small, open economies all this applies in relation to external markets as well.

In the professional literature dealing with this transformation, surveys soon appeared analyzing the viability of their markets (EBRD Transition Reports; World Bank, World Development Report). For the interpretation of market conditions several systems of analysis and indices were designed to measure and demonstrate the degree and level of development of market maturity. These, together with the relatively meager EU literature on membership maturity, and the country reports, are from this point of view also very useful.

Analyses of transformation, together with the EU's Annual Country Reports, concluded that the candidate countries of Central and Eastern Europe, already by the end of the 1990s satisfied the "functioning market economy" requirement. In Hungary, about 97% of prices had been liberalized, free market-access was assured, foreign trade had been liberalized, the Hungarian forint had been convertible since 1996 (fully since 2001), interest rates and exchange rates reflected market conditions, privatisation had not merely been completed but had been accompanied by widespread company restructuring unique in the region, and the capital and money markets were expanding and being modernized. Market-conform forms of taxation had been consolidated, for example, the VAT-type turnover tax and progressive income tax were introduced in 1987. It is worth mentioning that introduction of a VAT-type turnover tax took place only at the beginning of the 1990s in the other CEE

countries. The 1995 White Paper offered a program of implementing the Single Market, and the related measures and approximation legislations to European norms were completed by the time of their entry. Apart from the Central European countries this also applies to the Baltic States.

It was, therefore, not by chance that the new Eastern members in 2004 joined the single market "upon their entry" without general transition period or any substantial derogations. The derogations that did apply were mostly technical, and were limited only to 4 main fields:

- Free movement of labour (postponed all together 7 years), but basically implemented by now,
- Selling of arable land (9 years),
- Full direct payments under CAP postponed till 2013,
- Joining the Euro Zone – no deadline.

Still there are shortcomings of "functioning market economy" and further measures are needed in several fields. Some most important are:

- Modern market infrastructure still has to be further developed (credit cards, forms of financial services, the logistical structures of participation in global networks),
- Further development of financial markets and modernization of the banking sector, creation of real competitive conditions,
- Reform of the public service and public finance,
- Suppression of the black or grey economy, the excessive scale of which, in addition to its criminalizing and demoralizing effects, have broad negative impacts on performance,
- Competition policies should be upgraded,
- Elimination of chain debt, which is undermining stability,
- Increased fight against corruption.

Through liberalizing foreign trade ("negative integration"), and particularly by signing the Europe Agreement, Hungary made important step towards reintegration of its economy to the world and Europe. The Europe Agreement meant free trade association to the EU (by 2000), and it greatly contributed to rapid re-orientation and expansion of Hungarian external trade towards *EU as main partner*. In 1989, about 25–30% of trade of the candidates was with EC, by 1993 this share was 50%, and by 2004, the share of the EU increased in new member's export to 67%, and in their import to 64%. The reorientation was particularly rapid already by 1993, but later the Europe Agreements played a major role. The trade integration reached high level, characteristic of the EU member countries. Trade integration of CEE was t*he major factor in the rapid export-led growth and from 2000s real economic convergence* (1.5–3% growth "surplus") of the CEE region.

2. COMPETITIVENESS

The *competitiveness* must be considered an important indicator (probably one of the most important ones) of integration maturity. It was also an accession criterion, as it was formulated, the new members should be able to cope "with competitive

pressures" of the EU markets. No doubt, the candidate countries would be unable to exploit the benefits of integration unless they have companies and products capable of withstanding market competition. The competitiveness needs to be analysed in a complex way. Micro and macro approaches are both relevant, but it is not simply a case of adding up producers' and companies' competitiveness at a national or international level, they have independent factors and effect mechanisms. Countries do not only compete by their structures of production, technical and economic management (products, technologies, innovations, corporate governance) or the development of their infrastructure, but also by their social, economic and institutional systems. And, in a given situation, the latter may be more important.

As far as enlargement was concerned, similarly to the concrete parameters of the "functioning market economy", those of "response to competitive pressure" were not defined clearly and unambiguously either. Thereby many details were left to ample scope for interpretation. The requirements were more vaguely formulated as far as *the macro-structural reforms* were concerned, which in many respect have equal importance (reform of such public services and social systems as health, education, pensions, or reduction of excessive tax burdens) than in the old member states.

