

## **Transition Countries on the Eve of EU Enlargement: Economic Situation in the Region and Effects on the Acceding Countries**

*In its new special issue on the transition economies of Central, East and Southeast Europe, The Vienna Institute for International Economic Studies (wiiw) analyses the current economic situation in the region as well as development prospects for 2004 and 2005. Brief country surveys on Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia, Poland, Romania, Russia, Serbia and Montenegro, the Slovak Republic, Slovenia and Ukraine are added. An annex contains indicators of competitiveness as well as projections of per capita GDP for these countries until 2015.*

For a couple of years already, the transition countries' economic growth has been faster than in the European Union. During 2003, **GDP growth in the majority of the Central, East and Southeast European countries even accelerated** – despite near-stagnation in the EU. The ongoing productivity improvements – particularly in industry – are usually associated with cuts in employment. Unemployment, which is generally high in most of these countries, is unlikely to go down significantly even in the medium run.

The economic recovery in Western Europe will help to speed up GDP growth in most transition countries in the coming two years as well. The **EU accession of eight Central and East European countries** on May 1<sup>st</sup>, 2004 will not have any immediate marked economic effects either on the 'old' or the 'new' Member States. More precise economic forecasts are hardly possible, yet in the medium and long run positive growth effects are expected – provided 'appropriate' economic policies are in place. Most acceding countries will face temporarily higher **inflation** as a result of the tax and tariff harmonization with EU rules; an increase in interest rates thus cannot be excluded. **Budget deficits** may go up as well. Additional expansion of both exports and imports is likely, and the acceding countries' **trade and current account deficits** may deteriorate. **FDI** flows will be modest as privatization has been practically completed and rather than big new investment projects, FDI flows from SMEs (especially in the border regions) will accelerate.

After accession, the envisaged participation in ERM II and the **future adoption of the euro** will pose many challenges for the fiscal and monetary policies in the new EU Member States. The required stabilization measures, aimed at curbing inflation and reducing excessive budget deficits, may well result in lower economic growth. The EMU accession of Estonia, Latvia, Lithuania and Slovenia is possible in 2007 at the earliest; the Czech Republic, Hungary, Poland and Slovakia will adopt the euro only after 2008.

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Doz. Dr. Leon Podkaminer, tel. 533 66 10 – 34, e-mail: pod@wiiw.ac.at  
Dipl.-Ing. Peter Havlik, tel. 533 66 10 – 15, e-mail: havlik@wiiw.ac.at

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92 pages including 30 Tables and 6 Figures

The Report comprises an Overview and twelve brief Country Reports on the following transition countries: Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia, Poland, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia and Ukraine.

Available in hard copy (EUR 70.--) or in PDF (EUR 65.--) from wiiw's website, [www.wiiw.at](http://www.wiiw.at).  
(Individual Country Reports, only in PDF: EUR 10.-- each.) Orders can also be sent to fax +431 5336610-50 or to e-mail [koehrl@wiiw.ac.at](mailto:koehrl@wiiw.ac.at).

## Overview developments 2002-2003 and outlook 2004-2005

	<b>GDP</b>				<b>Consumer prices</b>				<b>Unemployment, based on LFS<sup>1)</sup></b>				<b>Current account</b>			
	real change in % against previous year				change in % against previous year				rate in %, annual average				in % of GDP			
	2002	2003	2004 forecast	2005 forecast	2002	2003	2004 forecast	2005 forecast	2002	2003	2004 forecast	2005 forecast	2002	2003	2004 forecast	2005 forecast
Czech Republic	2.0	2.9	3.3	4	1.8	0.1	3.5	2	7.3	8.1	8.2	8.0	-6.4	-6.4	-6.1	-6.1
Hungary	3.5	2.9	3.3	3.9	5.3	4.7	6.5	5	5.8	5.9	6	6	-4.0	-6.6	-5.7	-5.3
Poland	1.4	3.7	4	4	1.9	0.8	2	3	19.9	20.0	20	19	-3.6	-1.9	-2.5	-3.0
Slovak Republic	4.4	4.0	4.5	5	3.3	8.5	8	5	18.5	18.0	16	15	-8.0	-1.3	-1.5	-2.1
Slovenia	2.9	2.2	3.4	3.5	7.5	5.6	4	3.5	6.4	6.7	6.3	6	1.4	0.2	0.2	-0.4
CEEC-5	2.2	3.4	3.8	4.0					15.3	15.4	15.3	14.6	-4.2	-3.5	-3.6	-3.8
Estonia	6.0	4.4	5.6	5.1	3.6	1.3	4	4	10.3	10.0	10	10	-12.3	-14.6	-12.2	-8.5
Latvia	6.1	7.0	5.2	5.7	1.9	2.9	3	3	12.0	10.8	10	10	-7.6	-8.9	-9.5	-9.6
Lithuania	6.8	7.5	5.7	6.0	0.3	-1.2	2	3	13.8	12.7	12	11	-5.3	-5.7	-5.8	-5.9
CEEC-8	2.5	3.6	3.9	4.2					15.0	15.0	14.8	14.2	-4.4	-3.9	-4.0	-4.1
Bulgaria	4.8	4.5	4.5	4	5.8	2.4	5	3	17.8	14.5	14	13	-4.9	-8.9	-7.1	-6.2
Romania	4.9	4.7	4.5	4.5	22.5	15.3	11	8	8.4	8	8	7	-3.4	-6.2	-6.8	-6.4
CEEC-10	3.0	3.8	4.0	4.2					13.8	13.5	13.4	12.5	-4.3	-4.3	-4.4	-4.4
Croatia <sup>2)</sup>	5.2	4.3	3.2	3.5	2.2	1.5	2	1.5	14.8	14	14	13.5	-8.5	-6.1	-5.1	-4.5
Macedonia <sup>2)</sup>	0.3	2.8	4	4	1.4	2.4	3	2	31.9	36.7	36	35	-8.6	-6.0	-5.5	-5.3
Serbia & Montenegro <sup>3)</sup>	4.0	1.0	2	3	16.5	9.4	8	8	13.8	14	15	15	-11.7	-8.8	-11.7	-11.7
Russia	4.7	6.8	4.5	4.1	16.0	13.6	10	8	8.0	8.5	8	9	8.5	9.0	7.5	6.0
Ukraine	5.2	8.5	6	6.5	0.8	5.2	7	5	10.1	9.5	9	8.5	7.5	6.5	5.3	3.5

Notes: 1) LFS- Labour Force Survey, refers to ILO definition. - 2) Consumer prices correspond to retail prices. - 3) Excluding Kosovo and Metohia.

Source: wiiw (February 2004); Baltic States forecasts: European Commission 2003.