The EU emphasized several aspects of competitiveness, and these turned up whenever fulfilment of the accession criteria was examined.

- The Copenhagen competition criterion definitely implies that the country seeking admission is capable of adopting the EU's rules on competition and its competition policy (acquis communautaires). This presupposes not just their application in law (which is formulated in the association agreements, and in the White Book), but also the ability of the given country in the long term to meet the standards of competitiveness. It is vital to create new institutions and regulatory systems that are in harmony with and conform to the institutional frameworks and competition regulation systems of the EU member countries.
- Competitiveness is closely and mutually dependent on stable macroeconomic policy conditions, especially budgetary and monetary policies. A proper harmony is absolutely essential from the point of view of creating competition-friendly economic policy and a stable economic environment. There is thus a need for consistent industrial, trade and subsidy policies that will ensure the development of healthy competition in the economy.
- In the EU literature and documents the manifestation and demonstration of competitiveness is linked strongly with *balance of trade and exchange rate development.*

Full and rapid opening from the beginning of 1990s and then the EU association attracted investors, and created (global) competitive environment. Improvement in competitiveness on a great extent was due to FDI and high globalisation of CEE economies.

The accession and integration maturity of the CEECs in terms of competitiveness improved considerably already by the early 2000s. In some sense, it improved quite substantially. The CEE countries have climbed up spectacularly on competitiveness lists, probably we can say that from the upper class of developing countries to the lower class of the developed countries. Now they rank in the upper middle field on

the global economy (25–35th places) according to such institutions as World Economic Forum, IMD World, UNIDO, etc. These analyses indicate that CEE economies have a good chance to close the gap with developed EU members in 15–20 years.

As the main source of the competitiveness of CEE economies, the level of productivity and its relatively rapid increase (comparative advantages) were important, as were the relatively good quality and low cost of their human capital (table 1).

Table 1. Productivity per Employed (PPP calculated GDP)

	1997	2007
EU27	100	100
Finland	112	113
Germany	112	107
France	109	100
Hungary	62	76
Slovenia	72	87
Slovakia	55	76
Czech Republic	61	73
Portugal	69	68
Poland	50	62

Source: Eurostat 2008

The closing productivity gap was accelerated in recent years as result of integration of these countries with the EU. The Hungarian productivity level was roughly half of that of Germany in 1997. In ten years the lagging behind shrank to less than 1/3 [European Economy 2009].

It can be added, the fact that labour was under-priced and it was (is still) a substantial source of comparative advantage. As the ITDH study entitled 'Competitiveness 2000' states, in Hungary, productivity calculated on the basis of output per worker employed in manufacturing industry rose by 2000 to 2.2 times its 1991 level. In contrast, real wages rose only moderately, by about 30%. The real wages fell during the transformation crisis, and they started to recover only after the mid-1990s. Between 1997 and 2000, in Hungary the real incomes grew annually by 3.1%, but the productivity growth by 4.7% was still far ahead. On this basis, the competitiveness and comparative wage-cost advantages of Hungarian industry grew considerably.[1] The Hungarian productivity is 58% of the EU average, while the wages are only 40% of it.[2] These significant comparative wage-cost advantages characterize the whole region.

After 2004, with full membership new competitive conditions were created:

- By entering the single market, 'asymmetry' in non-tariff, informal trade barriers disappeared. It opened new business and investment opportunities to the companies of both old and new members. In certain service sectors (health, technical design, education, etc.) new members will be able to use their cost advan-

1 Published in the daily *Napi Világgazdaság*, July 27, 2001.
2 Published in the daily *Világgazdaság*, February 15, 2002.

tages, in which in some cases create tensions ("Polish plumber"). The trade impacts of the single market were particularly strong among the new members.
- The trade liberalization was extended to agriculture, which produced contradictory results. In the mutual market opening, agriculture proved to be a weak point, and disadvantages in competitiveness of new members became apparent. Many of these countries formerly had export surpluses with the EU, but recently they have become net importers. In the early 1990s, Hungary exported 6 times more to the EU than it imported from there. By 2008, even Hungary has become a net importer.
- The taking over the Common External Tariffs (CET) meant opening to global markets. The new members had about 6–8% tariff levels, which were replaced by the CET, meaning halving the former national tariffs (to 3–4%). The reduction of tariffs, and taking over of large number of trade agreements of the EU, increase the external competition substantially.
- Greater budget transfers from structural funds, mean new resources for improving competiveness, particularly in terms of infrastructural investments.

The improved competitiveness of new member states is indicated by the knowledge intensity of their export *(figure 1)*.

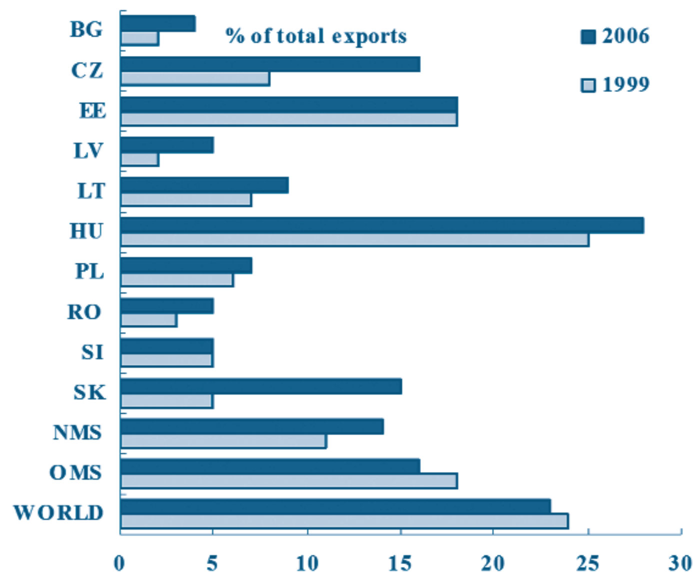

Figure 1. The Knowledge Intensity of EU trade

Hungary is particularly well performing. The share of high-tech products in total Hungarian export has increased from practically nothing to 28% by 2006 (it was 25% in 1999). The same share in 2006, for the old members is 17%, for the new ones 14%, for Estonia 17%, for Czech Republic 16% and for Slovakia 15%.

Although, the quality of labour is good, and they produce rapid productivity growth, the countries of CEE are still far away of the knowledge-based society. In most of the CEE countries, the R&D expenditures were the main losers of transformation crisis, as the share of these expenditures in GDP fell from about 2% to 0.5% in the years of early 1990s. Since, a recovery started, but with an about 1% level, they are still far behind to the EU average (1.80%), not to speak about that EU itself is sub-

stantially behind Japan (2.90%) and US (2.80%). Some TNCs set up research bases in CEE (such as Nokia) or pharmaceutical companies in Hungary. Hungary is still behind in use of Internet, with relatively high communication costs (in Hungary about 25–30% above EU average), relatively lagging behind in infrastructure, and in high costs of local capital. In term of innovation – Hungary is on half of EU27 average (according to the Innovation Score Board.) Number of technical students is 1/3 of the old members states' average (per 1000 habitants).

Table 2. Access to High Speed Internet per 100 population

EU25	10,6
EU15	12,0
USA	14,9
Japan	16,3
The Netherlands	22,4
Denmark	22,0
France	13,9
Hungary	4,5
Czech Republic	4,3
Portugal	10,1
Poland	1,9

Source: European Innovation Scoreboard 2007

By recent years, Hungary achieved a high level of global integration. According to the KOF Globalization Index of 2009, Hungary ranks 10th among the 189 countries of the world (11th Czech Republic, 13th Finland, 16th France, 17th Estonia, 22nd Germany, 27th U.K. 32nd Greece, 34th Latvia, 38th US.)[3]

The ranking is impressive, but it does not indicate some of the disproportions and quality of the integration process. The high globalization is based on massive inflow of foreign direct investments, but it is only one-way process, the outgoing investments from NMCs just started in recent years. In 2008, the outward investment stock of Hungary reached €12bn, and it is close to 15–20% of incoming FDI, which proportion is highest in the region. But the average of developed countries is somewhat around 150%. The transnationalisation process in NMS is external, and also asymmetric. Hungary has only few TNCs of its own (OTP, MOL, Magyar Telekom), and they operate and expand only on regional markets of neighbour countries.

The unevenness of the integration process is reflected also in a certain duality of local SME sector. Only their smaller part integrates into global economy (TNCs), while most of them remain outside, and still mainly oriented to local economy. As result of EU membership, large number of small and medium firms, inefficient small

3 The analysis is based on 24 variables (economic, social and political globalization). Economic: flows, cooperation intensity, restrictions. Social: personal contacts, information flows, cultural proximity. Political: diplomatic relations, membership in international organisations, UN Security Council participation.

farms (hundred thousands of semi-subsistence farms), and the capital-intensive service sectors seems to be at the loosing end, as result of increased competition.

The enlargement contributed to further reorientation of foreign trade of NMS, as it is shown in the data bellow:

- Share of intra EU 25 export to total: 1999: 68.1%; 2004: 66.4%; 2007: 67%.
- Share of EU15 in the new members export: 1990: 25–30%; 1999: 68.6%; 2004: 65.4%; 2008: 59.7%.
- Share of NMS of in NMS total export: 1999: 13.2%; 2004: 15.35, 2007: 19.5%.
- Share of rest of the world in NMS export: 1999: 18.3%; 2004: 19.4%; 2007: 20,9%.

The internal trade intensity of EU members remained high after enlargement, but it did not increase further. In fact, the old members' (EU15) share in the new members' trade decreased relatively quite substantially in the last ten years, from 68.6% in 1999 to 59.7% in 2008. At the same time, the NMS's trade to NMS increased quite dynamically, and they basically regained the proportions before 1990. They had free trade frameworks already before (CEFTA), but the mutual extension of single market regulation due to their EU membership seemingly boosted their cooperation. Increase of trade shares of Hungary since 1999–2000 was with the OMS 1,3 times, with the NMS 2,2 times, and with the rest of the world (RoW) 2 times. It was not surprising that the trade with the RoW increased relatively also rapidly, as far as the former national tariffs (for Hungary about 8%) were replaced by the common external tariffs of EU (about 3–4%). The EU membership meant a certain opening towards the global economy, also in terms of automatically taking over of EU's former association agreements (Cotonou, Mediterranean associations etc.).

The Hungarian trade integration shows very high regional concentration. The share of internal trade to rest of the world is about 67:33% for the EU15, while for Hungary it is 78:22%. About more than half of Hungarian EU trade is with Germany, and nearly 80% with the neighbour countries (Central Europe, Austria and Italy).

Enlargement is extremely important for the EU as well. It must be particularly emphasized that one main benefit of enlargement will be that the Union's competitiveness in global markets is likely to improve significantly.

3. STABILIZATION OF ECONOMIES

Stability of an economy is also an important factor in integration maturity. This is valid for both normal market operation and the utilisation of market integration benefits. Certainly, macroeconomic stability and successful integration are mutually dependent on each other: stability may be a prerequisite to integration, on the one hand, and an indicator of its success, on the other hand.

Most of the CEE countries suffered from stagnation of their economies from the 1970s, and many had negative growth already from the second half of the 1980s *(table 3)*.

From early 1970s to end of 1980s, Hungarian economy was in a "stop-go" cycle. It meant deterioration of budget and balance of payments during rapid growth, and stagnation of economy due to the necessary restrictions. Economic growth was around 1–2%, and it was effectively stagnating during the 1980s. When growth was

Table 3. Hungary's economic performance (%)

GDP Annual growth in	1950–59	1960–69	1970–79	1980–88
	3.8	3.1	2.3	1.1

	GDP Growth	Inflation	Budget Deficit	Unemployment
1989	-0.2	17.0	–	0.6
1990–93	-5.5 (-20)	27.2	5.6	12.3 (1992)
1994–99	3.3	18.7	5.1	7.0 (1999)
2000–05	4.1	6.5	5.7	5.9 (2003)
2006	4.0	4.0	9.2	7.5
2007	1.0	7.9	6.2	7.6
2008	0.6	6.0	3.4	7.8
2009	-6.5	4.0	3.7	9.9

Source: Eurostat, Hungarian Statistics Office

above 3% (1987 and 1994), the indebtedness of the country doubled in one year. Growth was unsustainable.

From early 1990's, the "transformation recession" (Kornai's term) hit the region, with unprecedented worsening of economic performance (even in terms of 1929–33, when Hungary lost 10% of its GDP). Between 1991 and 1993, Central European countries, including Hungary were relatively "moderately" hit by the "transformation recession" (loss of 20% of their GDP), while other regions (Southern-Europe or former Soviet Union) suffered 40–50% losses.[4]

The "transformation recession" produced high unemployment, which was a relatively new phenomenon in the region. Before 1989, it was unknown in CEE, except Yugoslavia. Unemployment increased in all these countries, it was one of the costs of transformation crisis. In many countries (Bulgaria, Poland, Slovakia, Lithuania and Latvia) unemployment peaked around 20%, while Czech Republic, Hungary, Slovenia and Romania remained bellow comparable EU averages. Poland, Slovakia and Croatia had to cope with high (15–18%) unemployment till early 2000s. High unemployment proved to be one of the constraints of enlargement.

Inflation did not exist before 1990, in most of CEE, except the reform countries (Yugoslavia, Poland and Hungary). The transformation crisis, however, was accompanied by hyper-inflation (3–4 digit), in most of the countries (Bulgaria, Estonia, Latvia around 1000%, Croatia 1500%, Poland, Slovenia, Lithuania around 500%). Hyper-inflation was avoided by Czech Republic and Slovakia (58%), and Hungary (35%) in 1991 as peak year. Hyper-inflation re-emerged later in slowly transforming and stabilizing countries in 1997 (Bulgaria and Romania).

In Central Europe (Czech Republic, Hungary, Poland, Slovakia) the recovery started after 1993–4, and these countries returned to pre-1990 levels by the end of 1990s. The others followed with some delays, and in the second half of the 1990s, some countries (Bulgaria, Czech Republic, and Romania) suffered a new recession.

4 All data are from Eurostat.

CEE countries have produced diverging performance in stabilization of their economies *(tables 4 and 5)*.

Table 4. Annual growth of new members 1996–2005

	1996–2000	2001–2005
Czech Republic	1.5	3.6
Slovakia	3.8	4.6
Poland	5.4	2.9
Hungary	4.0	4.2
Croatia	3.4	4.7
Bulgaria	-0.8	4.9
Romania	-1.3	5.7
Estonia	6.1	8.3
Latvia	5.7	8.1
Lithuania	4.2	7.6

Source: Eurostat

Table 5. Average growth of new and old members 1999-2008

	1999–2003	2004–2008
OMS	2.2	2.2
NMS	3.4	5.6

Source: Eurostat

From the middle of the 1990s till 2007, most of the new members were characterised by rapid growth, and some countries, particularly as a result of their EU membership produced impressive growth rates. The world economic slow down of 2001–2002 has not been felt in CEE (in some countries only moderate slow down), mostly due to continued inflow of FDI into the region. From the end of 1990s, the strong growth meant an accelerated catching up. The growth "surplus" of NMS's was 3.4% over OMS's in the period of 2001–2005.

All analysis proves that the years following joining the EU as full members, brought substantial gains in their economic performance. NMS's produced rapid growth after 2004, with around 6–7% annual increase of their GDP. In Baltic countries, Romania and Slovakia growth was close or above 10% (certain overheating). Hungary's growth fell from the 4% to 1% after 2006, due to restrictions. According the EU Commission analysis, accession process boosted economic growth in the new Member States by about 1.75 percentage points per year over 2000–08, when growth increased from 3.5%, on average, in 1999–2003 to 5.5% in 2004–08. Growth in the old Member States also benefited from enlargement (adding up to a cumulative increase in output of around 0.5% over the same period [European Economy 2009]).

After dynamic the growth period, from 2008 all countries were negatively affected by the world economic crisis, and except Poland, all countries produced negative

Table 6. Growth of GDP of new members in 2005–2009

	2005	2006	2007	2008	2009
Czech Republic	6.3	6.8	6.1	2.5	-4.8
Slovakia	5.0	6.7	8.5	6.2	-5.8
Poland	3.6	6.2	6.8	5.0	1.2
Hungary	3.5	4.0	1.0	0.6	-6.5
Croatia	4.3	4.8	5.5	2.4	-6.0
Slovenia	4.5	5.8	6.8	3.5	-7.4
Bulgaria	6.2	6.3	6.2	6.0	-5.9
Romania	4.2	7.8	6.3	7.3	-8.0
Estonia	9.4	10.0	7.2	-3.6	-13.7
Latvia	10.6	12.2	10.0	-4.6	-18.0
Lithuania	7.8	7.8	9.8	2.0	-15.0
EU 15	1.8	3.0	2.6	0.5	-4.1

Source: Eurostat

growth rates. For some countries, particularly for Baltics, the recession was very severe, and the fall back this time was much more substantial than in the OMS's. The structural weaknesses and the high external dependence of the NMS's was particularly demonstrated.

The economic growth in CEE was based mostly on productivity, and as result of restructuring till 2003, the contribution of labour to growth was rather negative. After 2004, the growth was accompanied by reduction of unemployment in NMSs, and till 2008, it fell bellow the OMS average (to about 5–6%). Since 2004, we can experience robust growth in employment of about 1.5% annually in the new Member States. There was strong employment creation in the old Member States (about 1% per year since enlargement) as well [European Economy 2009]. This contradicts assumptions on "dislocation", according to which in terms of employment the OMS's were on the loosing end.

By 2002–2003, most of the countries brought down their inflation to a desirable level, and met requirements for joining the Euro Zone (around 2–3%). The exceptions were: Romania, Slovakia, Slovenia and Hungary (with 5–7% inflation). Except Poland, Slovakia and Croatia (with around 20% unemployment), the other countries have brought down their unemployment to or bellow EU levels (9–10%). The Phillips curve seems to be validated for the Baltics (and Bulgaria), where low inflation was achieved at the expense of high unemployment. Hungary and Slovenia is an opposite case: they produced parallel improvements in inflation and unemployment at the same time, mainly due to their successful restructuring. By the time of 2004, when joining the EU, the NMC's consolidated their economies. Due to rapid growth, particularly overheating, there was an acceleration of prices in recent years, except Slovenia and Slovakia, which at least due to joining the euro-zone, managed to keep down their price increases.

The NMSs produced varying budget deficits after 2004. Estonia posted a budgetary surplus since 2004, while Lithuania and Latvia reported small deficits. In Poland, the deficit decreased from an initially high level, and by 2007 had fallen below 3% of GDP. In the Czech Republic and Slovakia it exceeded the 3% threshold

only intermittently. Slovenia ran small deficits throughout the period. Hungary's headline deficit peaked at 9.2% of GDP in 2006, and followed by a considerable improvement (by 2009 brought down to 3.9%). Due to crisis, after 2008, the budgets seriously deteriorated.

The NMS successfully stabilized their economies, and they proved to be mature for integration in the EU. They have produced, however, diverging performance in stabilization of their economies, and in this respect, CEE countries achieved the best progress, while the others followed somewhat later. The full membership further improved their performance, and they have good chances to meet the Maastricht criteria, in order to comply with the requirements for entering the Euro Zone. On the other hand, by the financial crisis most of the NMS's got more far from euro-zone membership.

4. CONVERGENCE

When the six countries signed the Treaty of Rome, their level of development and economic structures were very similar, with differences limited to certain regions only (southern Italy). Later, with consecutive enlargements – especially with the accession of Mediterranean countries – differences of development grew. The development level of these countries was 40–45 per cent lower than the Community average. Their accession – although with varying success – accelerated their economic development, and they achieved a remarkable level of convergence with more developed member states in less than two decades.

With eastern enlargements, a radically new situation evolved. The average difference of development levels has been increasing to a great extent (from an average of 20–30 per cent to 60–70 per cent), and the order of magnitude of the differences between the two extremes (Latvia or Lithuania and Denmark) reaches four-fold (and five-fold for Bulgaria).

Convergence is a condition for efficient and successful integration. But integration does not necessarily bring convergence. Convergence is dependent on policies both on integration and on national levels. Globalisation (global integration) is accompanied by increasing inequities, but on the other hand, one of the main attraction of European integration has been that it contributed to the catching up of its several new members (Ireland, Mediterranean countries).

While the Soviet Bloc countries suffered serious losses in the so called "peaceful competition" with the West during the 1970s–1980s, their integration with the EU, particularly from the end of 1990s, brought substantial convergence. In 1999, the per capita GDP of NMS's was about 40% of the OMS's average, it increased to 52% by 2008. Hungary's per capita incomes in the 1960s were around 60% of the European average. By early 1990, due to structural crisis of Soviet system, and then the "transformation recession" it fell back to around 43%. Per capita GDP of Hungary now is around 62% of that of EU27 (of course above data are not comparable with 1960s, but show the trend). Now, Portugal and Greece is still about 50% above the Hungarian level. Re-convergence had an encouraging start, but it was broken by the 2008–2009 recession.

There is an agreement, that per capita GDP is not a satisfactory index of convergence. Composite convergence indices give a more reliable picture. The *Deutsche Bank Research* convergence web, for example, is computed by 5 groups of indicators, based on a composite of 16 variables. According to them, the new Central European members (Czech Republic, Hungary, Slovakia and Slovenia) are on about 75% of EU average, and they are in the same group with Portugal and Greece.

Convergence in terms of the development levels and structures of the economy necessitates serious efforts, which requires significant resources. Similarly, the issue of compensation provided to the weak and the losers is raised, due to an uneven distribution of trade benefits. Tensions and conflicts generated from growing differences are not in the interest of more developed partners, either; consequently, some form of solidarity and compensation has been on the agenda right from the beginning. For the future, the question remains, how far the NMS's can secure the sustainability of their convergence.

5. FINANCEABLITY

As by accession of the CEECs, differences in terms of economic development and structure have significantly intensified, the issue of providing financing and the capability of being financed become one of the most critical issues of enlargement. Financing is a strategic issue of integration maturity, and an important indicator of it. The main questions at stake are:

- Availability of domestic capital resources. How capable is the economy in question of producing the resources for its own development? This, among others, points out the relation between national capital accumulation and efficiency. With an obsolete economic structure and deficit-producing sectors, the options of internal savings can become restricted.
- The existence of operating capital markets, which are able to mobilise internal and external resources, and allocate resources rationally. The economy's ability to minimise capital losses (devaluation of savings due to high inflation, freezing resources by way of thesauration, prestige consumption, transferring capital abroad) is of utmost importance.
- The state of budgets in the acceding countries, the ability of governments to reach or maintain budgetary balance, and to fund the costs related to accession.
- The ability of a particular country to absorb capital, both in terms of external investments of private capital and the intake of budgetary transfers.

In order to reach integration maturity and to implement a successful integration, the new member states need considerable resources for various reasons.

- A starting condition is to improve and maintain the competitiveness of their respective economies. The modernisation and structural reorganisation of the economies of new members have relied on foreign investments of private capital; consequently, their stimulation is of great importance. (Of course, the role of local private capital should not be neglected, either.)

- Development of the region's infrastructure. In this area, new members may rely on more significant EU funds – the large part of development costs, however, is left for the given countries to pay (programmes implemented through co-financing or purely from the member state's resources).
- Improving the condition of the environment. Compliance with environmental requirements and expectations in the new member states would necessitate thousands of billions of Euros.
- Building institutions, harmonising legislation and policies.
- Compensating for losses. No doubt, adaptation to membership criteria involves costs, and certain sectors incur losses. This is a natural process, a part of the structural reorganisation related to integration. This, for instance, is expected in agriculture.
- Payment obligations to the European Union must be complied with.

Financing or being capable of receiving financing is a key issue of integration maturity and membership adaptation. Difficulties begin with the underdevelopment of capital markets and credit rating, which for a number of countries raise the expenses of involving external resources. In the worst case, rating may as well avert all kinds of reasonable investments, as it has occurred to a number of countries in the past 10–15 years. Still, a major limitation of Eastern enlargements was their budget. It equally applies to the budgets of old and new members, as well as that of the European Union. Despite the restricted nature of the EU's financing capability, substantial amounts of resources are at stake. It is up to the country's ability to absorb supports and the reasonable application of funds how these resources are actually utilised.

Hungary enjoyed growing financial transfers from the EU, particularly after 2004 *(see figure 2)*.

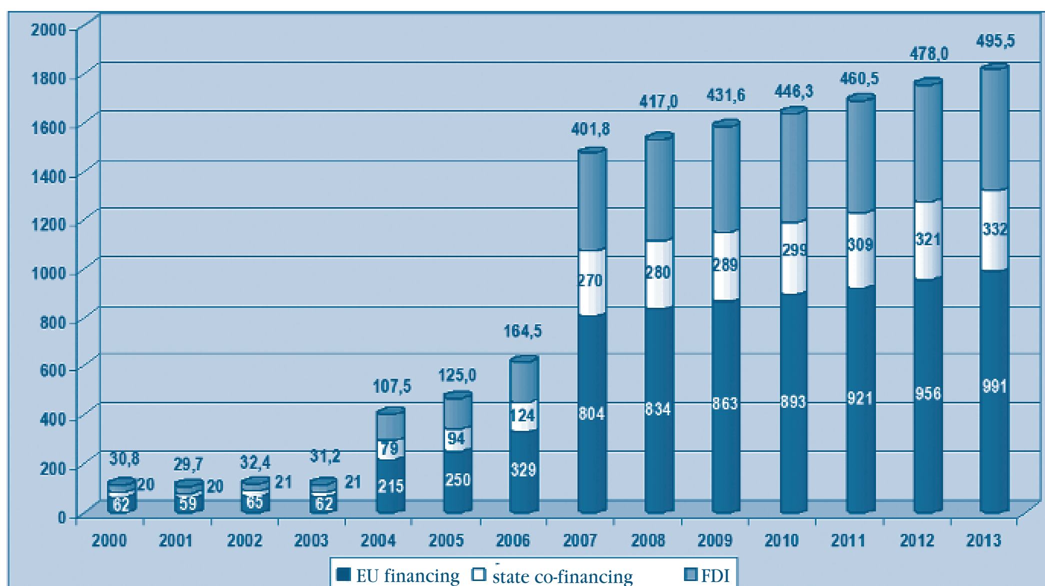

Figure 2. Capital Transfers from the EU to Hungary

In the 2007–2013 financial perspective there is €347 billion assigned for Structural Funds, which is 35% of the €975 billion EU budget. In the period of 2007–2009, so far only €93 billion have been allocated, which is 27% of the available funds. From this budget, Hungary is eligible for nearly €25 billion, and the allocation is a little more than €11.5 billion, 46.3% of the total available. By this proportion Hungary is 7th among the 27 members, but in terms of amount of allocation, the country is second after Poland (€12.7 billion).[5] Beyond the absolute amounts, from point of integration maturity the efficient and optimal use of the funds is particularly important. This question is addressed in the paper of Sandor Gyula Nagy and Christopher Maroshegyi in this volume.

CONCLUSIONS

The NMS produced an exceptionally rapid integration in the last 15–20 years, some become one of the most globalised economies of the world. This integration is still uneven, based on a large extent of foreign companies, and large sectors of SMEs and the agriculture remained outside. After joining, both old and new members enjoyed robust gains and the integration of CEE to the EU proved to be a positive sum game. Enlargement exerted positive impacts on integration process, it may promote further reforms. Recent world economic crisis demonstrated advantages of EU membership and enlargement. At the same time, the gains are hardly felt by the majority of society that explains growing negative attitudes, and diminishing support for EU integration. The Lisbon Program offers a development model, which combines and creates a compromise between global competitiveness and ecological sustainability as well as social integration. The future transformation and success of the Europe 2020 Program is critical from points of view of meeting global challenges and parallel the further integration of NMSs. They have the capacities (integration maturity for that), but future policies both on Union and on national levels will be crucial.

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5 Published in the daily *Világgazdaság*, April 1, 2010.